

WEST VIRGINIA UNIVERSITY

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

WEST VIRGINIA UNIVERSITY

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WEST VIRGINIA UNIVERSITY

Management's Discussion and Analysis Year Ended June 30, 2002

Overview

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements $\frac{3}{4}$ and Management's Discussion and Analysis $\frac{3}{4}$ for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements $\frac{3}{4}$ and Management's Discussion and Analysis $\frac{3}{4}$ for Public Colleges and Universities*, which extends the applicability of the new reporting standards to include public colleges and universities. West Virginia University (WVU or the "University") was required to implement these new standards July 1, 2001. The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of GASB Statements No. 34 and No. 35.

This section of the University's annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2002. GASB Statements No. 34 and No. 35 do not require audited restated prior year's financial statements during the implementation year. Therefore only current year (fiscal year 2002) information is presented in the audited financial statements. For the purpose of this section, financial information for the previous year (fiscal year 2001) has been restated (but not presented) in order to provide a comparative analysis.

As required by the new reporting standards, the University's annual report consists of three basic financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Financial Highlights

The new accounting standards resulted in a restatement decrease of \$278.5 million to the beginning net assets. This restatement is the result of the University recording depreciation on capital assets, capitalizing infrastructure, reclassifying federal loan programs, and reclassifying grant and contract revenue from prior fund balance to deferred revenue.

At June 30, 2002, the University's total net assets decreased from previous restated year-end by \$55.9 million primarily due to debt service assessment payable to the Higher Education Policy Commission (the "Commission"). The decrease in total net assets was partially offset by receipt of bond proceeds from the Commission for construction funding and an overall increase in capital assets.

Net Assets

The statement of net assets presents the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal year. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the University'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. This category includes net assets the use of which is restricted either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for 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. **Expendable restricted net assets** include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's management or the Board of Governors.

Net Assets (in thousands) as of June 30, 2002

Assets

Current Assets	\$ 109,197
Noncurrent Assets	642,286
Total Assets	<u><u>\$ 751,483</u></u>

Liabilities

Current Liabilities	\$ 61,308
Noncurrent Liabilities	233,741
Total Liabilities	<u><u>\$ 295,049</u></u>

Net Assets

Invested in Capital Assets, Net of Related Debt	\$ 418,260
Restricted for:	
Nonexpendable	2,699
Expendable	14,753
Unrestricted	20,722
Total Net Assets	<u><u>\$ 456,434</u></u>

Total assets of the University increased by \$47.1 million to a total of \$751.5 million as of June 30, 2002. The increase was primarily due to an increase in capital assets, net and cash and cash equivalents. The increase in total assets was partially offset by a decrease in accounts receivable, net and loans receivable, net.

- Capital assets, net increased by \$43.5 million primarily due to several construction projects that were undertaken and completed at the Morgantown campus. These projects included the construction of the Student Recreation Center, the Wise Library Addition and the Library Storage Facility, asbestos abatement at the Coliseum, renovation of the Evansdale Library and upgrade of the Hodges Hall electrical system.
- Cash and cash equivalents increased by \$3.0 million primarily due to increased collections from outstanding grants and contracts receivable.
- Accounts receivable, net increased by \$1.4 million primarily due to bond proceeds receivable from the Commission and an increase in net grants and contracts receivable. This increase was partially offset by a decrease in other accounts receivable as a result of increased efforts by the Health Sciences Center to collect cost reimbursements for residents' salaries from the West Virginia University Hospitals, Inc.
- Loans receivable, net decreased by \$795,000 attributable to an increase in the allowance for doubtful accounts.

Total liabilities for the year increased by \$103.3 million. The increase is primarily attributable to reporting of debt service assessment payable to the Commission by the University, an increase in leases payable, compensated absences, advances from federal government and deferred revenue. This increase in total liabilities was partially offset by a decrease in accounts payable and bonds payable.

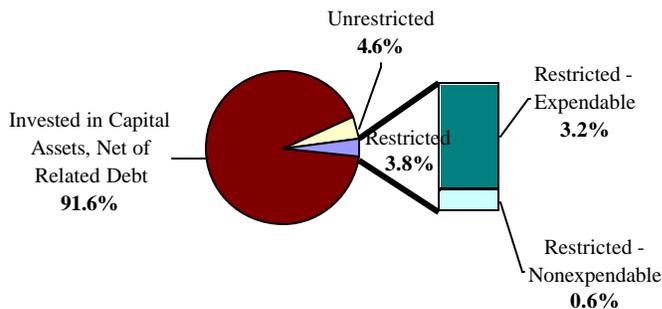
- Debt service assessment payable to the Commission increased by \$107.0 million due to the University reporting, effective as of June 30, 2002, a liability for such assessment based on proceeds received. The bonds remain as a capital obligation of the Commission.
- Leases payable increased by \$4.2 million primarily due to a financing agreement with Laurel Capital Corporation for the financing of several capital projects such as the Mountaineer Field electrical upgrade and lighting, the Evansdale and Downtown campuses' electrical substations, the Engineering Sciences chillers and for the purchase of data processing equipment for the Office of Information Technology.
- The liability required by GASB Statement No. 16, *Accounting for Compensated Absences*, increased by \$3.5 million primarily due to increased Public Employees Insurance Agency (PEIA) premium rates and a larger accumulation of employees' sick leave and vacation balances. The increase can also be attributed to an increase in salaries, an increase in the number of current retirees and the associated retiree PEIA premiums.

- Advances from federal government increased by \$829,000 primarily due to increased federal contributions to Perkins and Health Professionals Loan Programs.
- Deferred revenue increased by \$639,000 primarily due to the timing of receipt of payments on sponsored awards and increased restricted revenues.
- Accounts payable decreased by \$12.0 million primarily due to completion of several significant capital projects during fiscal year 2002 such as the Student Recreation Center and the Wise Library Addition. There were no large invoices payable to major construction vendors at the end of fiscal year 2002 as compared to the previous year end.
- Bonds payable decreased by \$1.1 million due to debt service payments on the 1997 auxiliary bonds as follows:
 - Dormitory Refunding Revenue and Revenue Bonds \$555,000
 - Student Union Refunding Revenue and Revenue Bonds \$410,000
 - Athletic Facilities Refunding Revenue and Revenue Bonds \$140,000

The University's current assets of \$109.2 million were sufficient to cover current liabilities of \$61.3 million indicating that the University has sufficient available resources to meet its current obligations.

The following is an illustrative analysis of net assets.

TOTAL NET ASSETS
As of June 30, 2002



Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains or losses of the University for the fiscal year.

State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because state appropriations are provided by the West Virginia Legislature (the "Legislature") to the University without the Legislature directly receiving commensurate goods and services for those revenues. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the

alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

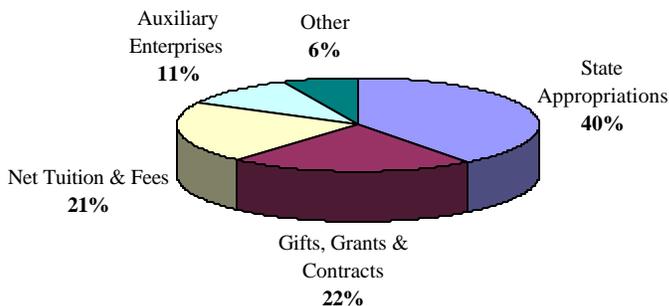
**Revenues, Expenses and Changes in Net Assets (in thousands)
For the Year Ended June 30, 2002**

Operating Revenues	\$ 320,667
Operating Expenses	533,652
Operating Loss	<u>(212,985)</u>
 Net Nonoperating Revenues	 <u>212,583</u>
 Loss before Other Revenues, Expenses, Gains or Losses	 (402)
 Capital grants and gifts	 4,055
Bond proceeds from the Commission	47,514
Increase in Net Assets Before Transfers	<u>51,167</u>
Transfer of Liability from the Commission	(107,037)
Decrease in Net Assets	<u>(55,870)</u>
 Net Assets at Beginning of Year	 790,810
Restatement of Beginning Net Assets	(278,506)
Net Assets at Beginning of Year - Restated	<u>512,304</u>
 Net Assets at End of Year	 <u>\$ 456,434</u>

Revenues:

The following is a graphic illustration of revenues by source.

**TOTAL REVENUES
For the Year Ended June 30, 2002**



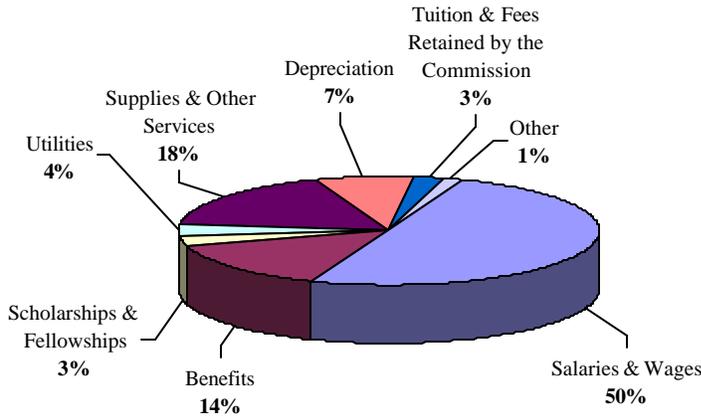
The total revenues for fiscal year 2002 were \$553.9 million, an increase of \$46.7 million over prior year. The most significant sources of revenue for the University are state appropriations, grants and contracts and tuition and fees. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Federal, state and nongovernmental grants and contracts revenue increased by \$21.4 million primarily because of revenues from several significantly large awards received by the WVU Research Corporation (the “Corporation”) in fiscal year 2002, as well as a significant increase in revenues from existing awards. The University reached an all-time high in extramural funding during fiscal year 2002 resulting in an associated increase in grants and contracts revenues. Additionally there was an increase in student financial aid received and disbursed under the Pell Grant, Federal Work-Study, and the Health Professionals Loan Programs.
- Tuition and fees increased by \$14.9 million primarily due to an increase in the fee rate, an increase in the proportion of non-resident (higher fee rate) students, and an overall increase in enrollment. Implementation of the student recreation center and library fees also contributed to the increase in fee revenue.
- State appropriations increased by \$7.2 million primarily due to an increase in funding provided for the mandated peer equity and sustained quality pay raises. Special one-time allocations from the Commission for specific activities, such as the Higher Education Special Projects, Research Challenge, and Incentives for Institutional Contributions to State Priorities, caused a further increase in state appropriations. An increase in the soft drink appropriations received to support medical education also contributed to the increase.
- Capital grants and gifts increased by \$2.7 million due to federal funding received by the Corporation, on behalf of the University, under a grant issued by the Health Resources & Services Administration (HRSA) to support part of the construction costs of the WVU Eye Institute.
- Gift income increased by \$1.4 million primarily due to capital projects funded through the WVU Foundation including renovations to the Creative Arts Center, the President’s house, College of Engineering and Mineral Resources Galli laboratories, the Aerospace Bunker project, Jackson Mill’s cottage, and Business and Economics laboratories.
- Other operating revenue increased by \$1.2 million primarily due to an increase in rental fees from Barnes and Noble. Additional revenue was received under the Coca-Cola Bottling Company sponsorship agreement for exclusive pouring rights on University campuses.
- Investment income decreased by \$1.7 million primarily due to a decrease in cash held on deposit with the trustee for the construction of the Student Recreation Center, which was completed in fiscal year 2002; also, overall earnings were lower due to declining interest rates and markets.
- Federal appropriations decreased by \$923,000 primarily due to the timing of incurring expenditures for the West Virginia Agriculture and Forestry Experiment Station and the West Virginia Extension Service.

Expenses:

The following is a graphic illustration of total expenses.

**TOTAL EXPENSES
For the Year Ended June 30, 2002**



Total expenses for fiscal year 2002 were \$550.3 million, an increase of \$15.4 million over prior year. This increase is primarily due to an increase in several categories of expenses as detailed below. This increase was partially offset by a decrease in supplies and other services.

- Salaries and wages increased by \$10.2 million primarily due to the implementation of a new higher education classified employee annual salary schedule and a salary improvement program (pay raise) for all employees in October 2001.
- Benefits expense increased by \$5.4 million primarily due to an increase in salaries and health insurance premiums.
- Depreciation expense increased by \$3.6 million due to depreciation on new buildings, equipment and library books.
- Scholarship and fellowship expense increased by \$2.4 million primarily due to an increase in student financial aid received and disbursed under Pell grant awards and increased WVU Foundation scholarships and student waivers.
- Utilities increased by \$1.8 million primarily due to an increase in square footage as a result of addition or lease of new buildings on the Morgantown campus (Student Recreation Center, Wise Library Addition and One Waterfront Place) and higher utility prices.
- Supplies and other services decreased by \$7.3 million primarily due to a decrease in contractual and professional services, travel and insurance expense. The decrease in contractual and professional services was due to a decline in contractor costs with the completion and near completion of major renovation and construction projects (Student Recreation Center, Wise Library Addition, Life Sciences Building).

Insurance expense decreased due to settlement of liability for the Board of Risk and Insurance Management (BRIM) retroactive premiums during the prior fiscal year.

Cash Flows

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

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the University.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

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

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

Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating income loss and net cash used in operating activities.

Cash Flows (in thousands) For the Year Ended June 30, 2002

Cash Provided (Used) By:	
Operating Activities	\$ (168,536)
Noncapital Financing Activities	212,384
Capital Financing Activities	(43,706)
Investing Activities	2,879
Increase in Cash and Cash Equivalents	<u>3,021</u>
Cash and Cash Equivalents, Beginning of Year	79,402
Cash and Cash Equivalents, End of Year	<u><u>\$ 82,423</u></u>

Capital Asset and Long Term Debt Activity

The University had several significant capital asset additions for facilities in fiscal year 2002.

- Construction of the Student Recreation Center and the Wise Library Addition was completed for \$33.2 million and \$26.7 million, respectively. These capital assets were financed by bond proceeds from the Student Union Revenue Bonds and University System Bonds, respectively.
- The Coliseum Asbestos Abatement project, financed by the University System Revenue Bonds, was completed for \$9.8 million.
- Capital funds were used to complete construction of the Library Storage Facility for \$2.7 million, to renovate Evansdale Library for \$1.1 million and to upgrade Hodges Hall electrical system for \$440,000.
- The University completed the second phase of a capital lease agreement with Laurel Capital Corporation for \$6.5 million in fiscal year 2002. The agreement covers financing for capital projects such as the Mountaineer Field electrical upgrade and lighting, the Evansdale and Downtown campuses' electrical substations, the Engineering Sciences chillers and for the purchase of data processing equipment for the Office of Information Technology.

The University has committed approximately \$171.6 million for capital projects over a five-year (2002-2006) period. These capital projects will be financed from all available funding sources including operational revenues, bond proceeds, external financing arrangements and other non-capital financing commitments.

- This five-year capital plan includes projects already in process such as the Life Sciences Building, as well as new projects such as the \$17.5 million Brooks Hall Renovation, \$15.0 million Oglebay Hall Renovation, and \$9.0 million Creative Arts Center Renovation.
- The Corporation, on behalf of the University, received a federal grant in the amount of \$19.7 million for the construction of the WVU Blanchette Rockefeller Neurosciences Institute (BRNI). The facility will be located on the campus of the University and is scheduled for completion in fiscal year 2004.
- The Corporation also received additional money in the amount of \$6.8 million, on behalf of the University, from the Department of Energy for the construction of the National Education and Technology Center (NETC) at the University. This makes the total amount awarded to date for this project \$13.9 million. The construction of the NETC is scheduled for completion in fiscal year 2005.
- The University generally commits \$1.5 million each year for repairs, renovations and deferred maintenance.

The Board of Governors also approved a five-year capital implementation plan for the Robert C. Byrd Health Sciences Center. This plan includes the construction of a \$40.0 million research building by the Blanchette Rockefeller Neurosciences Institute, pending funding and approval of the design for the building, a \$13.0 million library/classroom addition, a \$4.7 million Eastern Panhandle Campus Building and a \$4.9 million utility infrastructure upgrade.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission, however \$107.0 million is reported as debt service assessment payable to the Commission by the University, effective as of June 30, 2002.

There were no new bond issues in fiscal year 2002 and no bonds were defeased during the year. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the University.

Economic Outlook

The University's financial position is closely tied to that of the State of West Virginia. The University could feel the impact of a weakening West Virginia economy. The level of state support is one of the key factors influencing the University's financial condition. State appropriations contribute approximately 40% of all revenues, a majority of which funds payroll and benefits for University employees. A steady decline in state appropriations has affected the University's ability to maintain quality programs and services. The projected 10% reduction in state appropriations will impose a greater financial burden on the University.

The University also faces an increase of more than \$6.1 million in fiscal year 2003 in health insurance costs, BRIM premiums and other operating costs. The commitment of operating funds to fund capital expenditures has an ongoing impact on the overall financial picture of the University. In addition, the University has launched a comprehensive upgrade of its Oracle Financial and Human Resources systems to Oracle version 11i. The WVU MAP Oracle 11i upgrade project is a part of the University's overall technology replacement strategy and will also have a major impact on operations, staffing and spending.

The University has addressed the increased need for funding and maintaining quality academic programs and student services by approving a 9.95% increase in tuition and fees for fiscal year 2003. In the past, the University's tuition and fees have been lower than those at many peer institutions. Even with the increases in tuition and fees, annual undergraduate tuition at the University remains below those peer averages and it continues to offer an exceptional educational value. The University is looking at banner enrollment of more than 23,000 students for fiscal year 2003.

The University is faced with several challenges in light of the predicted state budget cuts. The University needs to continue to address priority requirements for investments in employees, in capital projects and in technology and at the same time make investments to generate resources. The University's senior leadership has begun to plan for assessing ways to achieve efficiencies and reduce expenditures in an effort to assist in meeting the future challenges.



INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined financial statements of West Virginia University (the "University") 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 University. 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 University at June 30, 2002, and the combined changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the University 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 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University'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 University'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.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

October 11, 2002

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENT OF NET ASSETS

AS OF JUNE 30, 2002

(Dollars in Thousands)

ASSETS

Current Assets:		
Cash and cash equivalents	\$	79,528
Accounts receivable, net of allowances for doubtful accounts of \$4,182		22,885
Loans receivable, current portion		5,217
Inventories		1,454
Prepaid expenses		<u>113</u>
Total current assets		<u>109,197</u>
Noncurrent Assets:		
Restricted cash and cash equivalents		2,895
Investments		7,454
Loans receivable, net of allowances for doubtful accounts of \$5,052		26,710
Bond issuance cost		759
Capital assets, net		<u>604,468</u>
Total noncurrent assets		<u>642,286</u>
TOTAL ASSETS	\$	<u><u>751,483</u></u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENT OF NET ASSETS (CONTINUED) AS OF JUNE 30, 2002 (Dollars in Thousands)

LIABILITIES

Current Liabilities:		
Accounts payable	\$	18,830
Accrued liabilities		2,532
Accrued payroll		3,844
Deposits		1,191
Deferred revenue		10,111
Due to the Commission		130
Compensated absences, current portion		17,264
College system debt owed to the Commission, current portion		186
Debt service assessment payable to the Commission, current portion		4,007
Leases payable, current portion		2,137
Bonds payable, current portion		<u>1,076</u>
Total current liabilities		<u>61,308</u>
 Noncurrent Liabilities:		
Compensated absences		28,965
College system debt owed to the Commission		2,407
Advances from federal government		25,613
Debt service assessment payable to the Commission		103,029
Leases payable		7,637
Bonds payable		<u>66,090</u>
Total noncurrent liabilities		<u>233,741</u>
TOTAL LIABILITIES	\$	<u>295,049</u>
 NET ASSETS		
Invested in capital assets, net of related debt		418,260
Restricted for:		
Nonexpendable:		
Scholarships and fellowships		1,562
Loans		1,018
Other		<u>119</u>
Total nonexpendable		2,699
Expendable:		
Scholarships and fellowships		81
Sponsored programs		1,391
Loans		12,376
Capital projects		484
Debt service		25
Other		<u>396</u>
Total expendable		<u>14,753</u>
Unrestricted		<u>20,722</u>
TOTAL NET ASSETS	\$	<u>456,434</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

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 allowances of \$14,984	\$	115,979
Federal appropriations		7,910
Local appropriations		635
Federal grants and contracts		71,368
State grants and contracts		25,146
Local grants and contracts		288
Nongovernmental grants and contracts		25,021
Sales and services of educational departments		7,323
Auxiliary enterprises, net of scholarship allowances of \$841		59,384
Interest on student loans receivable		783
Other operating revenues (including revenue from outsourced enterprise of \$2,296)		6,830
Total operating revenues		<u>320,667</u>

OPERATING EXPENSES

Salaries and wages		277,585
Benefits		78,611
Scholarships and fellowships		18,043
Utilities		19,021
Supplies and other services		95,674
Depreciation		40,861
Loan cancellations and write-offs		1,286
Assessments by the Commission for operations		2,215
Waivers in support of other State institutions		356
Total operating expenses		<u>533,652</u>

OPERATING LOSS

\$ (212,985)

(continued)

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

NONOPERATING REVENUES (EXPENSES)

State appropriations	\$	219,984
Gifts		5,912
Investment income		3,347
Interest on capital asset-related debt		(4,058)
Assessments by the Commission for debt service		(11,047)
Loss on investments		(517)
Other nonoperating expenses - net		<u>(1,038)</u>
Net nonoperating revenues		<u>212,583</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES		(402)
Capital grants and gifts		4,055
Bond proceeds from the Commission		<u>47,514</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS		51,167
TRANSFER OF LIABILITY FROM THE COMMISSION		<u>(107,037)</u>
DECREASE IN NET ASSETS		(55,870)
NET ASSETS--BEGINNING OF YEAR (AS RESTATED)		<u>512,304</u>
NET ASSETS--END OF YEAR	\$	<u><u>456,434</u></u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$	116,430
Federal and local appropriations		8,545
Grants and contracts		121,471
Payments to suppliers		(101,122)
Payments to employees		(277,266)
Payments for benefits		(74,625)
Payments to utilities		(17,639)
Payments for scholarships and fellowships		(17,897)
Loans issued to students		(650)
Collection of loans to students		795
Interest on loans to students		783
Auxiliary enterprise receipts		58,702
Sales and service of educational departments		7,323
Other receipts - net		6,614
		<u>6,614</u>
Net cash used in operating activities		<u>(168,536)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations		219,984
Gifts		5,912
Assessments by the Commission for operations		(13,433)
William D. Ford direct lending receipts		82,591
William D. Ford direct lending payments		(82,591)
Other nonoperating payments - net		(79)
		<u>(79)</u>
Net cash provided by noncapital financing activities		<u>212,384</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Proceeds from capital debt		47,389
Bond issuance costs		(166)
Capital gifts and grants received		2,719
Purchases of capital assets		(86,232)
Principal paid on capital debt and leases		(3,218)
Interest paid on capital debt and leases		(4,198)
		<u>(4,198)</u>
Net cash used in capital financing activities		<u>(43,706)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income		3,352
Purchase of investments		(473)
		<u>(473)</u>
Net cash provided by investing activities		<u>2,879</u>

INCREASE IN CASH AND CASH EQUIVALENTS

3,021

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR

79,402

CASH AND CASH EQUIVALENTS - END OF YEAR

\$ 82,423

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENT OF CASH FLOWS (CONTINUED) YEAR ENDED JUNE 30, 2002

(Dollars in Thousands)

Reconciliation of operating loss to net cash used in operating activities:

Operating loss \$ (212,985)

Adjustments to reconcile operating loss to net cash
used in operating activities:

Depreciation expense 40,861

Changes in assets and liabilities:

Accounts receivable, net (7,679)

Loans receivable, net 795

Prepaid expenses 52

Inventories (75)

Accounts payable 5,308

Accrued liabilities 355

Deposits 64

Deferred revenue 636

Due to the Commission (20)

Compensated absences 3,528

Advances from federal government 624

Net cash used in operating activities \$ (168,536)

Noncash Transactions:

Equipment purchased on capital lease \$ (6,231)

Donated capital assets \$ 1,336

Loss on investments \$ (458)

Parking facility improvement in lieu of cash \$ 525

Transfer of liability from the Commission \$ 107,037

Bond discount amortization \$ 103

Reconciliation of cash and cash equivalents to the statement of net assets:

Cash and cash equivalents classified as current assets \$ 79,528

Cash and cash equivalents classified as noncurrent assets 2,895

\$ 82,423

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

NOTES TO COMBINED FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

West Virginia University (the "University") is governed by the West Virginia University Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the University of West Virginia Board of Trustees ("Board of Trustees") effective June 30, 2000, and replaced it with a transition-year board, the West Virginia Higher Education Interim Governing Board (the "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 by the Board of Trustees.

Effective July 1, 2001, certain powers were transferred from the Interim Governing Board to the newly created Board. These powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University 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 ¾ and Management's Discussion and Analysis ¾ for State and Local Governments*, and Statement No. 35, *Basic Financial Statements ¾ and Management's Discussion and Analysis ¾ for Public Colleges and Universities*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The University 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.

- a. *Reporting Entity* - The University 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 University 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 West Virginia University, including Potomac State College, West Virginia University Institute of Technology and West Virginia University at Parkersburg (the "Regional Campuses") and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 13 and 14) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities.

- b. *Financial Statement Presentation* – During fiscal year 2002, the University adopted GASB Statement No. 35, *Basic Financial Statements ¾ and Management's Discussion and Analysis ¾ for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements ¾ and Management's Discussion and Analysis ¾ 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 an entity-wide basis to focus on the University as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the University as a whole.

GASB Statements No. 34 and No. 35 require the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on an entity-wide basis. The provisions of Statements No. 34 and No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances (dollars in thousands), as previously reported, to the restated net asset balances for the same date:

Combined fund balances, as previously reported	\$ 790,810
Accumulated depreciation	(439,478)
Infrastructure capitalization	190,639
Reclassification of grant and contract revenue	(4,480)
Reclassification of federal loan programs	(25,187)
Combined fund balances, restated as net assets	<u>\$ 512,304</u>

- c. *Basis of Accounting* - For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the combined financial statements of the University 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

accounts and transactions between the University, the Regional Campuses and the Corporation have been eliminated.

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

Cash and cash equivalents on deposit with the West Virginia Treasurer’s Office (the “Treasurer”) are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the IMB). These funds are transferred to the IMB and the IMB is directed by the Treasurer to invest these funds in specific external investment pools. Investment income from the investment pools is allocated by the Treasurer to the various participants in the investment pools based on the balances of the various participants and their deposits with the Treasurer in the month in which the income was earned. 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 and 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 Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

- e. *Investments* - Investments are presented at fair value, based upon quoted market values. The University’s investments include investments pooled with other State funds in a cash liquidity pool to maximize investment income. Income on these investments is allocated as described above. Regulatory oversight for investments on deposit with the Treasurer is provided by the State’s Investment Management Board in accordance with statutory guidelines. These investments are non-categorized with respect to risk and collateral disclosure. Investments also include U.S. Government securities, municipal obligations, high-grade corporate obligations, and equity securities. The University’s other investments are categorized as to credit risk as insured and registered.
- f. *Allowance for Doubtful Accounts* - It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectibility experienced by the University on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- g. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- h. *Noncurrent Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students, maintain sinking fund or reserve funds, and (2) to purchase capital or other noncurrent assets are classified as a noncurrent asset on the statement of net assets.
- i. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method

over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books.

- j. *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 deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.
- k. *Compensated Absences* - The University 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 University'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 on or after July 1, 2001 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 5 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 made on the vesting method in accordance with the provisions of GASB Statement No.16. Under that method, the University has identified the accrued sick leave benefit earned to date by each employee, has determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the University 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.

- l. *Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.
- m. *Net Assets* – GASB Statements No. 34 and No. 35 report equity as “net assets” rather than “fund balance”. Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University'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 which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, "Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. These restrictions are primarily for the following: debt service; off campus instruction; student unions; libraries; library supplies; and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature. At June 30, 2002, the University had no restricted balances remaining in these funds.

Restricted net assets – nonexpendable: This includes endowment and similar type funds 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 include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the Board of Governors.

- n. *Classification of Revenues:* The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal appropriations, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

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 Statements No. 34 and No. 35, such as state appropriations and investment income.

- o. Use of Restricted Net Assets* – The University has 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. The University attempts to utilize restricted net assets first when practicable.
- p. Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University 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.

- q. Federal Financial Assistance Programs* - The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed \$82.6 million in fiscal year 2002 under the Direct Loan Program on behalf of the U.S. Department of Education; this amount is not included as revenues and expenditures on the statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal year 2002, the University received and disbursed \$19.9 million under these other federal student aid programs.

- r. Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University 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 three years.
- s. Income Taxes* - The University 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.

- t. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.
- u. *Risk Management* - The State’s Board of Risk and Insurance Management (BRIM) provides general, property and casualty and medical malpractice liability coverage to the University and its employees, including those physicians employed by the University and related to the University’s academic medical center hospital. Such coverage may be provided to the University 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 future premium adjustments to the University or other participants in BRIM’s insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University’s actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University’s ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

- v. *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 expenses during the reporting period. Actual results could differ from those estimates.
- w. *Recent Statements Issued By the Governmental Accounting Standards Board* – The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement No. 14. This statement is effective for periods beginning after June 15, 2003. The University has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the University’s financial statements.

3. CASH AND CASH EQUIVALENTS

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 38,785	\$ 214	\$ 38,999
West Virginia University - Auxiliaries	25,167	-	25,167
Cash on deposit with Trustee or MBC	-	2,681	2,681
Cash in Bank	14,797	-	14,797
Cash on Hand	41	-	41
Cash in Money Market	738	-	738
	<u>\$ 79,528</u>	<u>\$ 2,895</u>	<u>\$ 82,423</u>

Cash on deposit with Trustee or Municipal Bond Commission (MBC) represents various project revenue, repair and replacement and debt service accounts held by the Trustee or the State's MBC and related to various University specific bond issues (see Note 9).

The combined carrying amount of cash in bank at June 30, 2002 was \$14.8 million as compared with combined bank balances of \$18.9 million. The difference was primarily caused by items in transit and outstanding checks. All bank balances and cash in money market were covered by federal depository insurance or were secured by securities held as collateral by the State's agent.

Cash on deposit with the Treasurer is a non-categorized deposit with respect to risk and collateral disclosure.

4. ACCOUNTS RECEIVABLE

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

Student tuition and fees, net of allowances for doubtful accounts of \$2,521	\$ 819
Grants and contracts receivable, net of allowances for doubtful accounts of \$752	15,509
Due from West Virginia Hospitals, Inc.	551
Auxiliary Services, net of allowances for doubtful accounts of \$856	361
Other, net of allowances for doubtful accounts of \$53	2,703
Due from the Commission	2,789
Due from other State agencies	153
	<u>\$ 22,885</u>

All accounts receivable are classified as current on the statement of net assets. West Virginia Hospitals, Inc. receivables represent various administrative expenditures incurred by the University on behalf of West Virginia Hospitals, Inc., for which reimbursement has not yet been received.

5. CAPITAL ASSETS

Changes in capital assets for the year ended June 30, 2002 (dollars in thousands) are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 11,156	\$ 11	\$ -	\$ 11,167
Construction in progress	95,546	54,594	(81,873)	68,267
Total capital assets not being depreciated	<u>\$ 106,702</u>	<u>\$ 54,605</u>	<u>\$ (81,873)</u>	<u>\$ 79,434</u>
Other capital assets:				
Land improvements	\$ 8,642	\$ 1,030	\$ -	\$ 9,672
Buildings	460,103	78,602	-	538,705
Equipment	136,524	23,594	(13,390)	146,728
Library books	60,360	5,065	(344)	65,081
Software	33,335	609	-	33,944
Infrastructure	194,786	5,249	-	200,035
Total other capital assets	<u>893,750</u>	<u>114,149</u>	<u>(13,734)</u>	<u>994,165</u>
Less accumulated depreciation for:				
Land improvements	(3,292)	(599)	-	(3,891)
Buildings	(142,441)	(9,883)	-	(152,324)
Equipment	(91,918)	(12,975)	10,941	(93,952)
Library books	(47,373)	(3,455)	267	(50,561)
Software	(12,471)	(6,737)	-	(19,208)
Infrastructure	(141,983)	(7,212)	-	(149,195)
Total accumulated depreciation	<u>(439,478)</u>	<u>(40,861)</u>	<u>11,208</u>	<u>(469,131)</u>
Other capital assets, net	<u>\$ 454,272</u>	<u>\$ 73,288</u>	<u>\$ (2,526)</u>	<u>\$ 525,034</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 106,702	\$ 54,605	\$ (81,873)	\$ 79,434
Other capital assets	<u>893,750</u>	<u>114,149</u>	<u>(13,734)</u>	<u>994,165</u>
Total cost of capital assets	1,000,452	168,754	(95,607)	1,073,599
Less accumulated depreciation	<u>(439,478)</u>	<u>(40,861)</u>	<u>11,208</u>	<u>(469,131)</u>
Capital assets, net	<u>\$ 560,974</u>	<u>\$ 127,893</u>	<u>\$ (84,399)</u>	<u>\$ 604,468</u>

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

The University maintains various collections of inexhaustible assets for 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.

Interest costs incurred by the University are not capitalizable as interest payments are offset by interest income generated from the investment of debt proceeds.

On April 19, 2002, a transfer of title for certain Monongalia County properties from the Commission to West Virginia University (Main campus at Morgantown) was executed; however title for certain real property held at the Regional Campuses remains with the Commission.

6. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2002 (dollars in thousands) are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 42,701	\$ 3,528	\$ -	\$ 46,229	\$ 17,264
College system debt owed to the Commission	2,766	-	(173)	2,593	186
Advances from federal government	25,187	485	(59)	25,613	-
Debt service assessment payable to the Commission	-	107,036	-	107,036	4,007
Leases payable	5,616	6,272	(2,114)	9,774	2,137
Bonds payable	68,201	-	(1,035)	67,166	1,076
Total long-term liabilities	<u>\$ 144,471</u>	<u>\$ 117,321</u>	<u>\$ (3,381)</u>	<u>\$ 258,411</u>	<u>\$ 24,670</u>

7. COMPENSATED ABSENCES

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

	Current	Noncurrent	Total
Health or life insurance benefits	\$ 1,077	\$ 28,965	\$ 30,042
Vacation leave	16,187	-	16,187
	<u>\$ 17,264</u>	<u>\$ 28,965</u>	<u>\$ 46,229</u>

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the University for extended health or life insurance coverage retirement benefits for 494 retirees totaled \$914,000. As of June 30, 2002, there were an additional 555 active employees eligible to receive these benefits in the future.

8. LEASES PAYABLE

- a. *Operating* - The University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University retains the right to cancel the lease upon giving thirty days written notice.
- b. *Capital* - The University leases certain property, plant and equipment under capital leases. Leased assets totaled \$13.5 million at June 30, 2002. Future annual minimum lease payments and the present value of minimum lease payments are as follows (dollars in thousands):

Fiscal Year	
Ending June 30, 2002	
2003	\$ 2,586
2004	2,293
2005	1,511
2006	1,365
2007	1,260
2008-2012	<u>2,423</u>
Minimum lease payments	11,438
Less amount representing interest	<u>(1,664)</u>
Present value of minimum lease payments	<u>\$ 9,774</u>
Current Portion	<u>2,137</u>
Noncurrent Portion	<u>\$ 7,637</u>

9. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2002 (dollars in thousands):

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>Principal Amount Outstanding</u>
Dormitory Refunding Revenue		\$ 115	
Bonds 1997, Series A, due through		to	
2017	3.95-5.30%	1,070	\$ 11,280
Dormitory Revenue		1,480	
Bonds 1997, Series B, due through		to	
2022	5.00%	2,035	10,735
Athletic Facilities Refunding Revenue		80	
Bonds 1997, Series A, due through		to	
2016	4.00-5.20%	255	2,600
Athletic Facilities Revenue		265	
Bonds 1997, Series B, due through		to	
2027	5.00%	455	4,250
Student Union Refunding		190	
Bonds 1997, Series A, due through		to	
2011	3.95-4.95%	280	2,125
Student Union Revenue		220	
Bonds 1997, Series B, due through		to	
2027	4.20-5.00%	2,970	<u>37,780</u>
Bonds Payable			68,770
Unamortized Bond Discount			<u>(1,604)</u>
Bonds Payable Less Unamortized Discount			<u>\$ 67,166</u>
Curent Portion			<u>1,076</u>
Noncurrent Portion			<u>\$ 66,090</u>

The 1997 Dormitory Series A Bonds were issued to advance refund the University's Dormitory Revenue Bonds (West Virginia University Project), 1992 Series A, dated May 1, 1992, and to pay a portion of the costs of issuance of the 1997 Series A Bonds. The 1997 Dormitory Series B Bonds were issued to finance improvements to certain dormitories at West Virginia University and to reimburse the University for certain prior capital expenditures made for such purpose, and to pay a portion of the costs of issuance of the Bonds.

The 1997 Athletic Facilities Series A Bonds were issued to advance refund the 1985 Series A Annual Tender Revenue Bonds, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series A Bonds. The 1997 Athletic Facilities Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of an indoor football practice facility at West Virginia University and to reimburse the University for certain prior capital expenditures made for such purpose, and to pay a portion of the costs of issuance of the 1997 Athletic facilities Series B Bonds.

The 1997 Student Union Series A Bonds were used to advance refund the 1986 Student Union Fee Revenue Bonds. The 1997 Student Union Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of a new student union and related capital improvements, and to pay a portion of the costs of issuance and interest on the 1997 Series A Bonds.

Each of the above bond issues is specific to the University, although some of the bonds were also issued in the name of the State or the State's former Boards, previously responsible for the governance of the State's higher education system. As debt service is required on these bond issues, the University remits the funds to either the Commission (as successor to the former Boards) or the State's Municipal Bond commission for payment to the trustee of the bond issue and the bond holders. The mandatory debt service transfers are recorded as the funds are so remitted. The Commission and the Municipal Bond Commission may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30, 2002	Principal	Interest	Total Payments
2003	\$ 1,145	\$ 3,404	\$ 4,549
2004	1,195	3,354	4,549
2005	1,460	3,298	4,758
2006	1,525	3,229	4,754
2007	1,595	3,160	4,755
2008-2012	9,605	14,563	24,168
2013-2017	15,220	11,665	26,885
2018-2022	21,460	7,215	28,675
2023-2027	15,565	2,411	17,976
Bonds Payable	<u>68,770</u>	<u>\$ 52,299</u>	<u>\$ 121,069</u>
Unamortized Bond Discount	<u>(1,604)</u>		
Bonds Payable Less Unamortized Discount	<u>\$ 67,166</u>		
Current Portion	<u>1,076</u>		
Noncurrent Portion	<u>\$ 66,090</u>		

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the University is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the University's operations, its tuition and fees 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 University. Financing for these facilities was provided through revenue bonds issued by either the former Board of Regents, the former University System of West Virginia, the former State College system of West Virginia or the former Interim Governing Board (collectively, the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on these various 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. The bonds remain as a capital obligation of the Commission; however, effective June 30, 2002, an amount related to each institution is reported as debt service assessment payable to the Commission by each institution and as a receivable by the Commission. As of June 30, 2002, the amount assessed the University was \$107.0 million.

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1997, in accordance with the provisions of Senate Bill 591, WVUIT is required to make an annual payment of \$373,089 per year through 2012 to the Policy Commission for purposes of the State College System's debt service. The college system debt owed to the Commission as of June 30, 2002 was \$2.6 million.

11. RETIREMENT PLANS

Substantially all eligible employees of the University participate in either the West Virginia State Teachers Retirement System (STRS) or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable election 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 University 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 University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries in 2002. Required employee contributions were at the rate of 6% of total annual salaries in 2002. Participants in the STRS may retire with full benefits upon

reaching age 60 with 5 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 of salary out of the last 15) multiplied by the number of years of service.

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 University. 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.

Contributions to the STRS for each of the last three fiscal years were as follows (dollars in thousands):

Fiscal Year Ending				
June 30,		WVU	Employees	Total
2002		\$ 3,000	\$ 1,000	\$ 4,000
2001		3,000	1,000	4,000
2000		3,000	1,000	4,000

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

Contributions to the TIAA-CREF for each of the last three fiscal years were as follows (dollars in thousands):

Fiscal Year Ending				
June 30,		WVU	Employees	Total
2002		\$ 14,000	\$ 14,000	\$ 28,000
2001		14,000	14,000	28,000
2000		13,000	13,000	26,000

The University's total payroll for fiscal year 2002, was \$ 277.6 million; total covered employees' salaries in the STRS and TIAA-CREF were \$17.1 million and \$240.5 million in fiscal year 2002, respectively.

12. PURCHASE COMMITMENT

The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the 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. The University's total payments for

steam purchased under the agreement were \$7.1 million in fiscal year 2002. An additional \$354,000 was accrued to record the University's liability to meet the minimum purchase requirement for the year ending September 30, 2002. The 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.

13. AFFILIATED ORGANIZATIONS

The University has affiliations with separately incorporated organizations including West Virginia University Alumni Association, Inc., University Health Associates, the Center for Entrepreneurial Studies and Development, Inc., Potomac State College Alumni Association, Tech Foundation, Incorporated, and Tech Alumni Association. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. Accordingly, the financial statements of all such organizations are not included in the accompanying combined financial statements.

14. FOUNDATIONS (Unaudited)

The West Virginia University Foundation, Incorporated, the West Virginia University at Parkersburg Foundation, Incorporated, and the Tech Foundation, Incorporated (the "Foundations") are separate non-profit organizations incorporated in the State of West Virginia that have as their purpose "to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . ." Oversight of each Foundation is the responsibility of independently elected Boards of Directors. In carrying out their 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. Most of the University's endowments, as such, are under the control and management of the Foundations.

The Foundations' assets totaled \$423.4 million at June 30, 2002, with net assets of \$360.8 million (\$340.8 million temporarily and permanently restricted). The restricted net assets include amounts restricted by donors for specific projects or departments of the University and its affiliated organizations. The net assets related to endowments (permanently restricted) totaled \$279.1 million at June 30, 2002, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$41.7 million in fiscal year 2002, with endowment revenue comprising \$23.5 million.

Total funds expended by the Foundations in support of University activities totaled \$38.3 million in fiscal year 2002. This support and the related expenditures are not recorded in the University's financial statements.

15. WOOD TRUST ENDOWMENT FUND (Unaudited)

The University is one of many income beneficiaries of the Wood Trust Endowment. The income derived from the Wood Trust Endowment is used to provide financial aid and loans to students. The Wood Trust Endowment had a fair market value of approximately \$1.7 million as of June 30, 2002, and is not included in the accompanying combined financial statements. The Wood Trust Endowment is under the control and management of an independent Board not affiliated with the University.

The University received approximately \$9,000 in fiscal year 2002 from the Wood Trust Endowment to provide financial aid to students.

16. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against 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 University would not have a material effect on the financial position of the University.

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 University management believes disallowances, if any, will not have a material financial impact on the University's financial position.

The University owns various buildings that are known to contain asbestos. The University is not required by Federal, State or Local law to remove the asbestos from its buildings. The University is required under Federal Environmental, Health and Safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University 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 University 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.

17. SEGMENT INFORMATION

Under the auspices of the State and former Boards governing the states higher education system, the University 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 University'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 Project), 1997 Series A&B

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

The Board must fix and establish rents, charges, and fees which shall at all times be adequate to produce revenue from the dormitories sufficient to pay operating expenses and to make the prescribed payment into the funds and accounts created under the Bond Indenture; 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, the Board sold \$3,250,000 of Refunding Revenue Bond, 1997 Athletic Facilities Series A and \$4,250,000 of Revenue Bonds, 1997 Athletic Facilities Series B (collectively the "Bonds"). The 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 Bonds were issued under the authority contained in Chapter 18 of the State Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used (1) together with other funds, to refund the Prior Bonds and (2) to pay a portion of the cost of issuance of the Bonds. The proceeds of the 1997 Series B Bonds were used (1) to pay a portion of the cost of acquisition, construction and equipping of an indoor football practice center at the 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 the cost of issuance of the 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. The Board must fix and collect special gate receipts and student athletic activity fees 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 and B

In December 1997, the Board sold \$3,000,000 of Refunding Revenue Bonds, 1997 Student Union Series A and \$38,000,000 of Revenue Bonds, 197 Student Union Series B (collectively the "Bonds"). The 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 Bonds were issued under the

authority contained in Chapter 18, of the State Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used, together with other funds, to refund the Prior Bonds. The proceeds of the 1997 Series B Bonds are being used (1) to pay a portion of the cost of acquisition, construction and equipping of a new student union and related capital improvements at the 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 1997 Series B Bonds.

The Student Union Bonds are a special obligation 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 the 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. The Board must fix and collect student union building fees at rates so as to provide pledged revenues, when combined with other monies legally available.

Condensed financial information for each of the University's segments follow:

NOTE 17 - SEGMENT INFORMATION

(Dollars in Thousands)

	DORMITORY REVENUE BONDS 1997, SERIES A & B As of/Year Ended 2002	ATHLETIC FACILITIES BONDS 1997, SERIES A & B As of/Year Ended 2002	STUDENT UNION BONDS 1997, SERIES A & B As of/Year Ended 2002
CONDENSED STATEMENT OF NET ASSETS			
Assets:			
Current Assets	\$ 8,742	\$ 615	\$ 1,164
Noncurrent and Capital Assets	21,483	9,344	35,352
Total Assets	<u>30,225</u>	<u>9,959</u>	<u>36,516</u>
Liabilities:			
Current Liabilities	2,213	477	234
Long-Term Liabilities	22,015	6,850	39,905
Total Liabilities	<u>24,228</u>	<u>7,327</u>	<u>40,139</u>
Net Assets:			
Invested in Capital Assets, net of related debt	5,996	2,632	(6,303)
Restricted	1	-	2,680
Total Net Assets	<u>\$ 5,997</u>	<u>\$ 2,632</u>	<u>\$ (3,623)</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS			
Operating Revenues	\$ 21,435	\$ 2,617	\$ 10,878
Operating Expenses	(17,359)	(383)	(7,251)
Net Operating Income	4,076	2,234	3,627
Nonoperating Revenues/Expenses:			
Investment Income	305	37	379
Interest Expense	(1,668)	(347)	(10,147)
Increase (Decrease) in Net Assets	2,713	1,924	(6,141)
Net Assets - Beginning of Year (As Restated)	3,284	708	2,518
Net Assets (Deficit) - End of Year	<u>\$ 5,997</u>	<u>\$ 2,632</u>	<u>\$ (3,623)</u>
CONDENSED STATEMENT OF CASH FLOWS			
Net Cash Provided by Operating Activities	\$ 5,349	\$ 483	\$ 3,562
Net Cash Flows Used by			
Capital and Related Financing Activities	(555)	(140)	(8,220)
Net Cash Flows Used by			
Investing Activities	(1,362)	(448)	(2,118)
Net Increase (Decrease) in Cash	3,432	(105)	(6,776)
Cash - Beginning of Year	4,262	720	10,471
Cash - End of Year	<u>\$ 7,694</u>	<u>\$ 615</u>	<u>\$ 3,695</u>
Reconciliation of cash			
Cash classified as current assets	\$ 7,694	\$ 615	\$ 1,014
Cash classified as noncurrent assets	-	-	2,681
	<u>\$ 7,694</u>	<u>\$ 615</u>	<u>\$ 3,695</u>

18. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

The University's operating expenses by functional classification are as follows:

Functional Classification	Year Ended June 30, 2002										Total
	Natural Classification					Natural Classification					
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support		
Instruction	\$ 110,170	\$ 31,939	\$ -	\$ 192	\$ 11,987	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154,288
Research	39,043	13,775	-	357	21,051	-	-	-	-	-	74,226
Public Service	30,235	6,768	-	121	11,913	-	-	-	-	-	49,037
Academic Support	19,014	4,691	-	85	5,005	-	-	-	-	-	28,795
Student Services	12,469	3,024	-	25	4,886	-	-	-	-	-	20,404
Operation and Maintenance of Plant	15,917	4,615	-	14,278	5,252	-	-	-	-	-	40,062
General Institutional Support	28,056	8,532	-	275	14,128	-	-	-	-	-	50,991
Scholarship and Fellowship	281	10	18,043	-	32	-	-	-	-	-	18,366
Auxiliary Enterprises	22,400	5,257	-	3,688	21,420	-	-	-	-	-	52,765
Depreciation	-	-	-	-	-	-	40,861	-	-	-	40,861
Tuition and Fees Assessed by the Commission	-	-	-	-	-	-	-	-	2,215	-	2,215
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	356	356
Loan Cancellations and Write Offs	-	-	-	-	-	-	1,286	-	-	-	1,286
Total Expenses	\$ 277,585	\$ 78,611	\$ 18,043	\$ 19,021	\$ 95,674	\$ 40,861	\$ 1,286	\$ 2,215	\$ 356	\$ 533,652	



INDEPENDENT AUDITORS' 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 University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of 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 (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 University'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 University'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 University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we will report to the management of the University in a separate letter dated October 11, 2002.

This report is intended solely for the information and use of the West Virginia University Board of Governors, management of the University 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 the specified parties.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

October 11, 2002