

***WEST VIRGINIA UNIVERSITY
INSTITUTE OF TECHNOLOGY***

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

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

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WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

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^{3/4} and Management's Discussion and Analysis^{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^{3/4} and Management's Discussion and Analysis^{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 Institute of Technology (WVUIT or the "Institution") 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 WVUIT annual financial report provides an overview of the Institution's financial performance during the fiscal year ended June 30, 2002. GASB Statements No. 34 and No. 35 do not require presentation of 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, WVUIT'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 Institution, the results of operations, and cash flows of the Institution as a whole. Each of these statements is discussed below.

Financial Highlights

The new accounting standards resulted in a restatement decrease of \$30.4 million to the beginning net assets. This restatement is the result of the Institution recording depreciation on capital assets and reclassifying federal loan programs.

At June 30, 2002, WVUIT's total net assets decreased from the previous restated year-end by \$2.4 million primarily due to the debt service assessment payable to the West Virginia Higher Education Policy Commission (the "Commission").

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 Institution as of the end of the fiscal year. Assets denote the resources available to continue the operations of the Institution. Liabilities indicate how much the Institution owes vendors and lenders. Net assets measure the equity or the availability of funds of the Institution for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the Institution's total investment in capital assets reduced by accumulated depreciation, 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 Institution 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 Institution and may be designated for specific purposes by action of West Virginia University Board of Governors.

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

Assets	
Current Assets	\$ 7,486
Noncurrent Assets	19,480
Total Assets	<u>\$ 26,966</u>
 Liabilities	
Current Liabilities	\$ 2,729
Noncurrent Liabilities	8,158
Total Liabilities	<u>\$ 10,887</u>
 Net Assets	
Invested in Capital Assets, Net of Related Debt	\$ 12,762
Restricted for:	
Expendable	1,197
Unrestricted	2,120
Total Net Assets	<u>\$ 16,079</u>

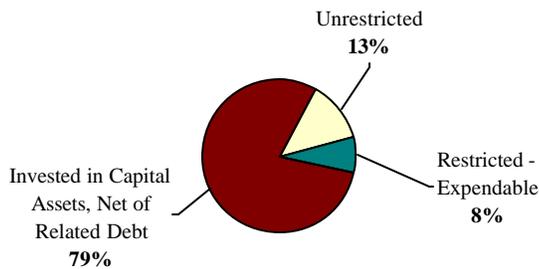
Total assets of WVUIT increased by \$41,000 to a total of \$27.0 million as of June 30, 2002. The increase was primarily due to an increase in cash and cash equivalents which resulted from supplemental appropriations and fee income. The offsetting decrease occurred in the category of capital assets.

Total liabilities for the year increased by \$2.4 million. The primary cause for the increase was in current liabilities and noncurrent liabilities for debt service assessment payable to the Commission.

Current assets of \$7.5 million were sufficient to cover current liabilities of \$2.7 million indicating that WVUIT 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



At June 30, 2002, total net assets decreased by \$2.4 million, to a total of \$16.1 million.

Revenues, Expenses and Changes in Net Assets

The statement of revenues, expenses and changes in net assets presents the operating revenues, operating expenses, and nonoperating revenues and expenses of the Institution for the fiscal year.

State appropriations, while budgeted for operations, are considered and reported as nonoperating revenues. This is because State appropriations are provided by the West Virginia Legislature (the "Legislature") to the Institution 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.

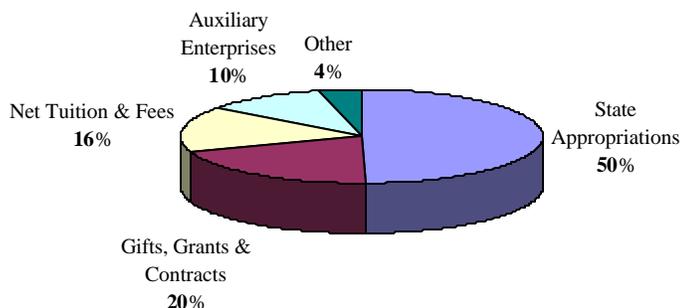
**Revenues, Expenses and Changes in Net Assets (in thousands)
For the Year Ended June 30, 2002**

Operating Revenues	\$ 11,088
Operating Expenses	22,314
Operating Loss	<u>(11,226)</u>
Net Nonoperating Revenues	11,341
Increase in Net Assets Before Transfer	<u>115</u>
Transfer of Liability from Commission	(2,483)
Decrease in Net Assets	<u>(2,368)</u>
Net Assets at Beginning of Year	48,810
Restatement of Beginning Assets	(30,363)
Net Assets at Beginning of Year - Restated	<u>18,447</u>
Net Assets at End of Year	<u>\$ 16,079</u>

Revenues:

The following is a graphic illustration of revenues by source.

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



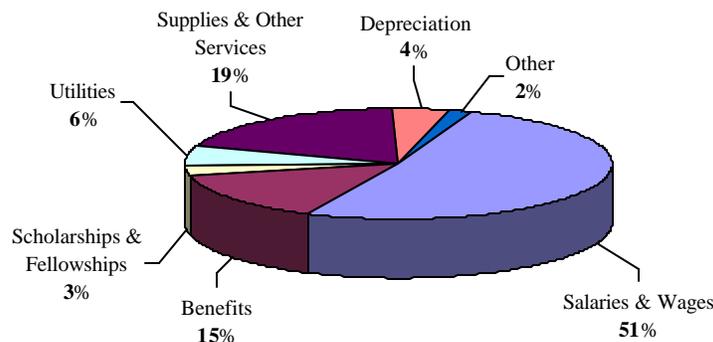
The total revenues for fiscal year ended June 30, 2002 were \$22.6 million. The most significant sources of revenue for the Institution are state appropriations, grants and contracts and tuition and fees. The total revenue during fiscal year 2002 increased by \$77,000. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Tuition and fees increased 6.6%, or a total of \$221,000, primarily due to an increase in the fee rate, as well as a slight overall increase in enrollment.
- Federal grants and contracts revenue increased by \$382,000 because of additional grant awards.
- State grants and contracts decreased by \$331,000 primarily due to the completion of workforce development projects.
- Nongovernmental grants and contracts decreased by \$149,000 primarily due to a decrease in private grants.
- Auxiliary enterprises revenue decreased by \$870,000. The decrease is attributable to privatization of the Bookstore, which also resulted in a decrease in expenses.
- State appropriations increased by \$841,000 due to increased allocations and additional Community College appropriations.

Expenses:

The following is a graphic illustration of total expenses.

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



Total expenses for WVUIT for fiscal year 2002 were \$22.5 million, an increase of \$553,000 over prior year. Approximately 66% of the total expenses were for salaries & wages and benefits. Depreciation expense of \$1.0 million comprised 4% of total expenses.

- Salaries and wages increased by \$295,000. The Institution implemented a pay raise in October 2001 and benefits expense increased by \$145,000 primarily due to an increase in health insurance premiums as well as salary and wages increases.

- Utilities increased by \$143,000 primarily due to added assessments and rate increases.
- Scholarship and fellowship expense increased by \$50,000 due to additional scholarship awards.

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 Institution during the year. This statement helps users assess the Institution'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 Institution.

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 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	\$ (9,582)
Noncapital Financing Activities	11,122
Capital Financing Activities	275
Investing Activities	(993)
Increase in Cash and Cash Equivalents	<u>822</u>
Cash and Cash Equivalents, Beginning of Year	<u>5,760</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 6,582</u></u>

Capital Asset and Long-Term Debt Activity

WVUIT leases land improvements (astroturf) from an unrelated party under a capital lease. Leased land improvements totaling \$580,000 in 2002 are included in Invested in Capital Assets. The lease was completed in December 2001.

WVUIT also leases a digital duplicator in the amount of \$11,607 and dental hygiene equipment in the amount of \$76,761 from unrelated parties under capital leases.

In 2002, WVUIT entered into a capital lease with Tech Foundation, Inc. in the amount of \$85,000. The lease includes land and a building which are included in Invested in Capital Assets.

With the transfer of WVUIT from the State College System to the University System, effective July 1, 1996, in accordance with the provisions of Senate Bill 591, WVUIT is required to make an annual payment of \$373,089 through 2012 to the Commission for purposes of the State College System's debt service. The payable amount as of June 30, 2002 is \$2.6 million. The Commission also 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 Institution. The bonds remain as a capital obligation of the Commission, however \$2.5 million is reported as debt service assessment payable to the Commission by the Institution, effective as of June 30, 2002. The total of the two assessments is \$5.1 million.

There are notes payable between WVUIT and WVU-Main Campus in 2002 in the amount of \$200,000.

Economic Outlook

WVUIT's financial position is closely tied to that of the State of West Virginia. The level of state support is one of the key factors influencing the Institution's financial condition. State appropriations contribute approximately 50% of all revenues. The majority of state appropriated dollars are used to fund payroll and benefits for the Institution's employees and the Board of Risk and Insurance Management Premium. A steady decline in State appropriations has hampered the Institution's ability to maintain the quality of its programs and services. PEIA health insurance costs, BRIM premiums and other operating costs continue to increase.

For fiscal year 2003, WVUIT partially addressed the increased need for funding to maintain quality academic programs and student services by increasing tuition and fees by 9.95% for Baccalaureate and nonresident Community and Technical College students. Even with this increase, WVUIT's tuition and fees continue to be significantly below the peer average. As evidence of its exceptional educational value, WVUIT was recently ranked #46 in the "best value" category by U.S. News and World Report.

The need to address deferred maintenance, construct new residence halls, and implement technology initiatives is an important challenge facing the Institution in the years to come, especially in light of a proposed 10% budget reduction of state appropriations in fiscal year 2004.



INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying financial statements of West Virginia University Institute of Technology (WVUIT) 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 WVUIT. Our responsibility is to express an opinion on these financial statements based on our audit.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of WVUIT 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, WVUIT 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 7 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 WVUIT'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 WVUIT'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 INSTITUTE OF TECHNOLOGY

STATEMENT OF NET ASSETS AS OF JUNE 30, 2002

(Dollars in Thousands)

ASSETS

Current Assets:		
Cash and cash equivalents	\$	6,582
Accounts receivable, net of allowances for doubtful accounts of \$311		322
Loans receivable, current portion		550
Prepaid expenses		<u>32</u>
Total current assets		<u>7,486</u>
Noncurrent Assets:		
Loans receivable, net of allowances for doubtful accounts of \$653		1,309
Capital assets, net		<u>18,171</u>
Total noncurrent assets		<u>19,480</u>
TOTAL ASSETS	\$	<u><u>26,966</u></u>

(continued)

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

STATEMENT OF NET ASSETS (CONTINUED)

AS OF JUNE 30, 2002

(Dollars in Thousands)

LIABILITIES

Current Liabilities:		
Accounts payable	\$	462
Accrued liabilities		12
Accrued payroll		831
Deferred revenue		77
Due to the Commission		41
Compensated absences, current portion		619
College system debt owed to the Commission, current portion		186
Debt service assessment payable to the Commission, current portion		417
Leases payable, current portion		34
Notes payable, current portion		50
Total current liabilities		<u>2,729</u>
Noncurrent Liabilities:		
Compensated absences		1,832
College system debt owed to the Commission		2,407
Advances from federal government		1,604
Debt service assessment payable to the Commission		2,066
Leases payable		99
Notes payable		150
Total noncurrent liabilities		<u>8,158</u>
TOTAL LIABILITIES	\$	<u>10,887</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$	12,762
Restricted for:		
Expendable:		
Scholarships and fellowships		33
Sponsored programs		607
Loans		557
Total expendable		<u>1,197</u>
Unrestricted		<u>2,120</u>
TOTAL NET ASSETS	\$	<u>16,079</u>

See notes to financial statements.

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

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 \$1,947	\$	3,566
Federal grants and contracts		2,981
State grants and contracts		761
Nongovernmental grants and contracts		797
Sales and services of educational departments		220
Auxiliary enterprises, net of scholarship allowances of \$169		2,405
Interest on student loans receivable		52
Other operating revenues (including revenue from outsourced enterprise of \$67)		306
		<hr/>
Total operating revenues		11,088

OPERATING EXPENSES

Salaries and wages		11,560
Benefits		3,276
Scholarships and fellowships		741
Utilities		1,257
Supplies and other services		4,289
Depreciation		1,011
Loan cancellations and write-offs		66
Assessments by the Commission for operations		114
		<hr/>
Total operating expenses		22,314

OPERATING LOSS

\$ (11,226)

(continued)

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)

YEAR ENDED JUNE 30, 2002

(Dollars in Thousands)

NONOPERATING REVENUES (EXPENSES)

State appropriations	\$	11,272
Investment income		275
Interest on capital leases		(6)
Assessments by the Commission for debt service		(200)
		<hr/>
Net nonoperating revenues		11,341
		<hr/>
INCREASE IN NET ASSETS BEFORE TRANSFER		115
		<hr/>
TRANSFER OF LIABILITY FROM THE COMMISSION		(2,483)
		<hr/>
DECREASE IN NET ASSETS		(2,368)
		<hr/>
NET ASSETS--BEGINNING OF YEAR (AS RESTATED)		18,447
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NET ASSETS--END OF YEAR	\$	16,079
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See notes to financial statements.

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

STATEMENT OF CASH FLOWS YEAR ENDED JUNE 30, 2002

(Dollars in Thousands)

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$	3,528
Grants and contracts		4,466
Payments to suppliers		(4,432)
Payments to employees		(11,221)
Payments for benefits		(3,109)
Payments to utilities		(1,279)
Payments for scholarships and fellowships		(735)
Loans issued to students		73
Collection of loans to students		72
Interest earned on loans to students		52
Auxiliary enterprise receipts		2,385
Other receipts - net		618
Net cash used in operating activities		<u>(9,582)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations		11,272
Other nonoperating receipts (payments) - net		<u>(150)</u>
Net cash provided by noncapital financing activities		<u>11,122</u>

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES

Purchases of capital assets		(576)
Principal paid on capital debt and leases		(211)
Interest paid on capital debt and leases		<u>(206)</u>
Net cash used in capital financing activities		<u>(993)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Investment income		<u>275</u>
Net cash provided by investing activities		<u>275</u>

INCREASE IN CASH AND CASH EQUIVALENTS 822

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 5,760

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 6,582

(continued)

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

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	\$	(11,226)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense		1,011
Changes in assets and liabilities:		
Accounts receivable, net		80
Loans receivable, net		72
Prepaid expenses		103
Accounts payable		(54)
Accrued liabilities		142
Due to the Commission		(21)
Deferred revenue		7
Compensated absences		165
Advances from federal government		139
Net cash used in operating activities	\$	<u>(9,582)</u>
Noncash Transactions:		
Equipment purchased on capital lease	\$	<u>(85)</u>
Transfer of liability from the Commission	\$	<u>2,483</u>

See notes to financial statements.

WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

NOTES TO FINANCIAL STATEMENTS YEAR ENDED JUNE 30, 2002

1. ORGANIZATION

West Virginia University Institute of Technology (WVUIT) 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 financial statements of WVUIT 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 $\frac{3}{4}$ and Management's Discussion and Analysis $\frac{3}{4}$ for State and Local Governments*, and Statement No. 35, *Basic Financial Statements $\frac{3}{4}$ and Management's Discussion and Analysis $\frac{3}{4}$ 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 WVUIT's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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

- a. *Reporting Entity* - WVUIT 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. WVUIT is a separate entity, which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing (WVNET), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of WVUIT. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVUIT's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundation and other affiliate of WVUIT (see Notes 12 and 13) are not part of the WVUIT reporting entity and are not included in the accompanying financial statements as WVUIT 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 WVUIT 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 WVUIT as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the WVUIT 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 GASB 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	\$ 48,810
Accumulated depreciation	(28,700)
Reclassification of federal loan programs	(1,663)
Combined fund balances, restated as net assets	<u>\$ 18,447</u>

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

- d. *Cash and Cash Equivalents* – For purposes of the statement of net assets, WVUIT 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 incomes 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 financial statements.

- e. *Allowance for Doubtful Accounts* - It is WVUIT’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 WVUIT on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- f. *Noncurrent Cash and Cash Equivalents* – Cash that is (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 is classified as a noncurrent asset on the statement of net assets.
- g. *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.
- h. *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 tuition and fees and room and board.
- i. *Compensated Absences* - WVUIT 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.

WVUIT'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, WVUIT 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 WVUIT 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.

- j. *Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of 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.
- k. *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 WVUIT obligations. WVUIT's net assets are classified as follows:

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

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, “Fees and Other Money Collected at State Institutions of Higher Education” of the West Virginia State Code. These restrictions are primarily for the following: debt service; 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, WVUIT 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. WVUIT had no restricted nonexpendable net assets at June 30, 2002.

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 WVUIT and may be designated for specific purposes by action of the Board of Governors.

- l. Classification of Revenues* – WVUIT 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) sales and services of educational activities. Other operating revenues include revenue from leasing of WVUIT's academic bookstore and retail store 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.

- m. Use of Restricted Net Assets* – WVUIT 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. WVUIT attempts to utilize restricted net assets first when practicable.
- n. 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 WVUIT, 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 and funds provided to students as awarded by third parties 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 an institution 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.

- o. Federal Financial Assistance Programs* - WVUIT 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 financial statements. In fiscal year 2002, WVUIT received and disbursed \$2.2 million under these other federal student aid programs.
- p. Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVUIT 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.
- q. Income Taxes* - WVUIT 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.
- r. Cash Flows* - 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.
- s. Risk Management* - The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty and medical malpractice liability coverage to WVUIT and its employees. Such coverage may be provided to WVUIT 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 WVUIT or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVUIT is currently charged by BRIM and the ultimate cost of that insurance based on WVUIT's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVUIT and WVUIT's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

- t. 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.

- u. *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. WVUIT 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 WVUIT’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):

Cash on deposit with the Treasurer:	
WVUIT	\$ 6,071
Municipal Bond Commission	109
Cash in Bank	399
Cash on Hand	3
	<u>\$ 6,582</u>

Cash shown above is classified as current on the statement of net assets. Cash held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by WVUIT’s bond trust indenture.

The combined carrying amount of cash in bank at June 30, 2002 was \$399,000 as compared with combined bank balances of \$398,000. The difference was primarily caused by items in transit and outstanding checks. All bank balances 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 \$311	\$	79
Grants and contracts		110
Due from the Commission		33
Due from other State agencies		19
Other		81
	\$	<u>322</u>

All accounts receivable are classified as current on the statement of net assets.

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	\$ 2,751	\$ 10	\$ -	\$ 2,761
Construction in progress	74	95	(169)	-
Total capital assets not being depreciated	<u>\$ 2,825</u>	<u>\$ 105</u>	<u>\$ (169)</u>	<u>\$ 2,761</u>
Other capital assets:				
Land improvements	\$ 580	\$ -	\$ -	\$ 580
Buildings	36,871	243	-	37,114
Equipment	5,049	432	(155)	5,326
Library books	1,909	9	-	1,918
Infrastructure	183	-	-	183
Total other capital assets	<u>44,592</u>	<u>684</u>	<u>(155)</u>	<u>45,121</u>
Less accumulated depreciation for:				
Land improvements	(174)	(39)	-	(213)
Buildings	(22,756)	(610)	-	(23,366)
Equipment	(3,883)	(335)	-	(4,218)
Library books	(1,859)	(15)	-	(1,874)
Infrastructure	(28)	(12)	-	(40)
Total accumulated depreciation	<u>(28,700)</u>	<u>(1,011)</u>	<u>-</u>	<u>(29,711)</u>
Other capital assets, net	<u>\$ 15,892</u>	<u>\$ (327)</u>	<u>\$ (155)</u>	<u>\$ 15,410</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 2,825	\$ 105	\$ (169)	\$ 2,761
Other capital assets	<u>44,592</u>	<u>684</u>	<u>(155)</u>	<u>45,121</u>
Total cost of capital assets	47,417	789	(324)	47,882
Less accumulated depreciation	<u>(28,700)</u>	<u>(1,011)</u>	<u>-</u>	<u>(29,711)</u>
Capital assets, net	<u>\$ 18,717</u>	<u>\$ (222)</u>	<u>\$ (324)</u>	<u>\$ 18,171</u>

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

WVUIT 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.

Title for certain real property is with the Commission.

6. NOTES PAYABLE

Notes payable to West Virginia University–Main Campus, a related party, at June 30, 2002, consisted of the following (dollars in thousands):

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Note payable, interest free, due through February 2006 in annual payments of \$50	\$ 50	\$ 150	\$ 200

7. LONG-TERM LIABILITIES

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

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Compensated absences	\$ 2,286	\$ 165	\$ -	\$ 2,451	\$ 619
Advances from federal government	1,663	-	(59)	1,604	-
Leases payable	128	85	(80)	133	34
Notes payable	350	-	(150)	200	50
College system debt owed to the Commission	2,766	-	(173)	2,593	186
Debt service assessment payable to the Commission	-	2,483	-	2,483	417
Total long-term liabilities	<u>\$ 7,193</u>	<u>\$ 2,733</u>	<u>\$ (462)</u>	<u>\$ 9,464</u>	<u>\$ 1,306</u>

Additional information regarding leases payable is included in Note 9.

8. COMPENSATED ABSENCES

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

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Health or life insurance benefits	\$ 97	\$ 1,832	\$ 1,929
Vacation leave	522	-	522
	<u>\$ 619</u>	<u>\$ 1,832</u>	<u>\$ 2,451</u>

The cost of health and life insurance benefits paid by WVUIT is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by WVUIT for extended health or life insurance coverage retirement benefits for 34 retirees totaled \$73,000. As of June 30, 2002, there were an additional 37 active employees eligible to receive these benefits in the future.

9. LEASES PAYABLE

WVUIT leases certain property, plant and equipment under capital leases. Leased assets totaled \$754,000 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	
<u>Ending June 30,</u>	
2003	\$ 41
2004	38
2005	38
2006	24
2007	9
Minimum lease payments	<u>150</u>
Less amount representing interest	(17)
Present value of minimum lease payments	<u>\$ 133</u>

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVUIT is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, WVUIT is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the WVUIT'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 WVUIT. 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 WVUIT was \$2.5 million.

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1996, 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.

Prior to June 30, 1996, WVUIT was required to remit to the State College System Board of Directors all tuition, registration fees, and 6% of all higher education resource fees collected. With the transfer of WVUIT to the University System effective July 1, 1996, WVUIT is required to make certain payments to the Commission for purposes of servicing debt originally incurred by the State College System.

Subsequent to July 1, 1996, WVUIT was required to remit \$93,000 per annum to the Boards for purposes of renewal, replacement, maintenance and repair of various academic and other facilities within the University System. Tuition and fees collected by WVUIT which previously were required to be remitted to the State College System Board of Directors must be dedicated by WVUIT for the purpose of renewal, replacement, maintenance and repair of WVUIT's property, plant and equipment.

11. RETIREMENT PLANS

Substantially all eligible employees of the WVUIT 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. WVUIT'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 WVUIT. 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,	WVUIT	Employees	Total
2002	\$ 564	\$ 226	\$ 790
2001	558	222	780
2000	545	218	763

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. WVUIT 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,	WVUIT	Employees	Total
2002	\$ 428	\$ 428	\$ 856
2001	414	414	828
2000	412	412	824

WVUIT's total payroll for the fiscal year 2002, was \$11.6 million; total covered employees' salaries in the STRS and TIAA-CREF were \$3.8 million and \$7.1 million in fiscal year 2002, respectively.

12. AFFILIATED ORGANIZATIONS

WVUIT has affiliations with separately incorporated organizations including Tech Foundation, Incorporated, and Tech Alumni Association. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with WVUIT. Accordingly, the financial statements of all such organizations are not included in the accompanying financial statements.

13. FOUNDATIONS (Unaudited)

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

The Foundation's assets totaled \$4.9 million at June 30, 2002, with net assets of \$4.8 million (\$933,000 temporarily and permanently restricted). The restricted net assets include amounts restricted by donors for specific projects or departments of WVUIT and its affiliated organizations. The net assets related to endowments (permanently restricted) totaled \$3.9 million at June 30, 2002. Gifts, grants, pledges and bequests to the Foundation totaled \$1 million in fiscal year 2002, with endowments comprising \$260,000.

Total funds expended by the Foundation in support of WVUIT activities totaled \$1.3 million in fiscal year 2002. This support and the related expenditures are not recorded in WVUIT's financial statements.

14. WOOD TRUST ENDOWMENT FUND (Unaudited)

WVUIT 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 financial statements. The Wood Trust Endowment is under the control and management of an independent Board not affiliated with WVUIT.

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

15. 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 the opinion of management, all known claims are covered by insurance or are such that an award against the WVUIT would not have a material effect on the financial position of the Institution.

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

WVUIT owns various buildings that are known to contain asbestos. WVUIT is not required by Federal, State or Local law to remove the asbestos from its buildings. WVUIT is required under Federal Environmental, Health and Safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVUIT 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. WVUIT also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

16. FUNCTIONAL CLASSIFICATION OF EXPENSES

(Dollars in Thousands)

WVUIT's operating expenses by functional classification are as follows:

Functional Classification	Year Ended June 30, 2002										Total
	Salaries & Wages		Scholarships & Fellowships		Supplies & Other Services		Loan Cancellations & Write Offs		Assessments by the Commission		
Instruction	\$ 6,032	\$ 1,639	\$ -	\$ 35	\$ 1,052	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,758
Research	3	1	-	-	-	-	-	-	-	-	4
Public Service	792	193	-	10	472	-	-	-	-	-	1,467
Academic Support	991	281	-	11	540	-	-	-	-	-	1,823
Student Services	788	201	-	17	280	-	-	-	-	-	1,286
Operation and Maintenance of Plant	665	210	-	515	100	-	-	-	-	-	1,490
General Institutional Support	1,170	455	-	248	595	-	-	-	-	-	2,468
Scholarship and Fellowship	-	-	741	-	4	-	-	-	-	-	745
Auxiliary Enterprises	1,119	296	-	421	1,246	-	-	-	-	-	3,082
Depreciation	-	-	-	-	-	-	1,011	-	-	-	1,011
Loan Cancellations and Write Offs	-	-	-	-	-	-	-	66	-	-	66
Tuition and Fees Assessed by the Commission	-	-	-	-	-	-	-	-	-	114	114
Total Expenses	\$ 11,560	\$ 3,276	\$ 741	\$ 1,257	\$ 4,289	\$ 1,011	\$ -	\$ 66	\$ -	\$ 114	\$ 22,314



**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 financial statements of the West Virginia University Institute of Technology (WVUIT) 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 WVUIT'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 WVUIT'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 WVUIT'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 WVUIT in a separate letter dated October 11, 2002.

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


October 11, 2002