

***West Virginia Higher
Education Fund
(A Component Unit of the
State of West Virginia)***

*Combined Financial Statements for the
Years Ended June 30, 2004 and 2003 and
Independent Auditors' Reports*

WEST VIRGINIA HIGHER EDUCATION FUND (A Component Unit of the State of West Virginia)

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INDEPENDENT AUDITORS' REPORT

West Virginia Higher Education Policy Commission

We have audited the accompanying combined financial statements of the business-type activities of the West Virginia Higher Education Fund (the "Fund") as of and for the years ended June 30, 2004 and 2003, and its discretely presented component units as of June 30, 2004 and for the year then ended which collectively comprise the Fund's basic combined financial statements, as listed in the Table of Contents. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Glenville State College, West Virginia Northern Community and Technical College, and Southern West Virginia Community and Technical College for the year ended June 30, 2004, which statements reflect total assets, total net assets, and total revenues constituting approximately 5%, 7%, and 7%, respectively, of the business type activities for that year. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund for the year ended June 30, 2004, is based solely on the reports of such other auditors. We also did not audit the discretely presented component units' financial statements. The component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors.

We, and the auditors of Bluefield State College, Glenville State College, West Virginia Northern Community and Technical College, and Southern West Virginia Community and Technical College, conducted our audits 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. The discretely presented component units financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

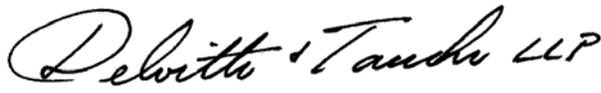
In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of the Fund as of June 30, 2004 and 2003, and the changes in net assets and cash flows thereof for the years then ended and the financial position of the discretely presented component units of the Fund as of June 30, 2004, and the changes in net assets for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the Fund changed its financial statement presentation to adopt the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14 as of July 1, 2003.

The Management's Discussion and Analysis ("MD&A") on pages 3 to 15 is not a required part of the combined financial statements but is supplementary information required by the Governmental Accounting Standards Board.

This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2004, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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". The signature is written in black ink and is positioned to the left of a vertical red line.

November 30, 2004

West Virginia Higher Education Fund

Management's Discussion and Analysis

Fiscal Year 2004

Overview of the Combined Financial Statements and Financial Analysis

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

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of college and university financial statements that were adopted for presentation in Fiscal Year 2002 by the Fund. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of the organization. This is the third fiscal year for this format.

As of July 1, 2003, West Virginia Higher Education Institutions adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is an amendment to GASB Statement No. 14. As a result, the audited financial statements of the institutions' Foundations are discretely presented as a discrete component unit in the Fund's financial statements for the fiscal year ended June 30, 2004 only, as some Foundation's did not have a fiscal year ended June 30, 2003 audit in accordance with generally accepted accounting principles. The Foundations are private nonprofit organizations that reports under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Year's 2004 and 2003 is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and, the Combined Statement of Cash Flows.

Combined Statement of Net Assets

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

From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Fund.

Net assets are divided into three major categories as follows:

(1) Invested in Capital Assets, Net of Related Debt, which provides the Fund's equity in property, plant and equipment owned by the Fund.

(2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund, but these funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.

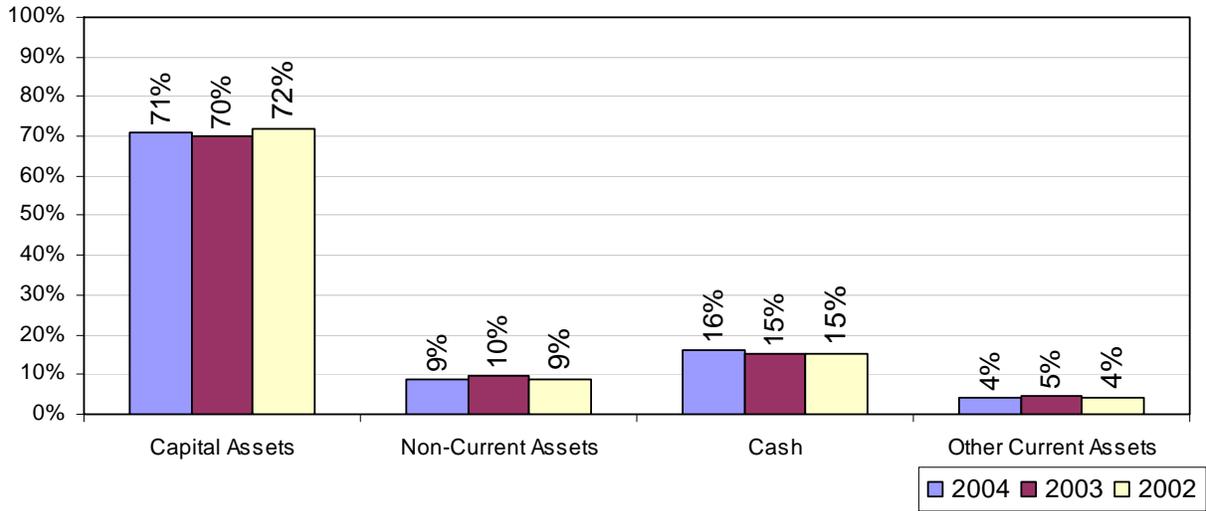
(3) Unrestricted net assets, which are available to be used for any lawful purpose of the Fund.

Combined Net Assets
(In thousands of dollars)

	June 30 2004	June 30 2003	June 30 2002	Change From 2003 to 2004
Assets				
Current Assets	\$ 338,220	\$ 315,838	\$ 281,646	\$ 22,382
Capital Assets, net	1,166,191	1,104,793	1,046,655	61,398
Other Non-Current Assets	<u>144,044</u>	<u>155,459</u>	<u>123,944</u>	<u>(11,415)</u>
Total Assets	<u>\$ 1,648,455</u>	<u>\$ 1,576,090</u>	<u>\$ 1,452,245</u>	<u>\$ 72,365</u>
Liabilities				
Current Liabilities	\$ 177,118	\$ 148,420	\$ 127,007	\$ 28,698
Noncurrent Liabilities	<u>539,586</u>	<u>534,477</u>	<u>458,376</u>	<u>5,109</u>
Total Liabilities	<u>716,704</u>	<u>682,897</u>	<u>585,383</u>	<u>33,807</u>
Net Assets				
Invested in Capital Assets, net	744,446	711,814	729,323	32,632
Restricted - expendable	90,645	118,930	91,265	(28,285)
Restricted - nonexpendable	4,001	3,047	3,774	954
Unrestricted	<u>92,659</u>	<u>59,402</u>	<u>42,500</u>	<u>33,257</u>
Total Net Assets	<u>931,751</u>	<u>893,193</u>	<u>866,862</u>	<u>38,558</u>
Total Liabilities and Net Assets	<u>\$ 1,648,455</u>	<u>\$ 1,576,090</u>	<u>\$ 1,452,245</u>	<u>\$ 72,365</u>

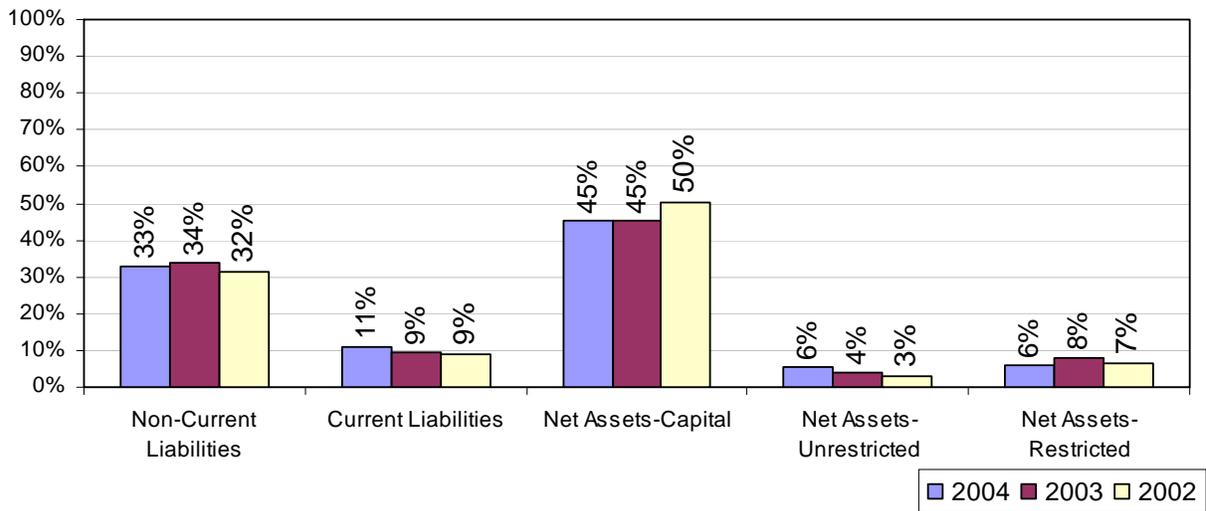
Asset Composition

For the Years Ended June 30, 2004, 2003, & 2002



Liabilities & Net Assets

For the Years Ended June 30, 2004, 2003, & 2002



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

- Total current assets of \$338.2 million exceeded total current liabilities of \$177.1 million as of June 30, 2004 for net working capital of \$161.1 million as compared to net working capital of \$167.4 million as of June 30, 2003. Current assets increased by \$22.4 million over the prior year, while current liabilities increased by \$28.7 million.
 - The major components of current assets include cash and cash equivalents of \$268.3 and \$241.0 million and net accounts receivable of \$52.7 and \$55.3 million as of June 30, 2004 and 2003 respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer and the West Virginia Investment Management Board.
 - The major components of current liabilities include \$45.7 and \$36.5 million in accounts payable, \$29.3 and \$28.1 million in accrued compensated absences, \$33.9 and \$33.6 million of deferred revenue, and \$23.9 and \$19.7 million of other accrued liabilities as of June 30, 2004 and 2003 respectively.
 - The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations, anticipation of upcoming projects including current construction projects, increases in grant activities, and the general growth of the higher education institutions.
- Non-current assets total \$1,310.2 and \$1,260.3 million and non-current liabilities total \$539.6 and \$534.5 million as of June 30, 2004 and 2003 respectively. Non-current assets increased by \$50.0 million over the prior year while non-current liabilities increased by \$5.1 million.
 - The primary non-current asset is \$1,166.2 and \$1,104.8 million of net capital assets as of June 30, 2004 and 2003 respectively. Also included as non-current assets are cash and cash equivalents primarily reserved for capital purposes of \$75.6 and \$96.5 million and investments reserved for capital purposes totaling \$15.8 and \$12.4 million as of June 30, 2004 and 2003, respectively. Net loans to students total \$44.4 and \$42.1 million as of June 30, 2004 and 2003 respectively.
 - Major components of non-current liabilities include long-term bonds payable totaling \$394.2 and \$393.1 million, accruals for compensated absences of \$64.0 and \$65.3 million, advances from federal sponsors of \$42.5 and \$41.7 million, and capital leases of \$23.4 and \$20.8 million as of June 30, 2004 and 2003 respectively.
 - Changes from the prior year in non-current assets and liabilities reflect new capital projects financed by revenue bonds at three college campuses as discussed in more detail in a later section of this report.
- The net assets of the Fund total \$931.8 and \$893.2 million as of June 30, 2004 and 2003 respectively, an increase of \$38.6 and \$26.3 million from each previous year end.
 - Net assets invested in capital assets total \$744.4 and \$711.8 million as of June 30, 2004 and 2003 respectively.

- Restricted net assets total \$90.6 and \$118.9 million and include \$40.8 and \$37.2 million for capital projects and \$22.8 and \$19.3 million for loan programs as of June 30, 2004 and 2003 respectively.
- Unrestricted net assets total \$92.7 and \$59.4 million as of June 30, 2004 and 2003, respectively and represent net assets available to the Fund for any lawful purpose of the Fund. The primary reason for the amount of the increase in unrestricted net assets was that Senate Bill No. 448 reduced the items that were restricted by State Code. A majority of the \$40.2 million was reallocated to unrestricted with the other portion still included in unrestricted net assets for capital projects.
- The increase in Net Assets is more fully explained in the following section.

Combined Statement of Revenues, Expenses and Changes in Net Assets

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

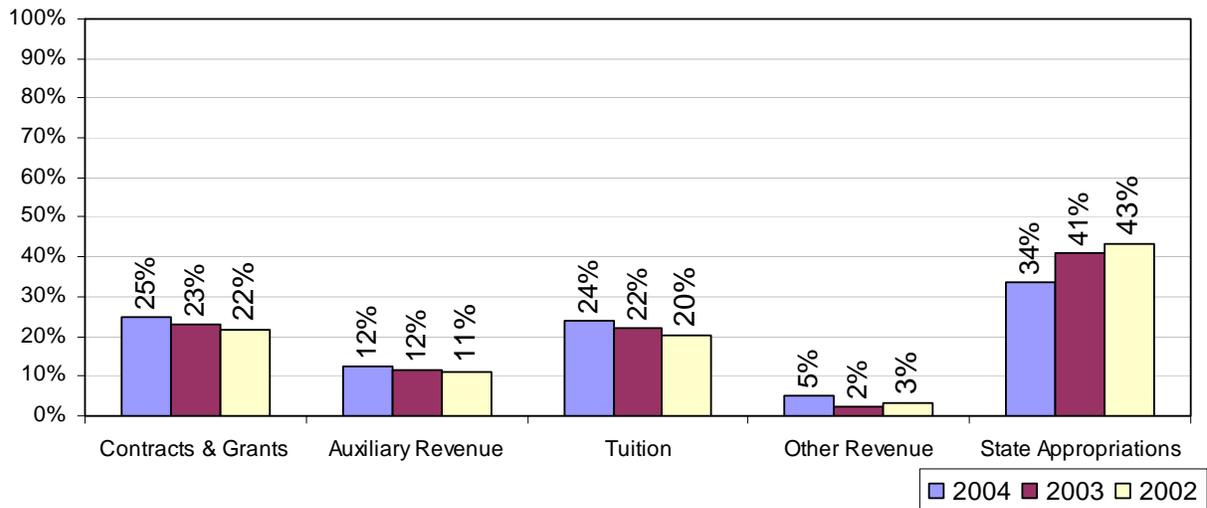
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Fund. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Fund without the Legislature directly receiving commensurate goods and services for those revenues.

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

	FY 2004	FY 2003	FY 2002	Change From 2003 to 2004
Operating Revenues	\$ 710,560	\$ 636,425	\$ 568,413	\$ 74,135
Operating Expenses	<u>1,062,275</u>	<u>1,053,106</u>	<u>978,087</u>	<u>9,169</u>
Operating Loss	(351,715)	(416,681)	(409,674)	64,966
Net Nonoperating Revenues	<u>378,407</u>	<u>417,062</u>	<u>424,340</u>	<u>(38,655)</u>
Income Before Other Revenues, Expenses, Gains or Losses	26,692	381	14,666	26,311
Capital Grants and Gifts - Net	<u>11,866</u>	<u>25,950</u>	<u>23,173</u>	<u>(14,084)</u>
Increase in Net Assets	38,558	26,331	37,839	12,227
Net Assets - Beginning of Year	<u>893,193</u>	<u>866,862</u>	<u>829,023</u>	<u>26,331</u>
Net Assets-End of Year	\$ <u>931,751</u>	\$ <u>893,193</u>	\$ <u>866,862</u>	\$ <u>38,558</u>

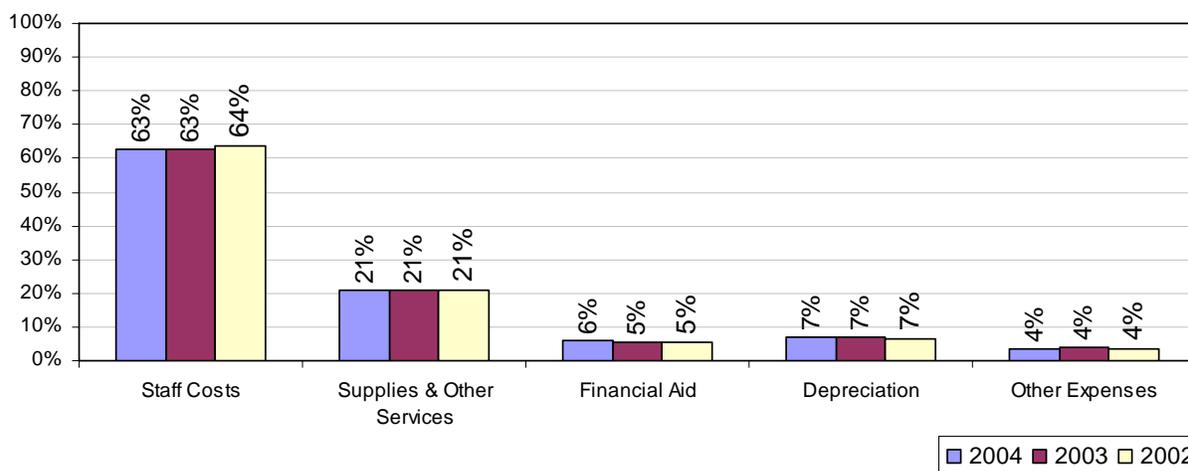
Total Revenues

For the Years Ended June 30, 2004, 2003, & 2002



Total Expenses

For the Years Ended June 30, 2004, 2003, & 2002



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

- Operating Revenues of the Fund totaled \$710.6 and \$636.4 million, an increase of \$74.1 and \$68.0 million from each previous year.
 - Student tuition and fees revenues totaled \$262.1 million in FY 2004, an increase of \$31.0 million or 13.4% in FY 2004 compared to a 13.7% increase in FY 2003. Tuition is reported net of scholarship allowances totaling \$66.8 and \$57.5 million for the years ended June 30, 2004 and 2003 respectively. The increase in FY 2004 tuition reflects the combined impact of a 2.5% increase in annualized full-time student enrollment, a 9.4% increase in four-year tuition and fee rates, and a 4.0% increase in community college rates.
 - Federal grant and contracts totaled \$191.8 and \$186.1 million, an increase of \$5.7 and \$35.9 million from each previous year. This increase reflects increased funding for sponsored research, Pell grants, and other miscellaneous federal programs.
 - Auxiliary enterprises generated revenues of \$133.9 and \$121.4 million, net of \$8.3 and \$7.1 million of scholarship allowances for the years ended June 30, 2004 and 2003 respectively. FY 2004 net auxiliary revenues increased by \$12.5 million or 10.3% compared to a 10.6% increase in FY 2003, reflecting growth in student levels, expansion of auxiliary services offered to students, as well as continued efforts to generate an adequate level of auxiliary revenues to offset the expenses necessary to provide the auxiliary services to students.
 - State grants and contracts totaled \$40.2 and \$27.7 million, an increase of \$12.5 million from FY 2003 and a decrease of \$1.2 million from FY 2002. Private grants and contracts totaled \$38.2 and \$28.1 million for the years ended June 30, 2004 and 2003 respectively, an increase of \$10.1 million from FY 2003 and a

decrease of \$6.2 million from FY 2002. These changes represent normal fluctuations in grant activities.

- Operating expenses totaled \$1,062.2 and \$1,053.1 million for the years ended June 30, 2004 and 2003 respectively, an increase of \$9.1 million and \$75.0 from each previous year.
 - Staff costs including salaries and benefits totaled \$667.2 and \$660.8 million, an increase of \$6.4 and \$37.7 million for the years ended June 30, 2004 and 2003 respectively, or 1.0% from FY 2003. Benefit costs only rose by \$.1 million in FY 2004, primarily due to cost increases in current year medical plan premiums and the related costs associated with accruals for compensated absences offset by reduction in staff. Salary costs increased \$6.3 million in FY 2004 or 1.2% mainly attributed to the removal of the annual increment cap for classified staff employees effective July 1, 2003 offset by reduction in staff.
 - Supplies and other services totaled \$221.7 and \$222.5 million, a decrease of \$.8 million from FY 2003, compared to an increase of \$19.2 million from FY 2002.
 - Scholarships and fellowships totaled \$61.7 and \$56.1 million, an increase of \$5.7 million or 10.1% from FY 2003 compared to an increase of \$3.7 million from FY 2002.
 - Depreciation on capital assets totaled \$74.1 million, an increase of \$2.1 million from FY 2003 compared to a \$7.3 million increase from FY 2002. The increases primarily reflect the depreciation on new buildings, equipment, and software placed in service during FY 2004 and 2003.
 - As reported on a functional expenditure basis, expenditures for Educational and General Expenses were \$799.7 and \$806.6 million in FY 2004 and FY 2003 respectively, a decrease of \$6.9 million over FY 2003 and an increase of \$53.3 million over FY 2002. Instructional expenditures increased by 2.4% over FY 2003, and now constitute 39.2% of total educational and general expenses. Research expenditures grew by 8.7% over FY 2003 due to expanded sponsored research projects. Plant operations decreased by 5.2% over FY 2003.

Functional Expenditure Comparisons
(In thousands of dollars)

	FY04	% of	FY03	% of	FY02	% of
	Total	E&G Total	Total	E&G Total	Total	E&G Total
Instruction	\$ 313,473	39.2%	\$ 305,981	37.9%	\$ 297,432	39.5%
Research	102,992	12.9%	94,707	11.7%	85,004	11.3%
Public Service	78,152	9.8%	81,341	10.1%	74,551	9.9%
Academic Support	61,685	7.7%	64,274	8.0%	60,278	8.0%
Student Services	48,897	6.1%	52,900	6.6%	50,161	6.7%
Plant Operations	81,673	10.2%	86,134	10.7%	70,185	9.3%
Institutional Support	<u>112,803</u>	<u>14.1%</u>	<u>121,255</u>	<u>15.0%</u>	<u>115,735</u>	<u>15.4%</u>
Total E & G Expenses	799,675	<u>100.0%</u>	806,592	<u>100.0%</u>	753,346	<u>100.0%</u>
Financial Aid	62,430		56,081		52,440	
Auxiliary Enterprises	125,122		116,060		104,506	
Depreciation	74,098		71,976		64,678	
Other	<u>950</u>		<u>2,397</u>		<u>3,117</u>	
Total Operating Expenses	\$ <u>1,062,275</u>		\$ <u>1,053,106</u>		\$ <u>978,087</u>	

- The result from operations was a net operating loss of \$351.7 and \$416.7 million for the years ended June 30, 2004 and 2003 respectively, but excludes the impact of the decrease in State appropriations of \$402.5 and \$432.4 million for the years ended June 30, 2004 and 2003 respectively which are recorded as non-operating revenue. The net operating loss decreased by \$65.0 million in FY 2004, primarily from the increase in operating revenues of \$74.2 million.
- Net non-operating revenue totaled \$378.4 and \$417.1 million for the years ended June 30, 2004 and 2003 respectively, a decrease of \$38.7 million and \$7.2 million or a 9.3 % and 1.7% from each previous year.
 - State general revenue and lottery appropriations totaled \$402.5 and \$432.4 million for the years ended June 30, 2004 and 2003 respectively, a decrease of \$29.9 million or 6.9% from the prior year compared to basically flat state appropriations from FY 2002 to FY 2003.
 - Interest incurred on indebtedness totaled \$21.2 and \$22.5 million, a decrease of \$1.4 million from FY 2003 due to the refinancing of the State College and University Series 1992 Bonds during FY 2004.
 - Interest earned on investments totaled \$3.8 and \$7.7 million for the years ended June 30, 2004 and 2003 respectively, a decrease of \$3.9 million from the prior year reflecting a lower level of invested funds due to completion of several construction projects, and the continued decline in market interest rates.
 - Student financial aid payments to other institutions totaled \$14.1 and \$11.5 million for the years ended June 30, 2004 and 2003 respectively, an increase of \$2.6 million from FY 2003, reflecting legislative changes which expanded

participation in state financial aid programs such as Promise Scholarships and Higher Education Adult Part-time Student Grant Program (HEAPS) and Workforce Development Programs.

- Other revenues consist of capital grants and gifts totaling \$29.4 and \$26.0 million for the years ended June 30, 2004 and 2003 respectively, an increase of \$3.4 million from FY 2003, compared to an increase of \$2.8 million from FY 2002. This increase in capital grants and gifts is offset by a \$17.5 million unappropriated capital grant as a result of the West Virginia Legislature, Senate Bill No. 1007 passed on March 21, 2004 which required the return of \$17.5 million to the State. This amount is included in the Statement of Net Assets as a separate line.
- The activity for FY 2004 resulted in an increase of net assets totaling \$38.6 million, as compared to the \$26.3 million increase in net assets during FY 2003.

Combined Statement of Cash Flows

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

Combined Cash Flows (In thousands of dollars)

	FY 2004	FY 2003	FY 2002	Change From 2003 to 2004
Cash Provided (Used) By:				
Operating Activities	\$ (269,616)	\$ (327,500)	\$ (332,659)	\$ 57,884
Noncapital Financing Activities	391,495	430,260	437,070	(38,765)
Capital and Related Financing Activities	(97,669)	(105,838)	(135,170)	8,169
Investing Activities	<u>3,103</u>	<u>22,272</u>	<u>56,602</u>	<u>(19,169)</u>
Increase in Cash and Cash Equivalents	27,313	19,194	25,843	8,119
Cash and Cash Equivalents, beginning of year	<u>240,981</u>	<u>221,787</u>	<u>195,944</u>	<u>19,194</u>
Cash and Cash Equivalents, end of year	\$ <u>268,294</u>	\$ <u>240,981</u>	\$ <u>221,787</u>	\$ <u>27,313</u>

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

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$269.6 and \$327.5 million for the years ended June 30, 2004 and 2003 respectively, primarily due to the reporting of State appropriations as a noncapital financing activity. Major variances from activity reported on the Combined Statement of Revenue, Expenses and Changes in Net Assets include depreciation expense and accruals for compensated absences. These results reflect the FY 2004 reductions in State appropriations.
- Net cash provided from noncapital financing activities totaled \$391.5 million, of which \$400.7 million was from State General Revenue and Lottery appropriations. These results reflect the FY 2004 reductions in state appropriations, when net cash provided from noncapital financing activities totaled \$430.3 million, of which \$435.2 million was from State general revenue appropriations.
- Net cash used by capital and related financing activities totaled \$97.7 million primarily for capital construction payments. This was a decrease from the prior year when net cash used in capital and related financing activities totaled \$105.8 million. The decrease reflects the timing on the issuance of new bonds and the completion of various construction projects.
- Net cash provided from investing activities totaled \$3.1 million and primarily resulted from a reduction in investments to fund expenditures for construction projects. This was a decrease from the prior year when net cash provided from investing activities totaled \$22.3 million.
- Net cash for FY 2004 increased by \$27.3 million, and includes \$10.0 million in excess Lottery funding received by the Commission for future capital improvements. Net cash for FY 2003 increased by \$19.2 million and included \$10 million in excess Lottery funding also.

Capital Asset and Long-Term Debt Activity

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Purchases of capital assets totaled \$118.8 million in FY 2004, as compared to \$123.6 million in FY 2003. Institutional projects at Fairmont State University, Marshall University, Shepherd University, West Virginia State University and West Virginia University were the primary expenditures during FY 2004. New projects begun in FY 2003 at these campuses include renovation and expansion of student housing, student recreation and activities facilities; renovation of athletic facilities; improvements to campus infrastructure; and further improvements to academic facilities. For FY 2004, expenditures at West Virginia University, Marshall University and Fairmont State University accounted for \$94.9 million of the \$118.8 million total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. Major projects at Fairmont State University include student housing facilities, parking facilities, campus infrastructure and utilities

improvements, dormitory facilities and a new student activity center. The remaining expenditures reflect on-going capital projects at the other state colleges and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of \$203.0 million as of June 30, 2004. No additional system bonds were issued in FY 2004, although two series of system bonds were refinanced in July 2003 as further described in the notes to the financial statements. Individual institutional bonds outstanding total \$205.4 million as of June 30, 2004. New institutional revenue bonds totaling \$13.6 million were issued by West Liberty State College during fiscal year 2004 to finance new capital projects. The majority of this new issue is unexpended at June 30, 2004. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

Future Reporting Changes

During fiscal year 2004, Senate Bill No. 448 was passed. Beginning with fiscal year ending June 30, 2005, SB No. 448 requires the transfer of certain net assets from the West Virginia Higher Education Policy Commission to the West Virginia Council for Community and Technical College Education. The exact amounts to be transferred have not yet been determined. SB No. 448 also requires the development of a new model or the selection of an existing model for the establishment of charges between sponsoring institutions and the administratively linked community and technical colleges. This legislation will require a separate combined audit of the West Virginia Council for Community and Technical College Education consisting of all community and technical college components. It is the opinion of management that the Council will roll into the West Virginia Higher Education Fund statements, and also be included as separate supplemental information.

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

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

The achievement of the goals for the higher education system as described in the Compact are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is \$931.9 million, including \$92.8 million in unrestricted net assets. The continued success of the Fund is closely tied to the economic

strength of the State of West Virginia. Over 35% of operating and nonoperating revenues of the Fund in FY 2004 is from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State of West Virginia budget constraints in fiscal year 2004 required most state agencies to reduce general revenue funding by 10% as compared to fiscal year 2003. For fiscal year 2005, State appropriations for higher education will be reduced by \$33.9 million or 9.9% exclusive of funding for Promise and capital projects. For fiscal year 2006, most state agencies are being requested to submit a general revenue budget appropriation request with a further 5.5% budget reduction. Strategies for addressing the FY 2005 funding reductions have been implemented, and include reallocation of resources, program restructurings, voluntary severance packages and other employee reductions, growth in tuition revenues from enrollment growth and fee increases, and other operating efficiencies. Strategies for dealing with the potential FY 2006 state funding reductions are currently in the process of being evaluated.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the state. Increased attendance by non-resident students is another factor in the future financial stability of the Fund. Although faced with difficult demographic trends, enrollment increases have been encouraging in recent periods, with over a 2.5% increase in Fall 2004 full-time equivalent students versus Fall 2003. Net student tuition and fees provide approximately 23% of the total revenues of the Fund.

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

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 268,294	\$ 240,981
Investments	361	408
Appropriations due from Primary Government	3,159	5,219
Accounts receivable—net	52,663	55,291
Loans receivable—current portion	7,279	8,604
Other current assets	1,967	655
Inventories	<u>4,497</u>	<u>4,680</u>
Total current assets	<u>338,220</u>	<u>315,838</u>
Noncurrent assets:		
Cash and cash equivalents	75,595	96,472
Investments	15,839	12,380
Loans receivable, net of allowance of \$9,882 and \$10,167	44,446	42,092
Other assets	8,164	4,515
Capital assets—net	<u>1,166,191</u>	<u>1,104,793</u>
Total noncurrent assets	<u>1,310,235</u>	<u>1,260,252</u>
TOTAL ASSETS	<u>\$ 1,648,455</u>	<u>\$ 1,576,090</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 45,669	\$ 36,506
Unappropriated capital grants due to State	17,506	
Due to State of West Virginia	57	
Accrued liabilities	23,853	19,653
Deferred revenue	33,856	33,577
Deposits	4,634	7,876
Severance payable—current portion	228	1,756
Compensated absences—current portion	29,285	28,118
Notes payable—current portion	175	76
Capital lease obligations—current portion	5,551	5,158
Interest payable	2,113	2,850
Bonds payable—current portion	<u>14,191</u>	<u>12,850</u>
Total current liabilities	<u>177,118</u>	<u>148,420</u>
Noncurrent liabilities:		
Advances from federal sponsors	42,472	41,743
Severance payable	2,169	3,084
Compensated absences	63,966	65,281
Notes payable	3,505	3,248
Capital lease obligations	23,376	20,833
Deferred interest payable	9,879	7,184
Bonds payable	<u>394,219</u>	<u>393,104</u>
Total noncurrent liabilities	<u>539,586</u>	<u>534,477</u>
TOTAL LIABILITIES	<u>716,704</u>	<u>682,897</u>
NET ASSETS:		
Invested in capital assets—net of related debt	744,446	711,814
Restricted for:		
Expendable:		
Specific purposes by State Code		40,213
Scholarships	6,969	4,633
Sponsored projects	11,148	8,838
Loans	22,739	19,266
Capital projects	40,735	37,164
Debt service	7,486	7,491
Other	<u>1,568</u>	<u>1,325</u>
Total restricted expendable	90,645	118,930
Nonexpendable	4,001	3,047
Unrestricted	<u>92,659</u>	<u>59,402</u>
Total net assets	<u>931,751</u>	<u>893,193</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,648,455</u>	<u>\$1,576,090</u>

See notes to combined financial statements

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMPONENT UNITS—STATEMENTS OF NET ASSETS

JUNE 30, 2004

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia State University Foundation, Inc.
ASSETS:									
Cash and cash equivalents	\$ 662,971	\$ 1,791,306	\$ 101,671	\$ 171,131	\$ 4,572,337	\$ 1,080,771	\$ 38,885	\$ 57,316	\$ 203,573
Investments	6,856,078	15,287,462	8,769,419	4,576,586	65,046,693	16,448,935	6,867,241	1,050,291	2,526,773
Pledges and contributions receivable	31,916	940,385	381,441	87,077	6,581,493	25,994	441,467	30,520	7,000
Interest and dividends receivable	34,950	86,585	24,492		3,583	103,887			
Notes receivable					1,404,567				
Other assets	11,004	12,123	12,916	74,652	1,148,107	4,356	33,763	215,063	22,638
Beneficial interests					954,307		2,154,475		220,745
Property, plant and equipment—net				136,133	1,356,104	1,614,944	15,334		1,140,138
TOTAL ASSETS	\$7,596,919	\$18,117,861	\$9,289,939	\$5,045,579	\$81,067,191	\$19,278,887	\$9,551,165	\$1,353,190	\$4,120,867
LIABILITIES:									
Accounts payable	\$ -	\$ 6,473	\$ 15,000	\$ -	\$ 308,150	\$ 187	\$ 54,221	\$ -	\$ 2,604
Other accrued liabilities			10,602			4,153		2,840	69,340
Amounts held on behalf of others	32,124	828,556				2,909,169			
Annuity obligations		206,415	92,214		381,477	137,562	59,829		28,904
Note payable					850,083		13,872		
TOTAL LIABILITIES	32,124	1,041,444	117,816	-	1,539,710	3,051,071	127,922	2,840	100,848
NET ASSETS:									
Unrestricted	1,154,061	639,375	1,964,824	392,725	15,439,265	130,742	277,987	1,265,756	207,008
Temporarily restricted	6,155,025	3,096,241	6,823,608	1,150,802	21,542,711	617,235	3,034,845		1,094,397
Permanently restricted	255,709	13,340,801	383,691	3,502,052	42,545,505	15,479,839	6,110,411	84,594	2,718,614
Total net assets	7,564,795	17,076,417	9,172,123	5,045,579	79,527,481	16,227,816	9,423,243	1,350,350	4,020,019
TOTAL LIABILITIES AND NET ASSETS	\$7,596,919	\$18,117,861	\$9,289,939	\$5,045,579	\$81,067,191	\$19,278,887	\$9,551,165	\$1,353,190	\$4,120,867

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**
YEARS ENDED JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$66,841 and \$57,457	\$ 262,066	\$ 231,098
Federal appropriations	7,218	7,795
Local appropriations	661	631
Contracts and grants:		
Federal	191,778	186,127
State	40,209	27,694
Local	1,211	1,136
Private	38,202	28,091
Interest on student loans receivable	1,042	1,103
Sales and services of educational departments	12,092	12,172
Auxiliary enterprise revenue, net of scholarship allowance of \$8,328 and \$7,077	133,941	121,408
Other operating revenue	<u>22,140</u>	<u>19,170</u>
Total operating revenues	<u>710,560</u>	<u>636,425</u>
OPERATING EXPENSES:		
Salaries and wages	518,246	511,967
Benefits	148,956	148,822
Supplies and other services	221,694	222,546
Utilities	36,250	35,811
Student financial aid—scholarships and fellowships	61,741	56,081
Depreciation	74,098	71,976
Loan cancellations and write-offs	930	1,358
Other operating expenses	<u>360</u>	<u>4,545</u>
Total operating expenses	<u>1,062,275</u>	<u>1,053,106</u>
OPERATING LOSS	<u>(351,715)</u>	<u>(416,681)</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS**
YEARS ENDED JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 402,507	\$ 432,373
Gifts	8,850	10,744
Investment income	3,837	7,685
Interest on indebtedness	(21,153)	(22,520)
Student financial aid payments to other institutions	(14,116)	(11,540)
Other nonoperating expenses—net	<u>(1,518)</u>	<u>320</u>
Net nonoperating revenues	<u>378,407</u>	<u>417,062</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	26,692	381
CAPITAL GRANTS AND GIFTS	29,372	25,950
UNAPPROPRIATED CAPITAL GRANTS	<u>(17,506)</u>	<u> </u>
INCREASE IN NET ASSETS	38,558	26,331
NET ASSETS—Beginning of year	<u>893,193</u>	<u>866,862</u>
NET ASSETS—End of year	<u>\$ 931,751</u>	<u>\$ 893,193</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMPONENT UNITS—STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia State University Foundation, Inc.
REVENUES, GAINS AND OTHER SUPPORT:									
Unrestricted:									
Gifts, contributions and other	\$ 21,256	\$ 226,988	\$ 303,794	\$ 74,672	\$ 738,553	\$ 75,466	\$ 148,477	\$ 2,756	\$ 164,746
Investment income	58,558	14,737	672,638	69,819	4,540,514	308,398	122,508	94,055	6,566
Temporarily restricted:									
Gifts, contributions and other	209,694	1,113,060	604,406	548,652	5,954,188	323,924	923,299	181,050	378,053
Investment income	438,081	668,857	274,725	333,148	1,847,578	172,572	507,420		
Permanently restricted:									
Gifts, contributions and other	500	81,835	383,691	90,550	1,457,464	2,041,866	1,024,207		204,067
Investment income		875,440		21,906	310,717	26,889	89,108		128,879
Total revenues, gains and other support	<u>728,089</u>	<u>2,980,917</u>	<u>2,239,254</u>	<u>1,138,747</u>	<u>14,849,014</u>	<u>2,949,115</u>	<u>2,815,019</u>	<u>277,861</u>	<u>882,311</u>
EXPENSES:									
Scholarships and rewards	207,580	451,568	805,594	608,377	1,094,794	692,581	212,022	141,247	1,249
College support	35,535	195,676	130,968	171,095	4,199,291	101,403	459,598	5,632	381,630
Management and general	13,195	332,538	141,487		1,490,803	262,202	341,236		227,310
Total expenses	<u>256,310</u>	<u>979,782</u>	<u>1,078,049</u>	<u>779,472</u>	<u>6,784,888</u>	<u>1,056,186</u>	<u>1,012,856</u>	<u>146,879</u>	<u>610,189</u>
CHANGE IN NET ASSETS	471,779	2,001,135	1,161,205	359,275	8,064,126	1,892,929	1,802,163	130,982	272,122
NET ASSETS—Beginning of year	<u>7,093,016</u>	<u>15,075,282</u>	<u>8,010,918</u>	<u>4,686,304</u>	<u>71,463,355</u>	<u>14,334,887</u>	<u>7,621,080</u>	<u>1,219,368</u>	<u>3,747,897</u>
NET ASSETS—End of year	<u>\$7,564,795</u>	<u>\$17,076,417</u>	<u>\$9,172,123</u>	<u>\$5,045,579</u>	<u>\$79,527,481</u>	<u>\$16,227,816</u>	<u>\$9,423,243</u>	<u>\$1,350,350</u>	<u>\$4,020,019</u>

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 275,518	\$ 242,125
Federal and local appropriations	7,879	8,426
Contracts and grants	282,441	241,736
Payments to and on behalf of employees	(665,113)	(647,067)
Payments to suppliers	(229,078)	(222,282)
Payments to utilities	(35,988)	(37,088)
Payments for scholarships and fellowships	(73,621)	(66,208)
Loans issued to students	(7,890)	(4,626)
Collection of loans to students	6,049	3,093
Sales and service of educational activities	13,641	21,567
Interest earned on loans to students	704	719
Auxiliary enterprise charges	135,391	113,085
Other receipts—net	<u>20,451</u>	<u>19,020</u>
Net cash used in operating activities	<u>(269,616)</u>	<u>(327,500)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	400,711	435,205
Student financial aid payments to other institutions	(17,119)	(13,914)
Gift receipts	8,160	9,792
Direct and Stafford lending receipts	211,796	164,752
Direct and Stafford lending payments	(211,545)	(165,098)
Other nonoperating receipts—net	<u>(508)</u>	<u>(477)</u>
Net cash provided by noncapital financing activities	<u>391,495</u>	<u>430,260</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital appropriations	10,000	10,478
Proceeds from bond issuances	100,379	75,454
Payment for bond issuance costs	(3,976)	(1,469)
Proceeds from capital asset disposals	267	340
Decrease in noncurrent cash and cash equivalents (increase)	20,908	(43,192)
Capital grants and gifts received	18,789	10,911
Purchases of capital assets	(118,826)	(123,557)
Principal paid on notes, bonds and leases	(106,157)	(17,224)
Interest paid on notes, bonds and leases	(19,053)	(18,783)
Payments into debt reserves	<u> </u>	<u>1,204</u>
Net cash used in capital financing activities	<u>(97,669)</u>	<u>(105,838)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from sales of investments	712	18,920
Purchase of investments	(474)	(4,665)
Investment income	<u>2,865</u>	<u>8,017</u>
Net cash provided by investing activities	<u>3,103</u>	<u>22,272</u>
INCREASE IN CASH AND CASH EQUIVALENTS	27,313	19,194
CASH AND CASH EQUIVALENTS—Beginning of year	<u>240,981</u>	<u>221,787</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 268,294</u>	<u>\$ 240,981</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003
(Dollars in thousands)

	2004	2003
RECONCILIATION OF OPERATING LOSS TO NET CASH		
USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (351,715)	\$ (416,681)
Adjustments to reconcile operating loss to net cash used in operating activities—		
Depreciation expense	74,098	71,976
Changes in assets and liabilities:		
Receivables—net	1,929	(16,877)
Loans receivable—net	(1,142)	(262)
Prepaid expenses	(1,540)	(68)
Inventories	183	(260)
Accounts payable	6,947	1,784
Accrued liabilities	911	3,237
Compensated absences	448	10,906
Severance payable	(724)	2,458
Deferred revenue	256	12,244
Deposits	524	570
Advances from Federal Sponsors	372	59
Other	(163)	3,414
	<u>\$ (269,616)</u>	<u>\$ (327,500)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (269,616)</u>	<u>\$ (327,500)</u>
SIGNIFICANT NONCASH TRANSACTIONS:		
Assets purchased on capital leases	<u>\$ 10,155</u>	<u>\$ 5,761</u>
Construction in progress additions included in accounts payable and accrued liabilities	<u>\$ 6,921</u>	<u>\$ 3,368</u>
Donated capital assets	<u>\$ 6,219</u>	<u>\$ 3,231</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND (A Component Unit of the State of West Virginia)

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2004 AND 2003

1. ORGANIZATION

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

- Bluefield State College
- Concord College (Concord University effective July 1, 2004)
- Eastern West Virginia Community and Technical College
- Fairmont State University
- Glenville State College
- Marshall University (including Marshall University Graduate College)
- Shepherd University
- Southern West Virginia Community and Technical College
- West Liberty State College
- West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing)
- West Virginia Northern Community College
- West Virginia State University
- West Virginia School of Osteopathic Medicine
- West Virginia University (including Potomac State College, West Virginia University Institute of Technology and West Virginia University at Parkersburg)

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

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

During fiscal year 2004, Senate Bill 448 (“S.B. 448”) was passed. S.B. 448 created the Council for Community and Technical Colleges (the “Council”) which has responsibility for all community and technical colleges within the West Virginia Higher Education Fund. As required by S.B. 448, beginning for fiscal year ending June 30, 2005, the Council, including all the community and technical college components currently included in the Fund, will be separately audited.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Fund have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and Statement No. 35, *Basic Financial Statements—*

and Management's Discussion and Analysis—for Public Colleges and Universities (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Fund's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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

Reporting Entity—The accompanying combined financial statements present all entities under the authority of the Fund under GASB Statement No. 14 *The Financial Reporting Entity* including:

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

These entities are included in the combined financial statements as blended component units of the Fund.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund are not part of the Fund's reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundations and other affiliates under GASB Statement No. 14.

As of July 1, 2003, the Fund adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the aggregate component units' financial statements are discretely presented here with the Fund's financial statements for the year ended June 30, 2004 only, as not all component units had a 2003 audited financial statement prepared in accordance with generally accepted accounting principles. The aggregate component units are the separate private nonprofit organization of each applicable institution that are required to be reported under GASB No. 39, these discretely presented component unit organizations report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The aggregate component units consist of foundations which meet the criteria for inclusion under GASB No. 39.

Financial Statement Presentation—During fiscal 2002, the Fund adopted GASB Statement No. 35, *Basic Financial Statement—and Management's Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to

focus on the Fund as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The Fund's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the Fund's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable*—This includes resources in which the Fund is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fees restrictions. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were primarily for the following: debt service; graduate or branch colleges; off-campus instruction; student unions; public interest research group; libraries, library supplies and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments*

for External Investment Pools. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

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

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

Noncurrent Cash and Cash Equivalents—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets and (3) held for permanently restricted net assets, is classified as a noncurrent asset in the statement of net assets.

Capital Assets—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment.

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

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

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

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

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

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

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

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

Classification of Revenues—The Fund has classified its revenues as either operating or 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, (4) federal appropriations for land grant institutions, and (5) sales and services of educational activities.
- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34*, such as state appropriations and investment income.

Use of Restricted Net Assets—The Fund has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Fund attempts to utilize restricted net assets first when practicable. Certain Institutions have adopted a policy to utilize restricted net assets first.

Federal Financial Assistance Programs—The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans directly to students, through the institution within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Fund’s combined statements of net assets. In 2004 and 2003, the Fund received and disbursed, or awarded, approximately \$217 million and \$176 million, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses and changes in net assets.

The Fund also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2004 and 2003, the Fund received and disbursed approximately \$75 million and \$70 million, respectively, under these federal student aid programs.

Scholarship Allowances—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the Fund, and the amount that is paid by students and/or third parties making payments on the student’s behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and 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 College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Fund recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Interest Expense—The Fund accounts for interest on debt as an expense of the period in which it is incurred. The Fund does not capitalize interest on debt as part of the cost of the asset.

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

Cash Flows—Any cash and cash equivalents escrowed, restricted for noncurrent assets or in funded reserves have not been included as cash and cash equivalents for the purpose of the combined statement of cash flows.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Recent Statements Issued by the Governmental Accounting Standards Board—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The Fund has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in the Fund’s financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the Fund to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset. The Fund has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The Fund has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

Reclassifications—Certain items in the 2003 financial statements have been reclassified to conform to the current year’s classification.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2004 and 2003 (dollars in thousands):

	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 210,925	\$ 31,377	\$ 242,302
Cash on deposit with Municipal Bond Commission	1,551	2,264	3,815
Cash on deposit with Trustee	7,796	39,882	47,678
Cash in bank	46,787	1,471	48,258
Cash equivalents	1,114	601	1,715
Cash on hand	121	—	121
	<u>\$ 268,294</u>	<u>\$ 75,595</u>	<u>\$ 343,889</u>

	2003		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 198,537	\$ 31,293	\$ 229,830
Cash on deposit with Municipal Bond Commission	1,637	2,343	3,980
Cash on deposit with Trustee	3,370	58,922	62,292
Cash in bank	35,945	3,914	39,859
Cash equivalents	1,393		1,393
Cash on hand	99		99
	<u>\$ 240,981</u>	<u>\$ 96,472</u>	<u>\$ 337,453</u>

Cash shown above as held by the Municipal Bond Commission or Trustee represents various project revenue, debt service and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other cash held by the State Treasurer includes \$30.2 million and \$54.6 million of restricted cash at June 30, 2004 and June 30, 2003, respectively.

The combined carrying amounts of cash in the bank at June 30, 2004 and 2003 was \$48.0 and \$37.0 million, as compared with the combined bank balance of \$54.3 and \$41.7 million, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

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

4. INVESTMENTS

Investments were as follows at June 30, 2004 and 2003 (dollars in thousands):

	2004		
	Current	Noncurrent	Total
Municipal Bond Commission	\$ 361	\$ 3,684	\$ 4,045
Financial institutions:			
U.S. Government securities		4,600	4,600
High-grade corporate obligations		3,444	3,444
Equity securities		2,926	2,926
Mutual funds		1,141	1,141
Other		44	44
	<u>\$ 361</u>	<u>\$ 15,839</u>	<u>\$ 16,200</u>

	2003		
	Current	Noncurrent	Total
Investment Management Board	\$ -	\$ 2,314	\$ 2,314
Municipal Bond Commission	408	568	976
Financial institutions:			
Money market funds		4,297	4,297
U.S. Government securities		2,547	2,547
High-grade corporate obligations		1,511	1,511
Equity securities		1,143	1,143
	<u>\$ 408</u>	<u>\$ 12,380</u>	<u>\$ 12,788</u>

Approximately \$3,684 and \$568 of investments as of June 30, 2004 and 2003, respectively, represent unexpended proceeds of bond issuances, and are restricted to expenditures for capital improvements and bond related costs. Accordingly, these investments are classified as noncurrent, but are available for immediate withdrawal.

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

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2004 and 2003 (dollars in thousands):

	2004	2003
Students, net of allowance of \$5,581 and \$4,483	\$ 6,091	\$ 5,755
Grants and contracts, net of allowance of \$1,053 and \$1,070	34,444	36,716
Auxiliary services, net of allowance of \$596 and \$573	1,954	923
Due from West Virginia Hospitals, Inc.	2,469	4,237
Due from State and state agencies	1,311	3,068
Other, net of allowance of \$373 and \$74	6,394	4,592
	<u>\$ 52,663</u>	<u>\$ 55,291</u>

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

6. CAPITAL ASSETS

The following is a summary of capital assets transactions for the Fund for the years ended June 30, 2004 and 2003 (dollars in thousands):

	2004			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 38,396	\$ 1,439	\$ -	\$ 39,835
Construction in progress	74,887	97,821	(27,466)	145,242
Other	<u>132</u>	<u> </u>	<u> </u>	<u>132</u>
Total capital assets not being depreciated	<u>\$ 113,415</u>	<u>\$ 99,260</u>	<u>\$ (27,466)</u>	<u>\$ 185,209</u>
Other capital assets:				
Land improvements	\$ 18,396	\$ 1,274	\$ (41)	\$ 19,629
Infrastructure	231,177	4,924	(50)	236,051
Buildings	1,133,528	25,460	(941)	1,158,047
Equipment	250,051	27,058	(13,367)	263,742
Software	41,164	1,983	(60)	43,087
Library books	<u>102,161</u>	<u>6,344</u>	<u>(901)</u>	<u>107,604</u>
Total other capital assets	<u>1,776,477</u>	<u>67,043</u>	<u>(15,360)</u>	<u>1,828,160</u>
Less accumulated depreciation for:				
Land improvements	7,088	1,060		8,148
Infrastructure	170,916	9,536	121	180,573
Buildings	346,882	23,665	(479)	370,068
Equipment	154,027	25,916	(11,110)	168,834
Software	26,915	8,019	(26)	34,908
Library books	<u>79,271</u>	<u>5,902</u>	<u>(526)</u>	<u>84,647</u>
Total accumulated depreciation	<u>785,099</u>	<u>74,098</u>	<u>(12,019)</u>	<u>847,178</u>
Other capital assets—net	<u>\$ 991,378</u>	<u>\$ (7,055)</u>	<u>\$ (3,341)</u>	<u>\$ 980,982</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 113,415	\$ 99,260	\$ (27,466)	\$ 185,209
Other capital assets	<u>1,776,477</u>	<u>67,043</u>	<u>(15,360)</u>	<u>1,828,160</u>
Total cost of capital assets	1,889,892	166,303	(42,826)	2,013,369
Less accumulated depreciation	<u>785,099</u>	<u>74,098</u>	<u>(12,019)</u>	<u>847,178</u>
Capital assets—net	<u>\$ 1,104,793</u>	<u>\$ 92,205</u>	<u>\$ (30,807)</u>	<u>\$ 1,166,191</u>

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 37,433	\$ 966	\$ (3)	\$ 38,396
Construction in progress	99,921	82,508	(107,542)	74,887
Other	<u>132</u>	<u> </u>	<u> </u>	<u>132</u>
Total capital assets not being depreciated	<u>\$ 137,486</u>	<u>\$ 83,474</u>	<u>\$ (107,545)</u>	<u>\$ 113,415</u>
Other capital assets:				
Land improvements	\$ 17,383	\$ 1,013	\$ -	\$ 18,396
Infrastructure	217,920	13,325	(68)	231,177
Buildings	1,033,090	101,855	(1,417)	1,133,528
Equipment	260,035	28,856	(38,840)	250,051
Software	34,447	6,717		41,164
Library books	<u>96,656</u>	<u>6,399</u>	<u>(894)</u>	<u>102,161</u>
Total other capital assets	<u>1,659,531</u>	<u>158,165</u>	<u>(41,219)</u>	<u>1,776,477</u>
Less accumulated depreciation for:				
Land improvements	5,990	1,098		7,088
Infrastructure	162,361	8,621	(66)	170,916
Buildings	325,572	21,931	(621)	346,882
Equipment	162,601	27,331	(35,905)	154,027
Software	19,388	7,527		26,915
Library books	<u>74,450</u>	<u>5,468</u>	<u>(647)</u>	<u>79,271</u>
Total accumulated depreciation	<u>750,362</u>	<u>71,976</u>	<u>(37,239)</u>	<u>785,099</u>
Other capital assets—net	<u>\$ 909,169</u>	<u>\$ 86,189</u>	<u>\$ (3,980)</u>	<u>\$ 991,378</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 137,486	\$ 83,474	\$ (107,545)	\$ 113,415
Other capital assets	<u>1,659,531</u>	<u>158,165</u>	<u>(41,219)</u>	<u>1,776,477</u>
Total cost of capital assets	1,797,017	241,639	(148,764)	1,889,892
Less accumulated depreciation	<u>750,362</u>	<u>71,976</u>	<u>(37,239)</u>	<u>785,099</u>
Capital assets—net	<u>\$ 1,046,655</u>	<u>\$ 169,663</u>	<u>\$ (111,525)</u>	<u>\$ 1,104,793</u>

The Fund maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. Such collections include contributed works of art, historical treasures and literature that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means.

The Higher Education Fund has construction commitments as of June 30, 2004 of approximately (in thousands):

West Virginia University	\$ 25,400
Fairmont State University	24,100
West Liberty	3,700
Marshall University	<u>1,100</u>
	<u>\$ 54,300</u>

7. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Fund for the years ended June 30, 2004 and 2003 (dollars in thousands):

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases and notes payable:					
Notes payable	\$ 3,324	\$ 439	\$ (83)	\$ 3,680	\$ 175
Capital leases payable	25,991	10,372	(7,436)	28,927	5,551
Revenue bonds payable	<u>405,954</u>	<u>100,367</u>	<u>(97,911)</u>	<u>408,410</u>	14,191
Total bonds, capital leases and notes payable	435,269	111,178	(105,430)	441,017	
Other noncurrent liabilities:					
Advances from Federal Sponsors	41,743	1,042	(304)	42,481	9
Severance payable	4,840		(2,443)	2,397	228
Accrued compensated absences	93,399		(148)	93,251	29,285
Deferred interest payable	<u>7,184</u>	<u>2,695</u>	<u> </u>	<u>9,879</u>	
Total long-term liabilities	<u>\$582,435</u>	<u>\$ 114,915</u>	<u>\$(108,325)</u>	<u>\$589,025</u>	
	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases and notes payable:					
Notes payable	\$ 3,317	\$ 93	\$ (86)	\$ 3,324	\$ 76
Capital leases payable	25,569	5,761	(5,339)	25,991	5,158
Revenue bonds payable	<u>342,069</u>	<u>75,625</u>	<u>(11,740)</u>	<u>405,954</u>	12,850
Total bonds, capital leases and notes payable	370,955	81,479	(17,165)	435,269	
Other noncurrent liabilities:					
Advances from Federal Sponsors	41,584	936	(777)	41,743	
Severance payable	1,467	3,830	(457)	4,840	1,756
Accrued compensated absences	82,493	10,906		93,399	28,118
Deferred interest payable	<u>4,644</u>	<u>2,540</u>	<u> </u>	<u>7,184</u>	
Total long-term liabilities	<u>\$ 501,143</u>	<u>\$ 99,691</u>	<u>\$(18,399)</u>	<u>\$ 582,435</u>	

8. COMPENSATED ABSENCES

The composition of the compensated absences liability was as follows at June 30, 2004 and 2003 (dollars in thousands):

	2004	2003
Health or life insurance benefits	\$ 63,000	\$ 64,639
Accrued vacation leave	<u>30,251</u>	<u>28,760</u>
	<u>\$ 93,251</u>	<u>\$ 93,399</u>

For the years ended June 30, 2004 and 2003, the amounts paid by the Fund for extended health or life insurance benefits totaled approximately \$2.5 million and \$2.4 million, respectively. As of June 30, 2004 and 2003, there were approximately 1,200 and 1,000 retirees, respectively, currently receiving these benefits.

9. LEASE OBLIGATIONS

Capital—The Fund leases certain property, plant and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2004 (dollars in thousands):

Year Ending June 30	Total
2005	\$ 6,715
2006	6,156
2007	5,312
2008	4,663
2009	2,874
2010 - 2014	4,986
2015 - 2019	2,783
2020 - 2024	1,124
2021 - 2029	30
2030 - 2034	<u>7</u>
Future minimum lease payments	34,650
Less interest	<u>(5,723)</u>
Total	<u>\$ 28,927</u>

The following are related party capital leases:

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

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

The State, on behalf of the Commission and Bluefield State College ("Bluefield") entered into an agreement to lease a branch facility, to be known as the Greenbrier Community College Center, (the "Branch Facility"), from the Greenbrier County Building Commission. The agreement provided for rent payments of one dollar per month for a rental period of 40 years. The Branch Facility was being renovated with \$1,375,000 of funding provided by the Commission and other State and federal funds, with the balance to be provided by the Greenbrier Community College Foundation, Inc. At the conclusion of the lease term, the Branch Facility would have been transferred to Bluefield. However, Bluefield had the right to purchase the Branch Facility at any time prior to the expiration of the lease term for the amount required to redeem any obligations on the Branch Facility at the date of purchase. In June 2002, Bluefield exercised its right to purchase the Branch Facility however, title to the property had not been transferred and contribution revenue had not been recognized as of June 30, 2002. During fiscal 2003, Bluefield received title to the Branch Facility and recognized approximately \$2,500,000 of capital contribution revenue for the fair value of the Branch Facility in excess of the College's interest in the Branch Facility.

Operating—The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2004 are as follows (dollars in thousands):

Year Ending June 30	
2005	\$ 10,749
2006	9,177
2007	4,275
2008	3,835
2009	3,538
2010 - 2014	10,699
2015 - 2019	9,904
2020 - 2024	9,875
2025 - 2029	9,875
2030 - 2032	<u>4,487</u>
 Total	 <u>\$ 76,414</u>

Total rent expense for these operating leases for the years ended June 30, 2004 and 2003 was approximately \$12.9 million and \$8.7 million, respectively.

The following is a related party operating lease:

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving 30 days written notice.

Direct Financing—Marshall has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to Marshall at completion of the lease. The

facility sub-lease expires in 25 years. At the end of the sub-lease, the sublessee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30, 2004 and 2003, respectively (dollars in thousands):

	2004	2003
Total minimum lease payments to be received	\$ 1,517	\$ 1,647
Less unearned income	<u>(590)</u>	<u>(640)</u>
Net investment in direct financing and sales-type leases	<u>\$ 927</u>	<u>\$ 1,007</u>

10. NOTES PAYABLE

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3.5 million to be used to renovate dormitories. As of June 30, 2004 and 2003, the Fund had \$3.1 million and \$3.2 million outstanding, respectively. The renovations have been completed and the interest rate has been finalized at approximately 6.3%. Accordingly, current monthly principal and interest payments of approximately \$21,000 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State College’s dormitories and receives a monthly service fee. West Virginia State University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

The Fund also has other notes of approximately \$580,000 and \$127,000 outstanding at June 30, 2004 and 2003, respectively.

11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund have the following outstanding bonds payable at June 30, 2004 (dollars in thousands):

	Maximum Interest Rate	Annual Installments	2004 Principal Outstanding	2003 Principal Outstanding
West Virginia University Dormitory Refunding Revenue Bonds 1997, Series A, due through 2017	5.3%	\$555—\$1,070	\$ 10,105	\$ 10,705
West Virginia University Dormitory Revenue Bonds 1997, Series B, due through 2022	5.0%	\$1,480 - \$2,035	10,735	10,735
West Virginia University Athletic Facilities Refunding Revenue Bonds 1997, Series A, due through 2016	5.2%	\$135 - \$255	2,305	2,455
West Virginia University Athletic Facilities Revenue Bonds 1997, Series B, due through 2027	5.0%	\$265 - \$455	4,250	4,250
West Virginia University Student Union Refunding Bonds 1997, Series A, due through 2011	5.0%	\$180 - \$280	1,725	1,930
West Virginia University Student Union Revenue Bonds 1997, Series B, due through 2027	5.0%	\$220 - \$2,970	37,310	37,550
Marshall University University Center Revenue Bonds 1969, due through 2009	6.0%	\$165 - \$215	975	1,140
Marshall University University Facilities Revenue Bonds 2001, due through 2031	5.3 %	\$895 - \$3,035	46,610	46,610
West Liberty State University Student Union Revenue Bonds Series B 1967, due 2007	3.0 %	\$18		19
Glenville State University Student Housing Bonds, Series 2000A, due 2030	6.2%	\$75 - \$1,280	4,845	4,920
Fairmont State University University Facilities Revenue Bonds 2002, Series A, due through 2032	5.38%	\$340 - \$1,145	17,830	18,170
Fairmont State University Infrastructure Revenue Bonds 2002, Series B, due through 2032	5.0%	\$180 - \$565	9,030	9,210
Fairmont State University University Facilities Revenue Bonds 2003 Series A, due through 2032	5.25%	\$280 - \$860	13,320	13,320
Fairmont State University Student Activity Revenue Bonds 2003, Series B, due through 2032	5.25%	\$485 - \$1,475	22,925	22,925
Shepherd University Student Fee Revenue Bonds, due through 2033	5.13%	\$105 - \$2,970	5,990	5,990
WV State University Student Union Revenue Bonds 2002, Series A, due through 2022	6.2%	\$7 - \$37	5,200	5,400
West Liberty State University Dormitory Revenue Bonds 2003, Series A, due through 2028	6.125%	\$185-\$650	8,685	
West Liberty State University University Union Revenue Bonds 2003, Series B, due through 2018	3.75%	\$65-\$120	1,145	
West Liberty State University Capital Improvement Revenue Bonds 2003, Series C, due through 2028	6.0%	\$85-\$285	<u>3,805</u>	
			206,790	195,329
Less: Unamortized bond discount			(1,904)	(1,598)
Add: Unamortized bond premium			<u>489</u>	<u>507</u>
			<u>\$ 205,375</u>	<u>\$ 194,238</u>

Prior to fiscal 2003, each of the above bond issues was specific to an individual institution within the Fund, although the bonds were also issued in the names of the Fund's former governing boards, previously responsible for the governance of the State's higher education system. The bonds issued after fiscal 2002 were issued by the Institution's Governing Board only.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2004 is as follows (dollars in thousands):

Year Ending June 30	Principal	Interest	Total
2005	\$ 3,725	\$ 9,914	\$ 13,639
2006	4,705	9,775	14,480
2007	4,865	9,610	14,475
2008	5,050	9,431	14,481
2009	5,360	9,238	14,598
2009 - 2014	30,085	42,723	72,808
2015 - 2019	41,005	34,763	75,768
2020 - 2024	47,895	23,672	71,567
2025 - 2029	44,255	11,400	55,655
2030 - 2032	<u>19,845</u>	<u>1,932</u>	<u>21,777</u>
	<u>\$ 206,790</u>	<u>\$ 162,459</u>	<u>\$ 369,249</u>

12. SYSTEM BONDS PAYABLE

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

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

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

The Series 2003 A University Facility Bonds and the Series 2003 A College Facility Bonds were issued in August 2003 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. These bonds were issued to provide monies which, together with other monies available to the respective boards, were used to (i) refund and defease all outstanding University System of West Virginia Board of Trustees, Series 1992 Bonds and (ii) to provide for the payment of costs of issuing the 2003 Series A Revenue Refunding Bonds. The total cash flow savings for the remaining life of the bonds was approximately \$8 million. The economic gain of the refinancing was approximately \$6.8 million.

The Commission has the following outstanding bonds payable at June 30, 2004 and 2003 (dollars in thousands):

	Maximum Interest Rate	Annual Installments	2004 Principal Outstanding	2003 Principal Outstanding
Series 1992 University System Bonds, due through 2012	6.0 %	\$5,320 - \$8,450	\$ -	\$ 60,960
Series 1996 University System Bonds, due through 2016	5.75%	\$630 - \$1,185	10,715	11,345
Series 1997 University System Bonds, due through 2027	5.25 %	\$255 - \$795	11,145	11,400
Series 1998 University System Bonds, due through 2028	5.25 %	\$1,065 - \$3,625	51,020	52,085
Series 2000A University System Bonds, due through 2031	6.26%	\$1,019 - \$3,264	36,591	36,591
Series 2000B University System Bonds, due through 2025	5.96%	\$210 - \$670	8,475	8,685
Series 2003A University Facilities Bonds, due through 2012	5.00%	\$5,740 - \$7,875	53,835	
Series 1992 College System Bonds, due through 2012	6.0 %	\$1,415 - \$3,065		21,695
Series 1997 College System Bonds, due through 2027	5.25%	\$200 - \$625	8,755	8,955
Series 2003A College Facilities Bonds, due through 2012	5.00%	\$2,325 - \$2,690	<u>18,525</u>	<u> </u>
			199,061	211,716
Add: Bond Premium			<u>3,974</u>	<u> </u>
			<u>\$ 203,035</u>	<u>\$ 211,716</u>

A summary of the annual aggregate principal payments for years subsequent to June 30, 2004 is as follows (dollars in thousands):

Year Ending June 30	Principal	Interest	Total
2005	\$ 10,535	\$ 8,062	\$ 18,597
2006	10,945	7,613	18,558
2007	11,355	7,164	18,519
2008	11,780	6,704	18,484
2009	12,295	6,156	18,451
2010 - 2014	52,931	28,852	81,783
2015 - 2019	31,575	35,022	66,597
2020 - 2024	30,787	33,312	64,099
2025 - 2029	24,754	29,697	54,451
2030 - 2034	<u>2,103</u>	<u>11,497</u>	<u>13,600</u>
	<u>\$ 199,061</u>	<u>\$ 174,079</u>	<u>\$ 373,140</u>

13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option of switch to the new Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, 20 employees were enrolled in the new Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The Fund accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2003 and 2002. Required employee contributions are at the rate of 6% of total annual salary for both years ended June 30, 2003 and 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002 were \$8,456,000, \$8,604,000 and \$8,670,000, respectively, which consisted of approximately \$6,181,000, \$6,287,000 and \$6,520,000, from the Fund in 2004, 2003 and 2002, respectively, and approximately \$2,275,000, \$2,317,000 and \$2,410,000 from the covered employees in 2004, 2003 and 2002, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the institutions within the Fund. Historical trend and net pension obligation information is available from the annual financial

report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were approximately \$51,400,000, \$50,000,000 and \$47,400,000, respectively, which consisted of approximately \$25,700,000, \$25,000,000 and \$23,700,000, from the Fund and from the covered employees in 2004, 2003 and 2002, respectively.

The Fund's total payroll for the years ended June 30, 2004 and 2003 was approximately \$517,000,000 and \$506,800,000, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were approximately \$37,100,000 and \$425,100,000 and \$38,700,000 and \$416,000,000 for the years ended June 30, 2004 and 2003, respectively.

14. FOUNDATIONS

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose “. . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations . . .” Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore discretely presented with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled approximately \$391,400,000 and \$344,000,000, at June 30, 2004 and 2003, respectively. The Eastern West Virginia Community and Technical College and the Southern West Virginia Community and Technical College foundations are not included because they were not significant to their institutions. The West Virginia School of Osteopathic Medicine's Foundation while material to the institution, is not included in the Fund's financial statements, as a Foundation audited financial statement in accordance with generally accepted accounting principles is not currently available, and it is not significant to the Fund.

Complete financial statements for any discretely presented component unit foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301. See also Note 17.

15. AFFILIATED ORGANIZATIONS

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under GASB No. 14. They are not included in the Fund's accompanying combined financial statements under GASB No. 39 because they are 1) not significant or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the Fund).

16. CONTINGENCIES AND COMMITMENTS

Contingencies

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

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

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

Commitments

West Virginia University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were approximately \$9,100,000 and \$8,100,000 in 2004 and 2003, respectively. West Virginia University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

17. COMPONENT UNITS' DISCLOSURES

The following are the significant notes for the financial statements of the discretely presented component unit foundations:

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations—The foundations are nonprofit organization incorporated in the state of West Virginia. The primary purpose of the foundations is to provide assistance and support for the students, facilities and programs of their respective institution.

Basis of Presentation—Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards Board in its Statement of Financial Accounting Standards (“SFAS”) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117 the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting—The financial statements of the foundations are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

According, net assets of the foundations and changes therein are classified and reported as follows:

Unrestricted Net Assets—Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets—Net assets subject to donor-imposed stipulations that will be met either by actions of the foundations and/or the passage of time.

Permanently Restricted Net Assets—Net assets subject to donor-imposed stipulations that they be maintained permanently by the foundations. Generally, the donors of these assets permit the foundations to use all or part of the income earned related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the foundations on behalf of an Institution and/or departments of the Institution are reported as Custodial liabilities. The foundations are responsible for the management and administration of these funds.

Investments—The foundations account for their investments in accordance with generally accepted accounting principles (“GAAP”). Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair

values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment—Purchased assets are recorded at cost. Donated assets are recorded at their current or appraised value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the assets.

Gift Annuities—The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

Contributions—Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

B. PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the foundations for legally enforceable pledges.

C. INVESTMENTS

The foundations' investment securities at June 30, 2004 are composed of the following:

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia State University Foundation, Inc.
Cash and temporary investments	\$ -	\$ -	\$ 420,841	\$ -	\$ -	\$ 1,456,088	\$1,081,201	\$ 141,647	\$ 174,155
U.S. Government securities	2,509,223	2,616,138				10,699,243	195,312		871,441
Corporate and municipal bonds and notes	602,659	1,359,098	2,412,790		23,105,261	785,897	181,440		583,118
Mutual funds	97,709	2,708,459	246,353	94,848			1,479,076		39,441
Equity investments	3,202,092	7,923,273	5,247,948	4,480,738	35,673,715	3,507,707	3,930,212	908,644	858,618
Other	444,395	680,494	441,487	1,000	6,267,717				
	<u>\$ 6,856,078</u>	<u>\$ 15,287,462</u>	<u>\$ 8,769,419</u>	<u>\$ 4,576,586</u>	<u>\$ 65,046,693</u>	<u>\$ 16,448,935</u>	<u>\$ 6,867,241</u>	<u>\$ 1,050,291</u>	<u>\$ 2,526,773</u>

D. The foundations' property, plant and equipment at June 30, 2004 consists of the following:

	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land	\$136,133	\$ 442,149	\$1,487,167	\$ -	\$ 166,000
Building		1,034,275	160,202		1,276,425
Equipment		264,072	5,199	19,446	42,068
Accumulated Depreciation		(384,392)	(37,624)	(4,112)	(344,355)
Net Book Value	<u>\$136,133</u>	<u>\$1,356,104</u>	<u>\$1,614,944</u>	<u>\$15,334</u>	<u>\$ 1,140,138</u>

18. SUBSEQUENT EVENTS

During August 2004, the West Virginia Higher Education Policy Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The 2004 B Bonds are being issued to provide funds to (i) provide capital improvements at institutions of higher education located throughout the State, (ii) advance refund a portion of the 1996 University Bonds, hereinafter defined, and (iii) pay the costs associated with the issuance of the 2004 B Bonds.

On September 28, 2004, the Board of Governors of West Virginia University Board approved a resolution authorizing the issuance of West Virginia University revenue bonds in the amount of approximately \$225 million. The bonds will include tax-exempt insured fixed rate bonds and taxable insured variable rate weekly auction rate certificates, with a level debt service. The purpose of the bonds is to finance various authorized projects to construct, renovate and upgrade academic and auxiliary facilities on the University campuses, to refund outstanding 1997 Series A and B revenue bonds and related expenses, and to finance the costs associated with the bond issuance.

In September 2004, the Shepherd University issued University Facilities Revenue Notes Series 2004A and Infrastructure Revenue Bonds Series 2004B amounting to \$3,405,000 and \$1,865,000, respectively. The proceeds of the notes and bonds will be used to finance residence hall renovations and certain infrastructure projects. In April 2004, the Board of Governors of Shepherd University passed a resolution expressing its approval in concept of the issuance of tax exempt revenue bonds in one or more series in an aggregate principal amount not to exceed \$25,000,000 to finance all or a portion of the costs of planning, design, acquisition, construction and equipping of a new student housing project and associated parking lots, new west campus roadways and utilities infrastructure, renovations of existing residence halls including without limitation Shaw Hall and Thatcher Hall, and other capital improvements for use by the University.

19. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

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

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

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

Rents, charges, and fees, which shall at all times be adequate to produce revenue from dormitories sufficient to pay operating expenses and to make the prescribed payment into the funds and accounts created under the Bond Indenture must be fixed and established; such schedule of rents, charges, and

fees shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when combined with other monies legally available.

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

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

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

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

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

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

State of West Virginia, West Virginia Board of Education, Marshall University Center Revenue Bonds of 1969

In January 1969, the Board of Education sold \$3,600,000 of Revenue Bonds, Marshall University Center Revenue Bonds of 1969 (the “1969 Bonds”). The 1969 Bonds were issued under the authority contained in Chapters 18 and 25 of the West Virginia State Code, as amended. The proceeds of the 1969 Bonds

were used for construction of a University Center (the “Center”) on the Huntington campus of Marshall University. The 1969 Bonds are secured by and payable from the revenues of the Center.

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

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

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

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

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

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

Fairmont State College Facilities Revenue Bonds 2002 and 2003, Series A

On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the “2002A Bonds”) amounting to \$18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) to finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facilities, (3) to establish a debt service reserve fund for the 2002A Bonds, (4) to capitalize interest on the 2002A Bonds, and (5) to pay the cost of issuance of the 2002A Bonds and related costs.

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the “2003A Bonds”) amounting \$13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) to make a deposit to the debt service reserve fund for the 2003A Bonds, (3) to capitalize interest on the 2003A Bonds, and (4) to pay the costs of issuance of the 2003A Bonds and related costs.

Fairmont State Infrastructure Revenue Bonds 2002, Series B

On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the “2002B Bonds”) amounting to \$9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) to pay the costs of issuance of the 2002B bonds and related costs.

Fairmont State Student Activity Revenue Bonds 2003, Series B

On March 1, 2003, Fairmont State issued student Activity Revenue Bonds (the “2003B Bonds”) amounting to \$22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) to capitalize interest on the 2003B Bonds during reasonable time after the construction of the Project and (3) to pay the costs of issuance of the 2003B Bonds and related costs.

State of West Virginia, Shepherd College, Student Fee Revenue Bonds, Series 2003

In January 2003, Shepherd College \$5,990,000 of Student Fee Revenue Bonds, Series 2003 were sold. The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) to establish a debt service reserve fund, (3) to establish a capitalized interest fund to pay interest on the Bonds due on December 1, 2003 and (4) to pay the costs of issuance of the bonds and related costs.

State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002 Series A

On August 1, 2002, the West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The Bonds were issued to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the College Union, (2) to establish a debt service reserve fund and (3) to pay the costs of issuance of the Bonds and related costs.

Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B & C

On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to \$8,870,000. The Bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College’s (the “College”) existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

On September 3, 2003, the West Liberty State College issued College Union Revenue Bonds 2003 Series C, amounting to \$1,145,000. The Bonds were issued (1) to finance certain capital improvements consisting of improvements to the College’s existing student union building located on the campus of the College known as the “College Union,” including improvements to existing offices and meeting areas, the upgrading of entry ways and facades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) to pay costs of issuance of the 2003 Series B Bonds and related costs.

On September 3, 2003, the West Liberty State College issued Capital Improvement Revenue Bonds 2003 Series C, amounting to \$3,890,000. The Bonds were issued (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College's Hall of Fine Arts, and to make certain improvements to roads, sidewalks and parking areas on the College's campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) to pay costs of issuance of the 2003 Series C Bonds and related costs.

Condensed financial information for the Fund's segments is as follows as of June 30, 2004 and 2003 (dollars in thousands):

	2004											
	WVU 1997 Dormitory Series A&B	WVU 1997 Athletic Facilities Series A&B	WVU 1997 Student Union Series A&B	Marshall 1969 University Center	Marshall 2001 Facilities Series A	Glennville 2000 Housing Series A	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Shepherd 2003 Student Fee	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A,B&C
CONDENSED STATEMENT OF NET ASSETS:												
Assets:												
Current assets	\$ 8,191	\$ 824	\$ 2,969	\$ 2,129	\$ 12,198	\$ 338	\$ 6,535	\$ 872	\$ 13,416	\$ 283	\$ 303	\$ 408
Noncurrent assets	20,061	8,624	33,019	3,864	45,939	5,986	33,032	9,351	14,190	5,914	6,306	13,846
TOTAL ASSETS	\$ 28,252	\$ 9,448	\$ 35,988	\$ 5,993	\$ 58,137	\$ 6,324	\$ 39,567	\$ 10,223	\$ 27,606	\$ 6,197	\$ 6,609	\$ 14,254
Liabilities:												
Current liabilities	\$ 3,653	\$ 827	\$ 1,713	\$ 289	\$ 3,675	\$ -	\$ 5,183	\$ 603	\$ 1,884	\$ 290	\$ 225	\$ -
Noncurrent liabilities	20,205	6,395	38,370	869	46,685	4,884	31,105	8,745	23,115	5,885	4,872	13,479
Total liabilities	23,858	7,222	40,083	1,158	50,360	4,884	36,288	9,348	24,999	6,175	5,097	13,479
Net assets:												
Invested in capital assets—net of related debt	4,394	2,226	(4,095)	2,890	2,496	1,102	(3,262)	20	(2,833)	(1,517)	793	
Restricted				631	177	177	6,541	855	5,440	1,256	442	
Unrestricted				1,314	5,281	161				283	278	775
Total net assets	4,394	2,226	(4,095)	4,835	7,777	1,440	3,279	875	2,607	22	1,512	775
TOTAL NET ASSETS AND LIABILITIES	\$ 28,252	\$ 9,448	\$ 35,988	\$ 5,993	\$ 58,137	\$ 6,324	\$ 39,567	\$ 10,223	\$ 27,606	\$ 6,197	\$ 6,609	\$ 14,254
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:												
Operating:												
Operating revenues	\$ 29,849	\$ 3,620	\$ 13,142	\$ 1,422	\$ 12,708	\$ 489	\$ 2,293	\$ 802	\$ 768	\$ 478	\$ 773	\$ 1,240
Operating expenses	(28,808)	(3,265)	(11,074)	(996)	(10,259)	(188)	(1,267)		(615)	(103)	(394)	
Net operating income	1,041	355	2,068	426	2,449	301	1,026	802	153	375	379	1,240
Nonoperating:												
Transfers (to) from Institution				(32)	(8,239)		(41)					
Nonoperating revenues	86	8	36	7	265	1	414	66	431	43	9	97
Nonoperating expenses	(1,066)	(334)	(1,956)	(59)	(2,432)	(302)	(1,490)	(423)	(1,071)	(285)	(240)	(562)
INCREASE (DECREASE) IN NET ASSETS	61	29	148	342	(7,957)		(91)	445	(487)	133	148	775
NET ASSETS—Beginning of year	4,333	2,197	(4,243)	4,493	15,734	1,440	3,370	430	3,094	(111)	1,364	
NET ASSETS—End of year	\$ 4,394	\$ 2,226	\$ (4,095)	\$ 4,835	\$ 7,777	\$ 1,440	\$ 3,279	\$ 875	\$ 2,607	\$ 22	\$ 1,512	\$ 775
CONDENSED STATEMENT OF CASH FLOWS:												
Net cash provided by (used in) operating activities												
Net cash provided by (used in) capital financing activities	\$ 1,809	\$ 539	\$ 3,098	\$ 537	\$ 3,259	\$ 411	\$ 1,036	\$ 792	\$ 269	\$ 375	\$ 379	\$ 1,240
Net cash provided by (used in) investing activities	(1,666)	(483)	(2,400)	(425)		(391)	(1,776)	(594)	(1,083)	(4,432)	(319)	(367)
INCREASE (DECREASE) IN CASH	229	64	734	112	(5,411)	20	(14,170)	(4,747)	(7,239)	283	60	408
CASH—Beginning of year	7,178	* 648	* 2,124	* 1,996	17,473	318	24,699	* 6,831	* 24,507	* 243		
CASH—End of year	\$ 7,407	* \$ 712	* \$ 2,858	* \$ 2,108	\$ 12,062	\$ 338	\$ 10,529	* \$ 2,084	* \$ 17,268	* \$ 283	\$ 303	\$ 408

* The cash of WVU and Fairmont includes current and noncurrent cash.

	2003										
	WVU 1997 Dormitory Series A&B	WVU 1997 Athletic Facilities Series A&B	WVU 1997 Student Union Series A&B	Marshall 1969 University Center	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Shepherd 2003 Student Fee	WV State 2002 Student Union Series A
CONDENSED STATEMENT OF NET ASSETS:											
Assets:											
Current assets	\$ 7,870	\$ 648	\$ 2,271	\$ 2,029	\$ 17,739	\$ 318	\$ 3,971	\$ 1,204	\$ 3,197	\$ 337	\$ 243
Noncurrent assets	20,533	8,864	33,824	3,792	47,728	6,088	33,572	9,291	23,325	6,102	7,208
TOTAL ASSETS	\$ 28,403	\$ 9,512	\$ 36,095	\$ 5,821	\$ 65,467	\$ 6,406	\$ 37,543	\$ 10,495	\$ 26,522	\$ 6,439	\$ 7,451
Liabilities:											
Current liabilities	\$ 3,211	\$ 754	\$ 1,259	\$ 264	\$ 2,575	\$ -	\$ 2,713	\$ 1,138	\$ 307	\$ 560	\$ 1,018
Noncurrent liabilities	20,859	6,561	39,079	1,064	47,158	4,965	31,460	8,927	23,121	5,990	5,069
Total liabilities	24,070	7,315	40,338	1,328	49,733	4,965	34,173	10,065	23,428	6,550	6,087
Net assets:											
Invested in capital assets—net of related debt	4,331	2,197	(4,243)	2,652	11,175	1,122	(2,110)	(7)	(2,415)	(111)	483
Restricted	2			1,841	4,559	319	5,480	437	5,509		881
Total net assets	4,333	2,197	(4,243)	4,493	15,734	1,441	3,370	430	3,094	(111)	1,364
TOTAL NET ASSETS AND LIABILITIES	\$ 28,403	\$ 9,512	\$ 36,095	\$ 5,821	\$ 65,467	\$ 6,406	\$ 37,543	\$ 10,495	\$ 26,522	\$ 6,439	\$ 7,451
CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS:											
Operating:											
Operating revenues	\$ 24,575	\$ 2,948	\$ 12,412	\$ 1,336	\$ 10,213	\$ 481	\$ 1,879	\$ 699	\$ 440	\$ -	\$ 688
Operating expenses	(25,066)	(3,065)	(11,062)	(1,097)	(8,714)	(211)	(758)	(6)	(340)	(8)	(228)
Net operating income (loss)	(491)	(117)	1,350	239	1,499	270	1,121	693	100	(8)	460
Nonoperating:											
Transfers (to) from Institution				(104)	832						643
Nonoperating revenues	153	22	133	11	1,060	2	245	94	29	39	45
Nonoperating expenses	(1,326)	(340)	(2,103)	(68)	(2,368)	(306)	(891)	(357)	(282)	(142)	(212)
INCREASE (DECREASE) IN NET ASSETS	(1,664)	(435)	(620)	78	1,023	(34)	475	430	(153)	(111)	476
NET ASSETS—Beginning of year	5,997	2,632	(3,623)	4,415	14,711	1,474	2,895		3,247		428
NET ASSETS—End of year	\$ 4,333	\$ 2,197	\$ (4,243)	\$ 4,493	\$ 15,734	\$ 1,440	\$ 3,370	\$ 430	\$ 3,094	\$ (111)	\$ 1,364
CONDENSED STATEMENT OF CASH FLOWS:											
Net cash provided by (used in) operating activities											
	\$ 4,434	\$ 838	\$ 4,286	\$ 305	\$ 1,481	\$ 384	\$ 1,089	\$ 687	\$ (182)	\$ (8)	\$ 460
Net cash provided by (used in) capital financing activities											
	(5,104)	(827)	(5,989)	(275)	(26,076)	(426)	23,365	6,050	25,737	4,265	(217)
Net cash provided by (used in) investing activities											
	154	22	132				245	94	(1,048)	(4,257)	
INCREASE (DECREASE) IN CASH	(516)	33	(1,571)	30	(24,595)	(42)	24,699	6,831	24,507	-	243
CASH—Beginning of year	7,694	615	3,695	1,966	42,068	360					
CASH—End of year	\$ 7,178	\$ 648	\$ 2,124	\$ 1,996	\$ 17,473	\$ 318	\$ 24,699	\$ 6,831	\$ 24,507	\$ -	\$ 243

* The cash of WVU and Fairmont includes current and noncurrent cash.

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2004 and 2003, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2004								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	\$ 219,643	\$ 62,913	\$ 30,288	\$ 509	\$ 120	\$ -	\$ -	\$ -	\$ 313,473
Research	53,896	19,120	29,464	480	26			6	102,992
Public service	46,597	11,692	19,533	304	43			(17)	78,152
Academic support	37,982	9,995	13,574	247				(113)	61,685
Student services	28,783	7,892	12,121	90				11	48,897
Operations and maintenance of plant	26,226	8,309	21,823	25,000	36			279	81,673
General institutional support	<u>62,516</u>	<u>17,390</u>	<u>32,424</u>	<u>312</u>	<u>10</u>			<u>151</u>	<u>112,803</u>
 Total education and general	 475,643	 137,311	 159,227	 26,942	 235	 -	 -	 317	 799,675
Student financial aid	59		73		62,275			23	62,430
Auxiliary enterprises	42,544	11,645	62,394	9,308	(769)				125,122
Depreciation						74,098			74,098
Waivers in support of other institutions								367	367
Loan cancellations and write-offs							930		930
Other								(347)	(347)
 Total	 <u>\$ 518,246</u>	 <u>\$ 148,956</u>	 <u>\$ 221,694</u>	 <u>\$ 36,250</u>	 <u>\$ 61,741</u>	 <u>\$ 74,098</u>	 <u>\$ 930</u>	 <u>\$ 360</u>	 <u>\$ 1,062,275</u>

2003

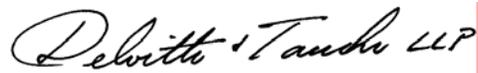
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	\$ 217,055	\$ 59,154	\$ 29,302	\$ 470	\$ -	\$ -	\$ -	\$ -	\$ 305,981
Research	48,181	16,802	29,097	627					94,707
Public service	45,962	12,624	22,169	586					81,341
Academic support	39,712	11,251	13,028	283					64,274
Student services	30,693	9,142	12,919	146					52,900
Operations and maintenance of plant	26,437	9,659	28,138	21,900					86,134
General institutional support	<u>64,307</u>	<u>17,841</u>	<u>32,946</u>	<u>2,655</u>				<u>3,506</u>	<u>121,255</u>
 Total education and general	 472,347	 136,473	 167,599	 26,667	 -	 -	 -	 3,506	 806,592
Student financial aid					56,081				56,081
Auxiliary enterprises	39,620	12,349	54,947	9,144					116,060
Depreciation						71,976			71,976
Waivers in support of other institutions								386	386
Loan cancellations and write-offs							1,358		1,358
Other								<u>653</u>	<u>653</u>
 Total	 <u>\$ 511,967</u>	 <u>\$ 148,822</u>	 <u>\$ 222,546</u>	 <u>\$ 35,811</u>	 <u>\$ 56,081</u>	 <u>\$ 71,976</u>	 <u>\$ 1,358</u>	 <u>\$ 4,545</u>	 <u>\$ 1,053,106</u>

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INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

West Virginia Higher Education
Policy Commission

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the West Virginia Higher Fund's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors (as to the amounts included for the aggregate Foundations), is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

November 30, 2004

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET ASSETS INFORMATION
JUNE 30, 2004
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
ASSETS:			
Current assets:			
Cash and cash equivalents	\$ 268,294	\$ 5,994	\$ 274,288
Short-term investments	361	8,067	8,428
Appropriations due from Primary Government	3,159	13	3,172
Accounts receivable—net	52,663	3,793	56,456
Loans receivable—current portion	7,279	737	8,016
Other current assets	1,967	46	2,013
Inventories	4,497		4,497
	<u>338,220</u>	<u>18,650</u>	<u>356,870</u>
Total current assets			
Noncurrent assets:			
Cash and cash equivalents	75,595	6,642	82,237
Investments	15,839	116,321	132,160
Loans receivable, net of allowance of \$9,882 and \$10,167	44,446	958	45,404
Other assets	8,164	8,957	17,121
Capital assets—net	1,166,191	3,893	1,170,084
	<u>1,310,235</u>	<u>136,771</u>	<u>1,447,006</u>
Total noncurrent assets			
	<u>\$ 1,648,455</u>	<u>\$ 155,421</u>	<u>\$ 1,803,876</u>
TOTAL ASSETS			

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET ASSETS INFORMATION
JUNE 30, 2004
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
LIABILITIES:			
Current liabilities:			
Accounts payable	\$ 45,669	\$ 432	\$ 46,101
Unappropriated amount due to State	17,506		17,506
Due to State of West Virginia	57		57
Accrued liabilities	23,853	210	24,063
Deferred revenue	33,856		33,856
Deposits/custodial liabilities	4,634	3,738	8,372
Severance payable—current portion	228	770	998
Annuity obligations	29,285		29,285
Compensated absences—current portion			
Notes payable—current portion	175		175
Capital lease obligations—current portion	5,551	28	5,579
Interest payable	2,113		2,113
Bonds payable—current portion	14,191		14,191
Total current liabilities	<u>177,118</u>	<u>5,178</u>	<u>182,296</u>
Noncurrent liabilities:			
Advances from federal sponsors	42,472		42,472
Severance payable	2,169		2,169
Compensated absences	63,966		63,966
Notes payable	3,505	836	4,341
Capital lease obligations	23,376		23,376
Deferred interest payable	9,879		9,879
Bonds payable	394,219		394,219
Total noncurrent liabilities	<u>539,586</u>	<u>836</u>	<u>540,422</u>
TOTAL LIABILITIES	<u>716,704</u>	<u>6,014</u>	<u>722,718</u>
NET ASSETS:			
Invested in capital assets—net of related debt	744,446	2,196	746,642
Restricted for:			
Expendable:			
Specific purposes by State Code			
Scholarships	6,969	9,128	16,097
Sponsored projects	11,148	968	12,116
Loans	22,739		22,739
Capital projects	40,735	187	40,922
Debt service	7,486	4,765	12,251
Other	1,568	21,782	23,350
Total restricted expendable	<u>90,645</u>	<u>36,830</u>	<u>127,475</u>
Nonexpendable	4,001	90,320	94,321
Unrestricted	92,659	20,061	112,720
Total net assets	<u>931,751</u>	<u>149,407</u>	<u>1,081,158</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$1,648,455</u>	<u>\$ 155,421</u>	<u>\$ 1,803,876</u>

See notes to combined financial statements

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**SCHEDULE OF COMBINING REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS INFORMATION
 YEAR ENDED JUNE 30, 2004
 (Dollars in thousands)**

	Higher Education Fund	Aggregate Foundations	Total
OPERATING REVENUES:			
Student tuition and fees, net of scholarship allowance of \$66,841 and \$57,457	\$ 262,066	\$ 9,952	\$ 272,018
Gift and contributions			
Federal appropriations	7,218	52	7,270
Local appropriations	661		661
Contracts and grants:			
Federal	191,778		191,778
State	40,209		40,209
Local	1,211		1,211
Private	38,202	714	38,916
Interest on student loans receivable	1,042		1,042
Sales and services of educational activities	12,092		12,092
Auxiliary enterprise revenue, net of scholarship allowance of \$8,328 and \$7,077	133,941		133,941
Other operating revenue	22,140	1,827	23,967
	<u>710,560</u>	<u>12,545</u>	<u>723,105</u>
Total operating revenues			
OPERATING EXPENSES:			
Salaries and wages	518,246	942	519,188
Benefits	148,956	138	149,094
Supplies and other services	221,694	787	222,481
Utilities	36,250		36,250
Student financial aid—scholarships and fellowships	61,741	3,752	65,493
Depreciation	74,098	70	74,168
Loan cancellations and write-offs	930		930
Other operating expenses	360	7,001	7,361
	<u>1,062,275</u>	<u>12,690</u>	<u>1,074,965</u>
Total operating expenses			
OPERATING LOSS	<u>(351,715)</u>	<u>(145)</u>	<u>(351,860)</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**SCHEDULE OF COMBINING REVENUES, EXPENSES AND
 CHANGES IN NET ASSETS INFORMATION**
YEAR ENDED JUNE 30, 2004
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$402,507	\$ -	\$ 402,507
Gifts	8,850		8,850
Investment income	3,837	11,396	15,233
Interest on indebtedness	(21,153)		(21,153)
Student financial aid payments to other institutions	(14,116)		(14,116)
Other nonoperating expenses—net	<u>(1,518)</u>	<u>(66)</u>	<u>(1,584)</u>
Net nonoperating revenues	<u>378,407</u>	<u>11,330</u>	<u>389,737</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES			
	26,692	11,185	
CAPITAL GRANTS AND GIFTS			
	29,372	20	29,392
UNAPPROPRIATED CAPITAL GRANT			
	<u>(17,506)</u>	<u>4,950</u>	<u>(12,556)</u>
INCREASE IN NET ASSETS			
	38,558	16,155	54,713
NET ASSETS—Beginning of year			
	<u>893,193</u>	<u>133,252</u>	<u>1,026,445</u>
NET ASSETS—End of year			
	<u>\$931,751</u>	<u>\$149,407</u>	<u>\$1,081,158</u>

See notes to combined financial statements.

(Concluded)

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

West Virginia Higher Education Policy Commission

We have audited the accompanying combined financial statements of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2004, and have issued our report thereon dated November 30, 2004, which contains a consistency paragraph relative to Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, and states reliance on other auditors for the aggregate discretely presented component units. 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.

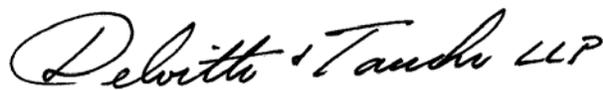
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Fund'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 weaknesses is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the Fund's internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The report is intended solely for the information and use of the management of the Fund, the State of West Virginia, the West Virginia Higher Education Policy Commission, federal and state 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". The signature is written in black ink and is positioned to the left of a vertical line.

November 30, 2004