

***West Virginia School  
of Osteopathic  
Medicine***

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

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)	3-11
BASIC FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2004 AND 2003:	
Statements of Net Assets	12
Component Unit—Statements of Financial Position	13
Statements of Revenues, Expenses and Changes in Net Assets	14
Component Unit—Statements of Activity and Changes in Net Assets	15
Statements of Cash Flows	16
Notes to Combined Financial Statements	17-34
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	35

## INDEPENDENT AUDITORS' REPORT

Governing Board  
West Virginia School Osteopathic Medicine

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the West Virginia School of Osteopathic Medicine ("WVSOM") as of June 30, 2004 and 2003, and for the years then ended, which collectively comprise WVSOM's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of WVSOM. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Incorporated (a component unit of WVSOM). Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Incorporated, is based solely on the report of such other auditors.

We 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 West Virginia School of Osteopathic Medicine Foundation, Incorporated's 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

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

As discussed in Note 2 to the financial statements, WVSOM changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("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 Discussion and Analysis on pages 3 to 11 is not a required part of the financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of WVSOM's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 10, 2005, on our consideration of WVSOM'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.

*Deloitte & Touche LLP*

February 10, 2005

Insert MD& A 3-11 (these are actual pages of the MD&A, please fix paging the rest of the report)

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

## STATEMENTS OF FINANCIAL POSITION JUNE 30, 2004 AND 2003

<b>ASSETS</b>	<b>2004</b>	<b>2003</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$11,832,272	\$ 9,569,864
Appropriations due from Primary Government	90,696	114,301
Accounts receivable	839,283	516,736
Loans to students—current portion	900,610	810,348
Prepaid expenses	70,790	70,193
Inventories	<u>102,862</u>	<u>68,892</u>
Total current assets	<u>13,836,513</u>	<u>11,150,334</u>
<b>NONCURRENT ASSETS:</b>		
Cash and cash equivalents	46,000	46,000
Loans to students—net of allowance of \$313,169 and \$259,642	3,361,403	3,405,056
Capital assets—net	<u>20,751,649</u>	<u>17,037,647</u>
Total noncurrent assets	<u>24,159,052</u>	<u>20,488,703</u>
<b>TOTAL</b>	<u><b>\$37,995,565</b></u>	<u><b>\$31,639,037</b></u>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 629,625	\$ 298,552
Accrued liabilities	184,501	159,259
Compensated absences—current portion	507,037	480,223
Deferred revenue	<u>1,705,752</u>	<u>1,603,842</u>
Total current liabilities	<u>3,026,915</u>	<u>2,541,876</u>
<b>NONCURRENT LIABILITIES:</b>		
Advances from federal sponsors	1,914,712	2,046,775
Compensated absences	<u>1,117,082</u>	<u>1,162,796</u>
Total noncurrent liabilities	<u>3,031,794</u>	<u>3,209,571</u>
Total liabilities	<u>6,058,709</u>	<u>5,751,447</u>
<b>NET ASSETS:</b>		
Invested in capital assets	20,751,649	17,037,647
Restricted for:		
Expendable:		
Specific purposes by State Code		3,772,926
Research	89,605	61,849
Loans	3,486,400	3,321,578
Capital projects	<u>318,423</u>	<u>199,398</u>
Total expendable	<u>3,894,428</u>	<u>7,355,751</u>
Nonexpendable	46,000	46,000
Unrestricted	<u>7,244,779</u>	<u>1,448,192</u>
Total net assets	<u>31,936,856</u>	<u>25,887,590</u>
<b>TOTAL</b>	<u><b>\$37,995,565</b></u>	<u><b>\$31,639,037</b></u>

See notes to financial statements.

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.  
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2004 AND 2003

---

ASSETS	2004	2003
CURRENT ASSETS:		
Cash/checking	\$ 70,400	\$ 53,192
Short term loan receivable	6,430	9,281
Accounts receivable	6,058	1,560
Prepaid expenses	3,934	3,533
Total current assets	86,822	67,566
PROPERTY AND EQUIPMENT:		
Building and land	2,304,711	2,304,711
Automobile and equipment	48,448	7,017
Accumulated depreciation	(357,161)	(297,766)
Total property and equipment	1,995,998	2,013,962
Other assets— Investments	58,447	54,117
Total other assets	58,447	54,117
TOTAL	<u>\$2,141,267</u>	<u>\$2,135,645</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Security deposit holdings	\$ -	\$ 1,575
Accounts payable	19,164	2,471
Custodial funds	52,512	49,313
Total current liabilities	71,676	53,359
Long-term liabilities— Notes payable bank		6,000
Total long-term liabilities	-	6,000
TOTAL	<u>71,676</u>	<u>59,359</u>
NET ASSETS:		
Restricted	107,716	80,335
Unrestricted	1,961,875	1,995,951
Total net assets	<u>2,069,591</u>	<u>2,076,286</u>
TOTAL	<u>\$2,141,267</u>	<u>\$2,135,645</u>

See notes to financial statements.

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
<b>OPERATING REVENUES:</b>		
Student tuition and fees, net of scholarship allowance of \$353,910 and \$312,108	\$ 7,536,412	\$ 6,305,430
Contracts and grants:		
Federal	68,932	57,086
State	219,603	121,346
Private	458,000	89,761
Interest on loans receivable	83,884	105,076
Auxiliary enterprise revenue	454,767	395,118
Fees received from the Commission	517,478	494,968
Miscellaneous—net	<u>164,031</u>	<u>182,314</u>
Total operating revenues	<u>9,503,107</u>	<u>7,751,099</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	7,862,140	7,470,358
Benefits	1,863,500	2,056,534
Supplies and other services	2,969,648	3,107,027
Utilities	407,961	352,072
Student financial aid—scholarships and fellowships	6,000	6,000
Depreciation	728,405	945,477
Loan cancellations and write-offs	108,071	81,638
Fees assessed by the Commission for operations	<u>234,902</u>	<u>212,689</u>
Total operating expenses	<u>14,180,627</u>	<u>14,231,795</u>
<b>OPERATING LOSS</b>	<u>(4,677,520)</u>	<u>(6,480,696)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State appropriations	7,230,954	7,828,119
Investment income	65,168	281,913
Loss on disposal of capital assets	<u>(240,050)</u>	<u>                    </u>
Net nonoperating revenues	<u>7,056,072</u>	<u>8,110,032</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES</b>	2,378,552	1,629,336
<b>CAPITAL GRANTS AND GIFTS</b>	<u>3,670,714</u>	<u>510,730</u>
<b>INCREASE IN NET ASSETS</b>	6,049,266	2,140,066
<b>NET ASSETS—Beginning of year</b>	<u>25,887,590</u>	<u>23,747,524</u>
<b>NET ASSETS—End of year</b>	<u>\$ 31,936,856</u>	<u>\$ 25,887,590</u>

See notes to financial statements.

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.  
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues:		
Alumni Membership dues	\$ 6,026	\$ 6,464
Sales—bar	263	17,200
Room rental income	8,056	13,189
Educational events	125,178	129,587
Activities income	5,495	318
Fundraising income	57,781	34,342
Donation income	462,218	551,072
Investment income	3,117	995
Checking account interest income	200	183
Miscellaneous income	9,227	54,524
	<u>677,561</u>	<u>807,874</u>
Operating Expenses:		
Security deposit reimbursement	\$ 100	900
Tuition assistance expenses	826	393
WVSOM business office/ miscellaneous	1,011	381
Matching funds	9,213	
Interest expense		4,346
Supplies expense	3,002	4,408
Beverage expense	958	9,549
Phone expense	593	592
Services—entertainment	3,140	2,388
Services—catering	20,360	16,567
Services—miscellaneous	3,676	382
Travel expenses	2,490	1,422
Car expense	3,551	5,814
Hospitality expense	4,432	7,462
Insurance expense	7,008	4,856
License fees expenses	1,361	1,817
Printing expense	1,321	1,576
Educational events	141,943	130,014
Credit card expense	1,485	1,456
Salary support expense	216,170	212,980
Fringe benefits	55,404	53,044
Membership fees	9,849	4,094
CME credit expense	1,466	1,145
Miscellaneous expense	22,587	12,247
Fundraising expense	17,063	15,239
Floral expense	457	392
President housing allowance	7,200	11,200
Donation expense	57,747	26,627
Utilities expense	30,729	30,426
Operational expense	27,100	35,406
Depreciation expense	59,395	57,481
	<u>711,637</u>	<u>654,604</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS:		
Changes in temporarily restricted net assets	(34,076)	153,270
Contributions	64,215	31,480
Net assets released from restrictions	(36,834)	(31,509)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS		
	27,381	(29)
NET ASSETS—Beginning of year	<u>2,076,286</u>	<u>1,923,045</u>
NET ASSETS—End of year	<u>\$2,069,591</u>	<u>\$2,076,286</u>

See notes to financial statements.

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

## STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 7,903,502	\$ 6,537,100
Contracts and grants	614,885	252,840
Payments to and on behalf of employees	(9,736,393)	(9,180,969)
Payments to suppliers	(3,085,283)	(3,032,510)
Payments to utilities	(414,378)	(357,921)
Payments for scholarships and fellowships	(6,000)	(6,000)
Loans issued to students	(948,099)	(810,535)
Awards returned	(319,406)	
Collection of loans to students	793,419	712,313
Auxiliary enterprise charges	437,792	396,038
Debt service assessed by Commission	357,324	287,433
Other receipts—net	<u>328,956</u>	<u>312,481</u>
Net cash used in operating activities	<u>(4,073,681)</u>	<u>(4,889,730)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	7,254,559	7,776,327
Federal Stafford loan program direct lending receipts	10,109,429	8,585,303
Federal Stafford loan program direct lending payments	<u>(10,109,429)</u>	<u>(8,585,303)</u>
Net cash provided by noncapital financing activities	<u>7,254,559</u>	<u>7,776,327</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Capital grants and gifts received	3,330,876	423,840
Purchases of capital assets	(4,436,827)	(2,540,718)
Sale of capital assets	<u>120,203</u>	<u>          </u>
Net cash used in capital financing activities	<u>(985,748)</u>	<u>(2,116,878)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—</b>		
Interest on investments	<u>67,278</u>	<u>317,147</u>
Cash provided by investing activities	<u>67,278</u>	<u>317,147</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,262,408	1,086,866
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>9,569,864</u>	<u>8,482,998</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$11,832,272</u>	<u>\$ 9,569,864</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (4,677,520)	\$(6,480,696)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	728,405	945,477
Loan cancellations and write-offs	108,071	81,638
Changes in assets and liabilities:		
Accounts receivable	174,884	(28,505)
Loans to students	(154,680)	(98,035)
Prepaid expenses	(597)	23,598
Inventories	(33,970)	14,016
Accounts payable	(34,760)	36,903
Accrued liabilities	25,242	48,646
Compensated absences	(18,900)	297,277
Deferred revenue	101,910	240,009
Advances from federal sponsors	<u>(291,766)</u>	<u>29,942</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (4,073,681)</u>	<u>\$ (4,889,730)</u>
<b>NONCASH TRANSACTION—</b>		
Loss on disposal of capital assets	<u>\$ 240,050</u>	<u>          </u>

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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

---

### 1. ORGANIZATION

The West Virginia School of Osteopathic Medicine (“WVSOM”) is governed by the West Virginia School of Osteopathic Medicine Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

Powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WVSOM have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements and Management’s Discussion and Analysis of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statement Nos. 34 and No. 35 provides a comprehensive, entity-wide perspective of WVSOM’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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

**Reporting Entity**—WVSOM is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. WVSOM is a separate entity which, along with all State institutions of higher education and the Commission (which includes West Virginia Network for Educational Telecomputing), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of WVSOM. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM’s ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation, clinic and consortium are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM

has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") are presented here with WVSOM's financial statements for the fiscal years ended June 30, 2004 and 2003. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organization*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 11 and 15).

**Financial Statement Presentation**—During fiscal 2002, WVSOM adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements established standards for external financial reporting for public colleges and universities and require that financial statements be presented on such basis to focus on WVSOM as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of the WVSOM obligations. WVSOM's net assets are classified as follows:

- *Invested In Capital Assets*—This represents WVSOM's total investment in capital assets.
- *Restricted Net Assets, Expendable*—These include resources for which WVSOM is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

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

- *Restricted Net Assets, Nonexpendable*—These include 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 WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

***Appropriations Due from Primary Government***—For financial reporting purposes, appropriations due from the State are presented separately from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

***Allowance for Doubtful Accounts***—It is WVSOM’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 WVSOM on such balances and such other factors which, in WVSOM’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) permanently restricted, is classified as a noncurrent asset in the statement of net assets.

***Capital Assets***—Capital assets include property, plant and equipment, and books and materials that are part of a catalogued library. 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, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 5 to 12 years for furniture and equipment. WVSOM’s capitalization thresholds are \$15,000 for land and building improvement, \$1,000 for equipment, and \$150 for library books.

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

**Compensated Absences**—WVSOM 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.

WVSOM's full-time employees, except nine-month faculty, 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 extends 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 extends health insurance for one year of single coverage and five years extends 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, WVSOM 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 WVSOM for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

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

- **Operating Revenues**—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

- *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*—WVSOM 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, WVSOM attempts to utilize restricted net assets first, when practicable.

*Federal Financial Assistance Programs*—WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program. The activity of this program is not recorded in the accompanying financial statements. WVSOM has awarded approximately \$10,100,000 and \$8,600,000 in 2004 and 2003, respectively, under the Federal Stafford Loan Program from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2004 and 2003, WVSOM received and disbursed approximately \$169,000 and \$124,000, 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 statement of revenues, expenses and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by WVSOM, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (“NACUBO”). Certain aid such as loans, funds provided to students as awarded by third parties, and Stafford Loan Program 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 school 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. WVSOM recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.

*Income Taxes*—WVSOM 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 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 expenses during the reporting period. Actual results could differ from those estimates.

**Recent Statements Issued by the Government Accounting Standards Board**—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. WVSOM 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 WVSOM’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 WVSOM 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. WVSOM 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. School has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30:

	<b>2004</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer	\$ 10,055,180	\$ 46,000	\$ 10,101,180
Cash in bank	1,776,070		1,776,070
Cash on hand	1,022		1,022
	<u>\$ 11,832,272</u>	<u>\$ 46,000</u>	<u>\$ 11,878,272</u>
	<b>2003</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer	\$ 8,942,600	\$ 46,000	\$ 8,988,600
Cash in bank	622,298		622,298
Cash on hand	4,966		4,966
	<u>\$ 9,569,864</u>	<u>\$ 46,000</u>	<u>\$ 9,615,864</u>

Cash held by the State Treasurer includes \$902,816 in 2004 and \$5,416,681 in 2003 of restricted cash. House Bill 101 passed in March 2004 simplified the tuition and fees restriction. The amount shown in 2004 reflects this change.

The combined carrying amount of cash in bank at June 30, 2004 and 2003 was \$1,776,070 and \$622,298, respectively, as compared with the combined bank balance of \$1,882,303 and \$584,867, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances at June 30, 2003 and 2002 were covered by federal depository insurance or were collateralized by securities held by the State's agent.

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

**4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at June 30:

	<b>2004</b>	<b>2003</b>
Student tuition and fees—no allowance deemed necessary	\$ 7,650	\$ 272,581
Grants and contracts receivable	778,103	136,103
Due from the Commission	5,256	82,114
Due from other State agencies	22,720	11,685
Other accounts receivable	<u>25,554</u>	<u>14,253</u>
	<u>\$ 839,283</u>	<u>\$ 516,736</u>

## 5. CAPITAL ASSETS

The following is a summary of capital asset transactions of WVSOM for the years ended June 30:

	2004			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 488,806	\$ 50,028	\$ -	\$ 538,834
Construction in progress	<u>533,968</u>	<u>3,810,351</u>	<u>-</u>	<u>4,344,319</u>
Total capital assets not being depreciated	<u>\$ 1,022,774</u>	<u>\$ 3,860,379</u>	<u>\$ -</u>	<u>\$ 4,883,153</u>
Other capital assets:				
Land improvements	\$ 703,724	\$ 420,525	\$ -	\$ 1,124,249
Buildings	17,525,638	214,034	(328,930)	17,410,742
Equipment	4,240,620	209,472	(479,851)	3,970,241
Library books	<u>268,557</u>	<u>98,250</u>	<u>(244,109)</u>	<u>122,698</u>
Total other capital assets	<u>22,738,539</u>	<u>942,281</u>	<u>(1,052,890)</u>	<u>22,627,930</u>
Less accumulated depreciation for:				
Land improvements	(27,795)	(35,417)		(63,212)
Buildings	(3,552,612)	(369,316)	100,004	(3,821,924)
Equipment	(3,042,943)	(285,307)	457,444	(2,870,806)
Library books	<u>(100,316)</u>	<u>(38,365)</u>	<u>135,189</u>	<u>(3,492)</u>
Total accumulated depreciation	<u>(6,723,666)</u>	<u>(728,405)</u>	<u>692,637</u>	<u>(6,759,434)</u>
Other capital assets—net	<u>\$16,014,873</u>	<u>\$ 213,876</u>	<u>\$ (360,253)</u>	<u>\$15,868,496</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,022,774	\$ 3,860,379	\$ -	\$ 4,883,153
Other capital assets	<u>22,738,539</u>	<u>942,281</u>	<u>(1,052,890)</u>	<u>22,627,930</u>
Total cost of capital assets	23,761,313	4,802,660	(1,052,890)	27,511,083
Less accumulated depreciation	<u>(6,723,666)</u>	<u>(728,405)</u>	<u>692,637</u>	<u>(6,759,434)</u>
Capital assets— net	<u>\$17,037,647</u>	<u>\$ 4,074,255</u>	<u>\$ (360,253)</u>	<u>\$20,751,649</u>

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 473,050	\$ 15,756	\$ -	\$ 488,806
Construction in progress	<u>293,293</u>	<u>523,788</u>	<u>(283,113)</u>	<u>533,968</u>
Total capital assets not being depreciated	<u>\$ 766,343</u>	<u>\$ 539,544</u>	<u>\$ (283,113)</u>	<u>\$ 1,022,774</u>
Other capital assets:				
Land improvements	\$ 333,045	\$ 370,679	\$ -	\$ 703,724
Buildings	16,028,241	1,497,397		17,525,638
Equipment	4,218,047	236,886	(214,313)	4,240,620
Library books	<u>225,552</u>	<u>56,655</u>	<u>(13,650)</u>	<u>268,557</u>
Total other capital assets	<u>20,804,885</u>	<u>2,161,617</u>	<u>(227,963)</u>	<u>22,738,539</u>
Less accumulated depreciation for:				
Land improvements	(12,716)	(15,079)		(27,795)
Buildings	(3,219,745)	(332,867)		(3,552,612)
Equipment	(2,701,476)	(555,780)	214,313	(3,042,943)
Library books	<u>(72,215)</u>	<u>(41,751)</u>	<u>13,650</u>	<u>(100,316)</u>
Total accumulated depreciation	<u>(6,006,152)</u>	<u>(945,477)</u>	<u>227,963</u>	<u>(6,723,666)</u>
Other capital assets—net	<u>\$ 14,798,733</u>	<u>\$ 1,216,140</u>	<u>\$ -</u>	<u>\$ 16,014,873</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 766,343	\$ 539,544	\$ (283,113)	\$ 1,022,774
Other capital assets	<u>20,804,885</u>	<u>2,161,617</u>	<u>(227,963)</u>	<u>22,738,539</u>
Total cost of capital assets	21,571,228	2,701,161	(511,076)	23,761,313
Less accumulated depreciation	<u>(6,006,152)</u>	<u>(945,477)</u>	<u>227,963</u>	<u>(6,723,666)</u>
Capital assets— net	<u>\$ 15,565,076</u>	<u>\$ 1,755,684</u>	<u>\$ (283,113)</u>	<u>\$ 17,037,647</u>

WVSOM has approximately \$2,900,000 of construction commitments at June 30, 2004.

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

Title for certain real property was with the Commission until December 5, 2003. After this date, the West Virginia Higher Education Policy Commission transferred the title for these properties to the WVSOM Board of Governors.

## 6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of WVSOM for the years ended June 30:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 1,643,019	\$ -	\$ (18,900)	\$ 1,624,119	\$ 507,037
Advances from federal sponsors	<u>2,046,775</u>	<u>27,640</u>	<u>(159,703)</u>	<u>1,914,712</u>	<u>                    </u>
Total long-term liabilities	<u>\$ 3,689,794</u>	<u>\$ 27,640</u>	<u>\$ (178,603)</u>	<u>\$ 3,538,831</u>	<u>\$ 507,037</u>
	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 1,345,742	\$ 297,277	\$ -	\$ 1,643,019	\$ 480,223
Advances from federal sponsors	<u>2,016,833</u>	<u>29,942</u>	<u>                    </u>	<u>2,046,775</u>	<u>                    </u>
Total long-term liabilities	<u>\$ 3,362,575</u>	<u>\$ 327,219</u>	<u>\$ -</u>	<u>\$ 3,689,794</u>	<u>\$ 480,223</u>

## 7. COMPENSATED ABSENCES

The composition of the compensated absence liability at June 30 was as follows:

	2004	2003
Accrued health or life insurance benefits	\$ 958,372	\$ 955,256
Accrued vacation leave	<u>665,747</u>	<u>687,763</u>
	<u>\$ 1,624,119</u>	<u>\$ 1,643,019</u>

The cost of health and life insurance benefits paid by WVSOM is based on a combination of years of service and age. For the years ended June 30, 2004 and 2003, the amount paid by WVSOM for extended health or life insurance coverage retirement benefits totaled approximately \$34,076 and \$19,086, respectively. As of June 30, 2004 and 2003, there were fifteen and ten retirees, respectively, currently eligible for these benefits.

## 8. LEASES

WVSOM leases various equipment under agreements reported as noncancelable operating leases. As of June 30, 2004, the future annual minimum lease payments are as follows:

2005	\$ 64,582
2006	44,792
2007	<u>23,796</u>
	<u>\$ 133,170</u>

The total rent expense for this equipment for the years ended June 30, 2004 and 2003 was \$74,536 and \$72,052, respectively.

## **9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS**

WVSOM receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the State College System of West Virginia and the University System of West Virginia (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System (the "System") are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2004 and 2003.

## **10. RETIREMENT PLANS**

Substantially, all full-time employees of WVSOM 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 WVSOM employees have 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 to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, none of WVSOM's employees was enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. WVSOM accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2004 and 2003. 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. Annual 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 STRS for the year ended June 30, 2004 were \$67,357, which consisted of \$48,112 from WVSOM and \$19,245 from covered employees. Total contributions to STRS for the year ended June 30, 2003 were \$66,436, which consisted of \$47,455 from WVSOM and \$18,981 from covered employees. Total contributions to STRS for the year ended June 30, 2002 were \$59,893, which consisted of \$42,781 from WVSOM and \$17,112 from covered employees.

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 WVSOM. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, West Virginia 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. WVSOM matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by WVSOM.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were \$868,608, \$833,562 and \$773,300, respectively, which consisted of equal contributions from WVSOM and covered employees of \$434,304, \$416,781 and \$386,650, in 2004, 2003 and 2002, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2004 and 2003 was \$7,580,858 and \$7,310,129, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$320,750 and \$7,260,108 in 2004, and \$316,364 and \$6,993,765 in 2003, respectively.

## **11. FOUNDATION**

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Although WVSOM does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of WVSOM by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, WVSOM, the Foundation is considered a component unit of WVSOM and therefore, is discretely presented in accordance with GASB Statement No. 39. Complete financial statements of the Foundation can be obtained by writing to 400 North Lee Street, Lewisburg, West Virginia 24901.

Foundation gifts, grants, pledges and bequests totaled \$584,214 and \$616,894 for the years ended June 30, 2004 and 2003, respectively.

WVSOM provided direct financial support of \$378,435 and \$367,162 for the years ended June 30, 2004 and 2003, respectively.

## **12. AFFILIATED ORGANIZATIONS (UNAUDITED)**

The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the "Clinic") operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy and maintains fiscal accountability over the financial affairs of the Clinic. Accordingly, the financial statements of the Clinic are not included in the accompanying financial statements under GASB Statement No. 14 and they are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB Statement No. 39.

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic in which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2004 and 2003, the amount paid by WVSOM for instruction, office expenses and equipment rental totaled \$250,000 and \$200,000, respectively. WVSOM made payments totaling \$30,000 each for the years ended June 30, 2004 and 2003 to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are not publicly available.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. ("MSOPTI") is a consortium formed in 1998 through affiliation agreements between WVSOM and partner hospitals in the States of West Virginia and Ohio which provides post graduate clinical training to osteopathic interns and residents. The affiliation agreements with MSOPTI are renewed annually through contracts executed between each hospital, WVSOM and MSOPTI.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Board of Directors, as specified in the MSOPTI by-laws, which are made up of three members from WVSOM and one member from each of the seven partner hospitals. In carrying out its responsibilities, the Board of Directors of MSOPTI employs management, forms policy and maintains fiscal accountability over funds administered by MSOPTI. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For each of the years ended June 30, 2004 and 2003, WVSOM contributed \$50,000 to MSOPTI. In addition, WVSOM incurred \$108,142 and \$107,809 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2004 and 2003, respectively. The separate financial statements of MSOPTI are not publicly available.

## **13. CONTINGENCIES**

The nature of the educational industry is such that, from time to time, claims will be presented against educational institutions 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 WVSOM would not impact seriously on the financial status of the institution.

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

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. WVSOM 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.

#### **14. SUBSEQUENT EVENT**

In August 2004, the Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). WVSOM has been approved for \$4,000,000 of the bond proceeds for capital projects from this bond issuance.

#### **15. COMPONENT UNIT'S DISCLOSURES**

The following are the notes taken directly from the audited financial statements of the Foundation:

##### **1. NATURE OF THE ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Nature of Organization***—West Virginia School of Osteopathic Medicine Foundation, Inc. is a not-for-profit corporation organized to promote educational benefits for current and past students of the West Virginia School of Osteopathic Medicine. The organization's significant accounting policies are described below.

***Basis of Accounting***—The financial statements of WVSOM Foundation, Inc. have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables and other liabilities.

***Functional Expenses***—Expenses are charged based on direct expenditures incurred. Other expenses that are common to program expenses and general or administrative expenses are allocated on a statistical basis.

***Basis of Presentation***—Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements for Not-For-Profit Organizations*. Under SFAS No. 117, WVSOM Foundation, Inc. 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.

**Revenue Recognition**—Grants and other contributions of cash and other assets are reported as temporarily restricted and permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restrictions expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted and permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. WVSOM Foundation, Inc., receives a substantial amount of services donated in carrying out the Organization’s mission. Those amounts have been reflected in the financial statements for those services since they meet the criteria for recognition under SFAS No. 116.

**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 certain amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Cash and Cash Equivalents**—WVSOM Foundation, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows exclude temporarily restricted cash and cash equivalents.

**Property and Equipment**—Acquisitions of property and equipment in excess of \$-0- are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. Depreciation range is from 5 to 39 years.

**Income Taxes**—WVSOM Foundation, Inc., is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

**Prepays and Deposits**—Prepays and deposits are composed of a rental deposit.

## **2. CASH**

Cash is on deposit with FDIC insured institutions. The amounts are within the coverage limits of \$100,000 per institution.

## **3. ACCOUNTS AND LOAN RECEIVABLES**

WVSOM Foundation, Inc., has not experienced any losses from receivables and therefore does not feel it is necessary to have an allowance for bad debts. Accounts receivable are mainly amounts owed for rental functions. The loan receivables are short term, ninety days or less, loans for students and are paid back when they receive their funds.

#### 4. PROPERTY, PLANT AND EQUIPMENT

	<b>2004</b>	<b>2003</b>
Building	\$ 2,285,211	\$ 2,285,211
Automobile	20,360	
Equipment	28,088	7,017
Land	<u>19,500</u>	<u>19,500</u>
	2,353,159	2,311,728
Less accumulated depreciation	<u>(357,161)</u>	<u>(297,766)</u>
	<u>\$ 1,995,998</u>	<u>\$ 2,013,962</u>

Depreciation expense for June 30, 2004 and 2003 was \$59,395 and \$57,481, respectively.

#### 5. INVESTMENTS

Investments as of June 30, 2004 and 2003, are summarized as follows:

	<b>June 2004</b>		
	<b>Cost</b>	<b>Fair Market Value</b>	<b>Carrying Value</b>
Temporarily restricted:			
Monticeito	\$ 30,200	\$ 35,054	\$ 35,054
Stanley	<u>23,129</u>	<u>23,393</u>	<u>23,393</u>
	<u>\$ 53,329</u>	<u>\$ 58,447</u>	<u>\$ 58,447</u>
	<b>June 2003</b>		
	<b>Cost</b>	<b>Fair Market Value</b>	<b>Carrying Value</b>
Investment affiliate	\$ 30,200	\$ 30,361	\$ 30,361
Stanley	<u>23,129</u>	<u>23,756</u>	<u>23,756</u>
	<u>\$ 53,329</u>	<u>\$ 54,117</u>	<u>\$ 54,117</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year then ended June 30, 2004 and 2003:

	<b>2004</b>	<b>2003</b>
Interest and dividends	\$3,117	\$ 995
Unrealized gains	<u>5,118</u>	<u>3,062</u>
Total investment return	<u>\$8,235</u>	<u>\$4,057</u>

**6. TEMPORARILY RESTRICTED NET ASSETS**

Temporary restricted net assets are available for the following purposes:

	<b>2004</b>	<b>2003</b>
Loans and scholarships	<u>\$107,716</u>	<u>\$81,581</u>

## 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The following table represents operating expenses for the years ended June 30 within both natural and functional classifications:

	2004								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 4,075,648	\$ 952,564	\$ 1,225,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,254,129
Research	155,396	36,110	53,857						245,363
Public service	103,070	16,739	23,943						143,752
Academic support	695,237	163,166	345,200						1,203,603
Student services	509,710	118,494	251,438						879,642
General institutional support	1,683,868	427,806	381,513						2,493,187
Operations and maintenance of plant	593,044	137,151	290,359	407,961					1,428,515
Student financial aid					6,000				6,000
Auxiliary enterprises	46,167	11,470	397,421						455,058
Depreciation						728,405			728,405
Other							108,071	234,902	342,973
<b>Total</b>	<b>\$ 7,862,140</b>	<b>\$ 1,863,500</b>	<b>\$ 2,969,648</b>	<b>\$ 407,961</b>	<b>\$ 6,000</b>	<b>\$ 728,405</b>	<b>\$ 108,071</b>	<b>\$ 234,902</b>	<b>\$ 14,180,627</b>

	2003								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 3,761,327	\$ 1,007,739	\$ 1,074,119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,843,185
Research	121,188	29,477	36,978						187,643
Public service	101,319	20,177	25,977						147,473
Academic support	610,569	181,607	386,527						1,178,703
Student services	524,952	138,232	306,874						970,058
General institutional support	1,677,675	491,393	586,324						2,755,392
Operations and maintenance of plant	627,056	175,053	352,643	352,072					1,506,824
Student financial aid					6,000				6,000
Auxiliary enterprises	46,272	12,856	337,585						396,713
Depreciation						945,477			945,477
Other							81,638	212,689	294,327
<b>Total</b>	<b>\$ 7,470,358</b>	<b>\$ 2,056,534</b>	<b>\$ 3,107,027</b>	<b>\$ 352,072</b>	<b>\$ 6,000</b>	<b>\$ 945,477</b>	<b>\$ 81,638</b>	<b>\$ 212,689</b>	<b>\$ 14,231,795</b>

\* \* \* \* \*

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

Governing Board  
West Virginia School of Osteopathic Medicine

We have audited the financial statements of West Virginia School of Osteopathic Medicine ("WVSOM") as of and for the year ended June 30, 2004, and have issued our report thereon dated February 10, 2005, which contains a consistency exception for the adoption of Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and states reliance on other auditors for the discretely presented component unit. 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.

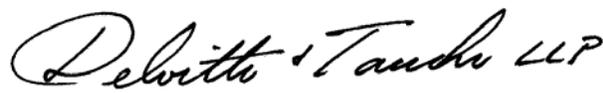
### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered WVSOM's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the 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 WVSOM'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*.

This report is intended solely for the information of the WVSOM Governing Board and managements of WVSOM, 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 these specified parties.



February 10, 2005