West Liberty State College

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

WEST LIBERTY STATE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the West Liberty State College Governing Board

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of West Liberty State College (the "College") as of June 30, 2004 and 2003 and for the years then ended, which collectively comprise the College's basic financial statements listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of West Liberty State College Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the College. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, 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 Foundation's financial statements which were audited by other auditors were not audited in accordance in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such financial statements present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of the College at June 30, 2004 and 2003, and the respective changes in the respective net assets and cash flows 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, the College 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's Discussion and Analysis on pages 3 to 12 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College'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 January 12, 2005 on our consideration of the College'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 audits.

Deloitte & Touche LLP

January 12, 2005

West Liberty State College
State Route 88
P.O. Box 295
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Management Discussion and Analysis
Fiscal Year 2004
Financial Statements

Overview of the Financial Statements and Financial Analysis

West Liberty State College ("WLSC") is proud to present its financial statements for fiscal years 2004 and 2003. The emphasis of discussions about these statements will be for the year ended June 30, 2004. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WLSC's financial statements provides an overview of its financial activities for the fiscal years 2004 and 2003 and is required supplemental information.

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of governmental college and university financial statements. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of WLSC. This is the third fiscal year for this format.

GASB 39

The Government Accounting Standards Board (GASB) has revised the financial reporting guidelines for organizations that support government entities, effective for reporting periods beginning after June 15, 2003. Under GASB's Statement No. 39, if a private foundation that provides financial support to a public college or university meets specified criteria, the college is required to include the foundation's financial activities in the college's financial statements.

The reader should understand that although West Liberty State College is the beneficiary of the West Liberty State College Foundation, the Foundation is independent of the College in all respects. It is not a subsidiary or affiliate of the College and is not directly or indirectly controlled by the College. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the College.

The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The College does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The members of the Foundation's board of directors are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the College, in accordance with donor designations, if any. Third parties dealing with the College, the Higher Education Policy Commission and the State of West Virginia (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WLSC as of June 30, 2004, 2003 and 2002. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WLSC. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the financial statements.

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

Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by WLSC.

Net assets are divided into three major categories. The first category, invested in capital assets, provides equity in the property, plant and equipment owned by WLSC, with title held by the West Virginia Higher Education Policy Commission ("HEPC"). The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets are balances that have been restricted by the West Virginia Legislature ("Legislature"). These restricted activities are fundamental to the normal ongoing operations of WLSC and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WLSC.

Net Assets
(In Thousands)

	2004	2003	2002
ASSETS:			
Current assets	$ 5,997	$ 4,179	$ 3,335
Other noncurrent assets	13,357	1,044	1,199
Capital assets—net	29,215	27,453	27,669
TOTAL ASSETS	$ 48,569	$ 32,676	$ 32,203
LIABILITIES:			
Current liabilities	$ 3,937	$ 2,827	$ 3,232
Noncurrent liabilities:	22,444	9,658	10,052
Total liabilities	26,381	12,485	13,284
NET ASSETS (DEFICIT)			
Invested in capital assets	30,894	$ 20,719	$ 20,450
Restricted expendable	2,198	1,911	1,260
Unrestricted	(904)	(2,439)	(2,792)
Total net assets	22,188	20,191	$ 18,919
TOTAL LIABILITIES AND NET ASSETS	$ 48,569	$ 32,676	$ 32,203

A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

- Cash and cash equivalents has increased by $13,914 million. This increase is largely due to the sale of bonds by the college, which is turn has caused an increase in noncurrent liabilities. The College has three years or until September 3, 2006 to spend all its bond proceeds on the preapproved projects by the Board of Governors of WLSC. The College has issued purchase orders for bond projects as of June 30, 2004 totaling $ 5,409,329.

- Capital leases consist of copiers, HVAC system changes to Main Hall, and improvements to the Marketplace for Sodexo. All current leases will be completed by June 30, 2010.

- Noncurrent liabilities have a large increase in Bonds payable that were issued on September 3, 2006. These Bonds mature over the next 25 years.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are based on the activities presented in the Statement of Revenues, Expenses, and Changes in Net Assets ("SRECNA"). The purpose of the SRECNA is to present the revenues earned, both operating and nonoperating, and the expenses incurred, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by WLSC.

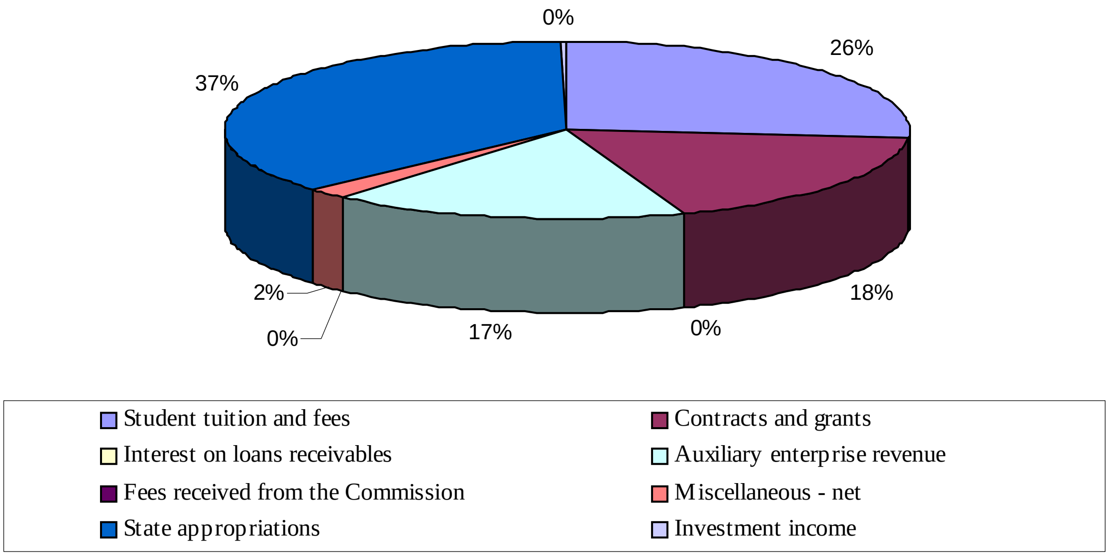
Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of WLSC. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WLSC mission. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to WLSC without the Legislature directly receiving commensurate goods and services for those revenues.

Revenues, Expenses and Changes in Net Assets
(In Thousands)

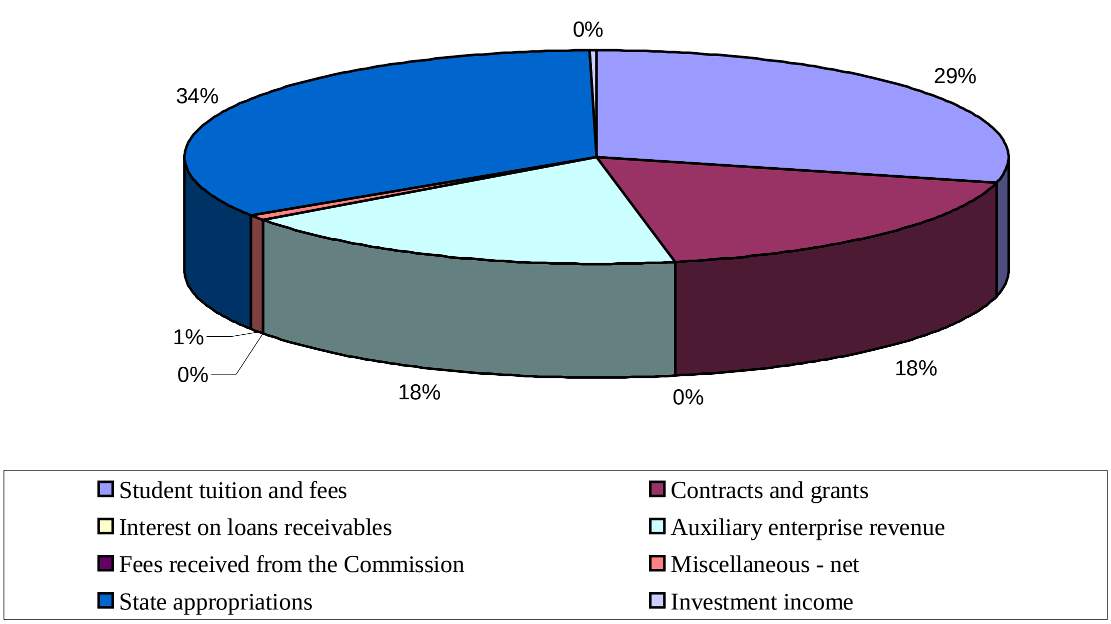
	2004	2003	2002
OPERATING REVENUES	$ 17,234	$ 17,478	$15,130
OPERATING EXPENSES	24,458	25,843	24,815
OPERATING LOSS	(7,224)	(8,365)	(9,685)
NONOPERATING REVENUES (EXPENSES)	7,709	9,219	9,509
INCREASE (DECREASE) IN NET ASSETS BEFORE TRANSFER	485	854	(176)
CAPITAL PROCEEDS FROM POLICY COMMISSION		418	
CAPITAL GIFTS AND GRANTS	1,539		
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(27)		(4,834)
INCREASE (DECREASE) IN NET ASSETS	1,997	1,272	(5,010)
NET ASSETS—Beginning of year	20,191	18,919	23,929
NET ASSETS—End of year	$ 22,188	$20,191	$18,919

A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

FY 2003 Total Revenues
Operating, Nonoperating, and Capital



FY 2004 Total Revenues
Operating, Nonoperating, and Capital



- Student tuition and fees (net of scholarship allowance) made up 43.67% of WLSC's operating revenues and, as the pie chart shows, 29% of total revenues. Tuition and fee revenues increased over FY 2003 for both resident and non-resident. The tuition and fees were increased in FY 2004 by 6.0% for resident and

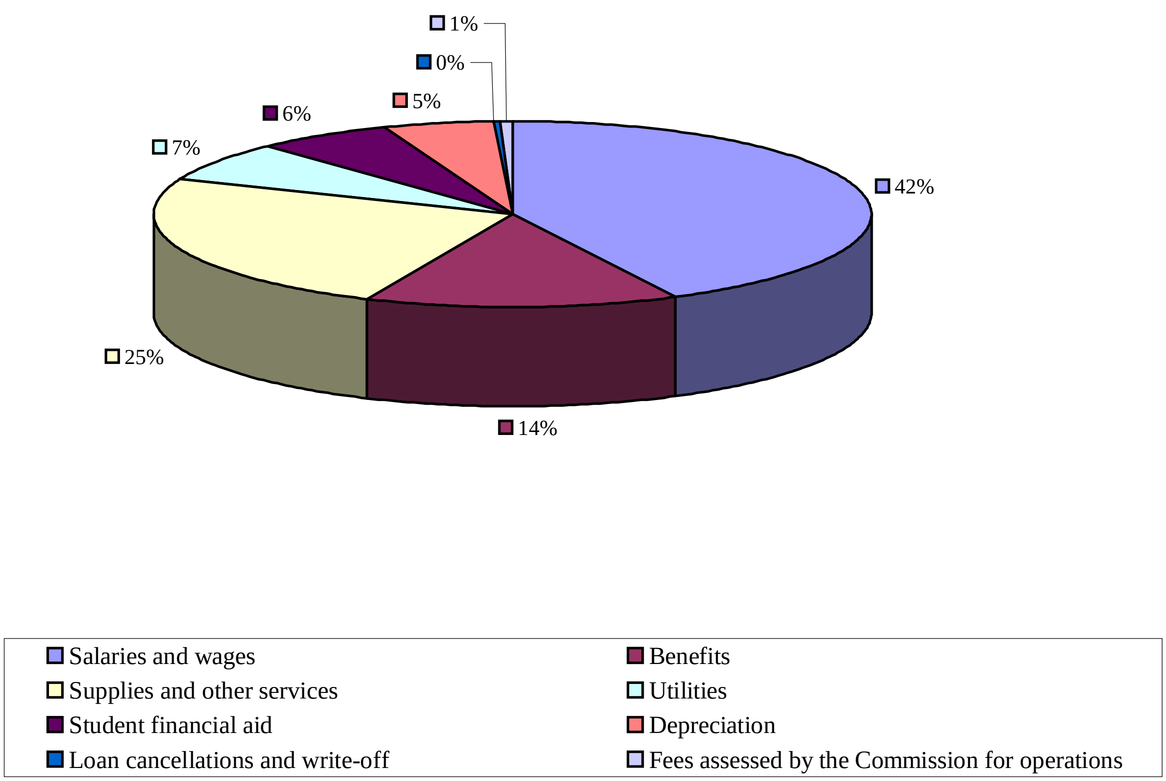
6.0% for non-residents. The increase in tuition dollars per student was partially offset by a decrease in enrollment in 2004. FY 2003 had an increase of 9.22% for resident and 13.6% increase for non-resident students.

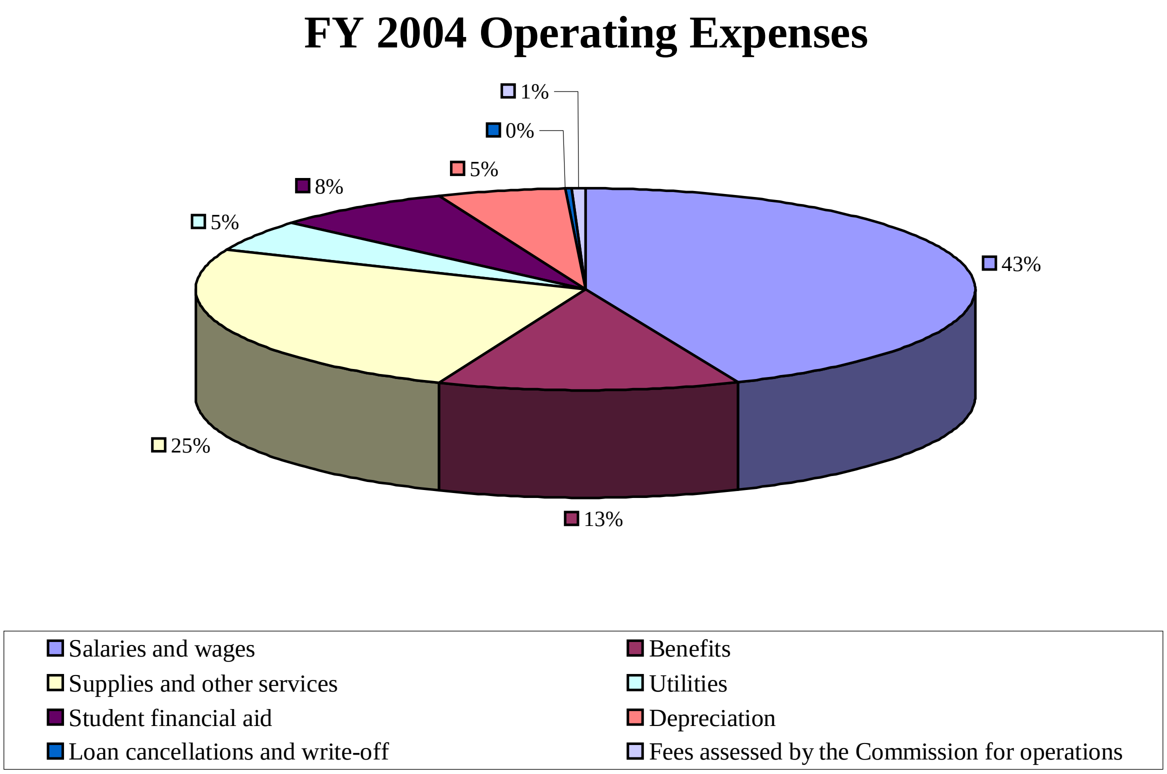
- Other operating revenues such as noncapital grants and contracts, revenues from auxiliary enterprises, fees received from the HEPC, and other operating revenues comprised 54.88% of WLSC's operating revenues and, as the pie chart shows, 37% of total revenues, which is an increase of 2% from FY 2003.

- Nonoperating revenues from the State consisted mainly of appropriated State funds. These State appropriations accounted for 34% of total operating, nonoperating, and capital revenues in FY 2004. These funds are used to support the operations (Salary and Fringe Benefits) of WLSC. State appropriations decreased by $1,123,795 in FY 2004, which compares to a decrease of $558,130 in FY 2003.

- Investment income made up of less than 1% of total operating, nonoperating, and capital revenues in FY 2004 and FY 2003. WLSC participates in the investment pool managed by the State.

FY 2003 Operating Expenses





- The salaries and wages, and employee benefits categories made up approximately 56.3% of the operating expenses of WLSC for both FY 2004 and FY 2003. Because of the reduction in State appropriation funding of $1,123,795 dollars the only salaries increases given were for promotion in rank increases and completion of moving all the classified employees to zero step on the mercer scale. Benefit costs increased slightly because of employer matching for Public Employees Insurance Agency premiums as well as other matching costs for social security, worker's compensation, etc., associated with raises granted.

- The decrease in utilities has caused by a carryover from FY 2002 that was reflected in FY 2003, there was a gas leak on campus in one of the main lines in FY 2003, and more efficient controls and monitoring has taken place in FY 2004.

- Supplies and other services made up approximately 25% of the operating expenses of the budget for both FY 2004 and FY2003. The decrease in expenses can be attributable to increased efficiency by the staff and faculty.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WLSC during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WLSC. 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 deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, cash and cash equivalents excluding sale of bond proceeds, increased $1,668,856 for the FY 2004, which is an increase over the FY 2003 increase of $685,028.

Cash Flows
(In Thousands)

Cash Provided by (used in)	2004	2003	2002
OPERATING ACTIVITIES	$(6,097)	(7,406)	(7,568)
NONCAPITAL FINANCING ACTIVITIES	8,842	9,964	10,513
CAPITAL FINANCING ACTIVITIES	(1,222)	(1,984)	(2,028)
INVESTING ACTIVITIES:	146	111	179
INCREASE IN CASH	1,669	685	1,096
CASH AND CASH EQUIVALENTS—Beginning of year	3,441	2,756	1,660
CASH AND CASH EQUIVALENTS—End of year	$ 5,110	$ 3,441	$ 2,756

Capital Asset and Debt Administration

WLSC had many renovations completed or started during FY 2004 that were added to capital assets. These projects were funded from a variety of sources including Federal and private grants, and use of WLSC funds. WLSC did issue capital bonds on September 3, 2003 for $13,905,000.

- In FY 2004, WLSC submitted a request to the HEPC for a new Technology and Renovation upgrades that will be funded through the sale of bonds guaranteed with Capital Fee proceeds. The HEPC approved the project and permitted the sale of Bonds, which were sold on September 3, 2003. The total amount of the bonds sold for $13,905,000
- In late spring of FY 2003 WLSC received a grant from Senator Byrd in the amount of $1,688,000 for installation of Internet wiring in the Residence Halls. This project is scheduled to be completed in December 2004. The tuition and registration fee revenues deposited in the Capital Building/Land Improvement account is dedicated for these types of projects.

- The College was awarded a grant from WV Senator Monahan's office for the business program in technology for $495,000. This grant will create four new labs and the funding is the cornerstone for the new Business Information Systems program for the College.

- Several land improvements were completed or started in FY 2004 as was in FY 2003. Our campus lighting system is continually being upgraded in the Quad area. Sidewalks and road paving has continued in phase II of our Campus Master Plan. There was a total of $5,409,329 of bond proceeds issued for projects during FY 2004.

Economic Outlook

With less than promising economic forecasts for the State as well as looming deficits in Medicaid and the Public Employees Insurance Agency, no growth or slow growth in Lottery revenues, etc., and with approximately 36% of operations funded by nonoperating State appropriations, WLSC may be vulnerable to continued spending freezes and/or a reduction in State appropriations if there is a significant downturn in the State's economy. All State agencies have been asked to submit State appropriation budget requests for FY 2005 at 94% of the FY 2004 level and WLSC is preparing a strategic plan to offset this anticipated 6% decrease in State funding. The plan has been partially implemented in FY 2004 to prepare for the potential 6% reduction in FY 2005 from nonoperating State appropriations. In FY 2005, both resident and non-resident tuition and fees were increased by 6%, while in FY 2006, we are projecting another additional increase for both resident and non-resident students in anticipation of a 3% to 6% reduction in State appropriations.

Although the economic forecasts for the State of West Virginia may be tenuous, WLSC is well positioned to attract and maintain students. Increases in non-resident students and class sizes, improved physical plant, and favorable comparison of academic programs at the national level with peer schools indicate that WLSC should be able to remain competitive for recruitment of new students.

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WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	2004	2003
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 5,109,884	$ 3,441,028
Appropriation due from Primary Government	18,706	19,175
Accounts receivable—net	468,843	337,392
Loans to students—current portion	310,838	278,000
Prepaid expenses	10,041	880
Inventories	78,413	102,800
Total current assets	5,996,725	4,179,275
Noncurrent assets:		
Cash and cash equivalents	12,303,311	101,018
Loans to students—net of allowance of $645,273 and $645,273	1,053,770	942,448
Capital assets—net	29,215,040	27,453,325
Total noncurrent assets	42,572,121	28,496,791
TOTAL ASSETS	$ 48,568,846	$ 32,676,066

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS
JUNE 30, 2004 AND 2003

	2004	2003
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 554,193	$ 680,401
Accrued liabilities	1,688,323	508,311
Deferred revenue	270,181	366,598
Compensated absences—current portion	553,288	608,749
Due to Commisssion—current portion	213,944	286,902
Capital leases—current portion	382,528	357,456
Bonds payable—current portion	275,000	19,000
Total current liabilities	3,937,457	2,827,417
Noncurrent liabilities:		
Advances from federal sponsors	1,573,713	1,537,884
Compensated absences	2,259,563	2,048,998
Due to Commission	4,116,916	4,303,646
Capital leases	1,302,463	1,684,990
Bonds payable	13,191,227	82,000
Total noncurrent liabilities	22,443,882	9,657,518
Total liabilities	26,381,339	12,484,935
NET ASSETS:		
Invested in capital assets—net of related debt	20,894,074	20,719,331
Restricted for:		
Expendable:		
Specific purposes by State Code		1,080,526
Scholarships	280,187	58,781
Debt service	1,117,256	37,248
Capital projects	800,596	734,838
Total restricted expendable	2,198,039	1,911,393
Unrestricted	(904,606)	(2,439,593)
Total net assets	22,187,507	20,191,131
TOTAL LIABILITIES AND NET ASSETS	$ 48,568,846	$ 32,676,066

See notes to financial statements. (Concluded)

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2004 AND 2003

	2004	2003
ASSETS:		
Cash	$ 38,885	$ 30,293
Promises to give	441,467	403,168
Other receivables	33,763	13,111
Investments at estimated fair value—cost $6,110,306 and $4,911,222, respectively	6,867,241	5,169,967
Beneficial interest in perpetual trust	2,154,475	2,101,862
Fixed assets—net	15,334	18,623
TOTAL ASSETS	$ 9,551,165	$ 7,737,024
LIABILITIES AND NET ASSETS:		
Liabilities:		
Accounts payable and accrued expenses	$ 54,221	$ 57,604
Note payable	13,872	18,365
Liability for charitable gift annuities	59,829	39,975
Total liabilities	127,922	115,944
Net assets:		
Unrestricted	277,987	351,964
Temporarily restricted	3,034,845	2,297,020
Permanently restricted	6,110,411	4,972,096
Total net assets	9,423,243	7,621,080
TOTAL LIABILITIES AND NET ASSETS	$ 9,551,165	$ 7,737,024

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

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

	2004	2003
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowance of $1,822,042 and $2,037,171)	$ 7,570,467	$ 7,218,859
Contracts and grants:		
Federal	3,331,901	3,169,143
State	1,298,959	1,167,518
Private	70,222	620,870
Interest on student loans receivable	29,689	38,815
Auxiliary enterprise revenue (net of scholarship allowance of $1,214,695 and $1,358,114)	4,716,054	4,585,235
Miscellaneous—net	216,253	678,026
Total operating revenues	17,233,545	17,478,466
OPERATING EXPENSES:		
Salaries and wages	10,664,393	11,196,424
Benefits	3,079,223	3,287,752
Supplies and other services	6,114,340	6,461,521
Utilities	1,245,099	1,820,748
Student financial aid—scholarships and fellowships	1,876,752	1,611,929
Depreciation	1,297,294	1,271,965
Loan cancellations and write-offs	35,808	47,848
Fees assessed by the Commission for operations	144,883	144,883
Total operating expenses	24,457,792	25,843,070
OPERATING LOSS	(7,224,247)	(8,364,604)

(Continued)

WEST LIBERTY STATE COLLEGE

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

	2004	2003
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 8,840,702	$ 9,964,497
Investment income	145,599	111,302
Interest on indebtedness	(682,088)	(176,296)
Fees assessed by the Commission for debt service	(595,543)	(681,193)
Net nonoperating revenues	7,708,670	9,218,310
INCREASE IN NET ASSETS BEFORE TRANSFER	484,423	853,705
CAPITAL PROCEEDS FROM POLICY COMMISSION		418,642
CAPITAL GIFTS AND GRANTS	1,539,168	
TRANSFER OF LIABILITY FROM POLICY COMMISSION	27,215	
INCREASE IN NET ASSETS	1,996,376	1,272,347
NET ASSETS—Beginning of year	20,191,131	18,918,784
NET ASSETS—End of year	$22,187,507	$20,191,131

See notes to financial statements (Concluded)

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	$ 148,477	$ 846,784	$ 971,594	$ 1,966,855
Interest and dividend income	33,584	97,200	89,108	219,892
Gain (loss) on investments	88,924	410,220		499,144
Change in value of split interest agreements		(2,564)	52,613	50,049
Other income		79,079		79,079
Net assets released from restrictions and other	667,894	(692,894)	25,000	
Total support and revenues	938,879	737,825	1,138,315	2,815,019
EXPENSES:				
West Liberty State College Support:				
Scholarships	212,022			212,022
Athletic programs	86,549			86,549
Academic programs	145,234			145,234
Other programs	142,483			142,483
Capital improvement programs	85,332			85,332
Fundraising	120,650			120,650
General and administrative expenses	220,586			220,586
Total expenses	1,012,856	-	-	1,012,856
CHANGES IN NET ASSETS	(73,977)	737,825	1,138,315	1,802,163
NET ASSETS—Beginning of year	351,964	2,297,020	4,972,096	7,621,080
NET ASSETS—End of year	$ 277,987	$ 3,034,845	$ 6,110,411	$ 9,423,243

See notes to financial statements.

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2003

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	$ 177,063	$ 723,311	$ 321,814	$ 1,222,188
Interest and dividend income	22,746	98,490	90,332	211,568
Gain (loss) on investments	46,649	(54,942)		(8,293)
Change in value of split interest agreements		(2,653)	29,633	26,980
Other income		94,228		94,228
Net assets released from restrictions and other	671,029	(671,029)		
Total support and revenues	917,487	187,405	441,779	1,546,671
EXPENSES:				
West Liberty State College Support:				
Scholarships	210,597			210,597
Athletic programs	63,358			63,358
Academic programs	74,020			74,020
Other programs	117,017			117,017
Capital improvement programs	97,814			97,814
Fundraising	178,798			178,798
General and administrative expenses	184,997			184,997
Total expenses	926,601	-	-	926,601
CHANGES IN NET ASSETS	(9,114)	187,405	441,779	620,070
NET ASSETS—Beginning of year	361,078	2,109,615	4,530,317	7,001,010
NET ASSETS—End of year	$ 351,964	$ 2,297,020	$ 4,972,096	$ 7,621,080

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 8,275,781	$ 7,061,512
Contracts and grants	3,741,419	4,884,341
Payments to and on behalf of employees	(13,560,739)	(14,191,872)
Payments to suppliers	(6,957,984)	(6,831,390)
Payments to utilities	(1,254,794)	(1,820,748)
Payments for scholarships and fellowships	(1,876,752)	(1,611,929)
Loans issued to students	(498,049)	(258,378)
Collection of loans to students	353,889	278,609
Auxiliary enterprise charges	5,631,175	4,585,235
Debt service assessed by Commission	(144,883)	(144,883)
Other receipts—net	194,351	642,845
Net cash used in operating activities	(6,096,586)	(7,406,658)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	8,840,702	9,964,497
William D. Ford direct lending receipts	7,357,919	6,600,180
William D. Ford direct lending payments	(7,356,782)	(6,600,180)
Cash provided by noncapital financing activities	8,841,839	9,964,497
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(1,959,466)	(1,056,084)
Capital project proceeds from Commission		418,642
Capital gifts and grants	1,539,168	
Proceeds from sale of capital assets		94
Proceeds from bond issuance	13,748,914	
Principal paid on long term liabilities	(644,357)	(599,743)
Principal paid on bonds	(371,000)	(19,000)
Interest paid on bonds	(562,176)	(3,315)
Interest paid on long term liabilities	(175,234)	(173,075)
Decrease (increase) in noncurrent cash and cash equivalents	(12,202,293)	129,561
Debt service assessed by Commission	(595,553)	(681,193)
Cash used in capital financing activities	(1,221,997)	(1,984,113)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	145,599	111,302
Cash provided by investing activities	145,599	111,302
INCREASE IN CASH	1,668,855	685,028
CASH AND CASH EQUIVALENTS—Beginning of year	3,441,029	2,756,000
CASH AND CASH EQUIVALENTS—End of year	$ 5,109,884	$ 3,441,028

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS
YEARS ENDED JUNE 30, 2004 AND 2003

	2004	2003
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (7,224,247)	$ (8,364,604)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	1,297,294	1,271,965
Changes in assets and liabilities:		
Due from Primary Government	469	(19,175)
Accounts receivable, net	(131,451)	(138,172)
Loans to students, net	(144,160)	17,891
Prepaid expenses	(9,161)	6,470
Inventories	24,387	(929)
Accounts payable	(126,208)	(367,686)
Accrued liabilities	79,862	73,038
Compensated absences	155,104	219,266
Deferred revenue	(96,417)	(38,896)
Advances from federal sponsors	35,828	(65,826)
Other Operating Activities	42,114	
NET CASH USED IN OPERATING ACTIVITIES	$ (6,096,586)	$ (7,406,658)

See notes to financial statements.

(Concluded)

1. ORGANIZATION

West Liberty State College (the "College") is governed by the West Liberty State College Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation of the College is not part of the College reporting entity and is not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of this entity and is not accountable for the fiscal matters of the foundation under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, West Liberty State College 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 West Liberty State College Foundation, Incorporated (the "Foundation") are discretely presented here with the West Liberty State College 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 Organizations.* As such, certain 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 Note 12).

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

- *Invested in capital assets, net of related debt***—**This represents the College'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 College is legally or contractually obligated to spend resources 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 auxiliaries and capital items. For 2003, these restrictions were 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 the institution. These restrictions are subject to change by future actions of the West Virginia State 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. The College does not have any restricted nonexpendable net assets at June 30, 2004 and 2003, respectively.

- *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 College, 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, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College'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 College 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.

Allowance for Doubtful Accounts—It is the College'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 College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

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

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

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

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

***Compensated Absences*—**The College 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 College'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 College 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 College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

Risk Management—The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the College and its employees. Such coverage may be provided to the College 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 College or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the College is currently charged by BRIM and the ultimate cost of that insurance based on the College's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the College and the College's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

Classification of Revenues—The College 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. Nonoperating revenues also exclude student fees which were billed for capital improvements.

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

Federal Financial Assistance Programs—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2004 and 2003, the College received and disbursed approximately $7,350,000 and $6,600,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses and changes in net assets.

The College 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 College received and disbursed approximately $2,941,152 and $2,781,370, 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 the College, 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 College Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Government Grants and Contracts—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College 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 College accounts for interest on debt as an expense of the period in which it is incurred.

Income Taxes—The College 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 expenditures during the reporting period. Actual results could differ from those estimates.

Recent Statements Issued by the Government Accounting Standards Board—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The College 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 College'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 College to evaluate prominent events or changes in circumstances affecting the 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 assets. The College 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 College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has also issued Statement No. 46, *Net Restricted by Enabling Legislation,* an amendment of GASB Statement No. 34, effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase "legally enforceable" as it applies to restrictions imposed on net asset use by ensuring legislation. The College has not yet determined the effect, if any, that the adoption of GASB Statement No. 46 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2004 and 2003:

	2004		
	Current	**Noncurrent**	**Total**
Cash on deposit with the State Treasurer:			
College	$4,518,047	$ -	$ 4,518,047
Municipal Bond Commission for the College		169	169
Cash with Trustee Bank		12,303,142	12,303,142
Cash in bank	591,837		591,837
	$5,109,884	$12,303,311	$17,413,195

	2003		
	Current	**Noncurrent**	**Total**
Cash on deposit with the State Treasurer:			
College	$2,442,061	$ -	$2,442,061
Municipal Bond Commission for the College		101,018	101,018
Cash in bank	998,967		998,967
	$3,441,028	$ 101,018	$3,542,046

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the College's bond trust indentures. Other cash held by the State Treasurer includes $800,596 in 2004 and $2,093,533 in 2003 of restricted cash for specific purposes by State Code, loans and other sponsored projects.

Cash with Trustee includes deposits held by the Bond Trustee Bank for the bonds issued on September 3, 2003. The total amount held by the trustee bank on June 30, 2004 is $12,303,142. The combined carrying amounts of cash in the bank at June 30, 2004 and 2003 was $592,138 and $956,234 as compared with the combined bank balance of $241,564 and $609,235, respectively. The difference is primarily caused by 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 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. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2004 and 2003:

	2004	2003
Student tuition and fees—net of allowance for doubtful accounts of $338,902 and $265,382	$ 405,021	$ 279,279
Due from West Liberty State College Foundation	51,740	36,659
Due from the Commission	12,082	21,454
	$ 468,843	$ 337,392

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2004 and 2003:

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 100,000	$ -	$ -	$ 100,000
Construction in progress		2,502,492	300,637	$ 2,201,855
	100,000	2,502,492	300,637	$ 2,301,855
Other capital assets:				
Infrastructure	430,533	107,820		538,353
Buildings	39,861,464	516,312		40,377,776
Equipment	3,754,038	211,195	93,926	3,871,307
Leased equipment	335,022	26,527		361,549
Library books	2,341,358	23,571	10,970	2,353,959
Total other capital assets	46,722,415	885,425	104,896	47,502,944
Less accumulated depreciation for:				
Infrastructure	35,109	26,347		61,456
Buildings	15,595,999	662,881		16,258,880
Equipment	2,967,929	197,540	65,655	3,099,814
Leased equipment	170,175	46,420		216,595
Library books	599,878	364,106	10,970	953,014
Total accumulated depreciation	19,369,090	1,297,294	76,625	20,589,759
Other capital assets—net	$ 27,453,325	$ 2,090,623	$ 328,908	$ 29,215,040
Capital asset summary:				
Capital assets not being depreciated	$ 100,000	$ 2,502,492	$ 300,637	$ 2,301,855
Other capital assets	46,722,415	885,425	104,896	47,502,944
Total cost of capital assets	46,822,415	3,387,917	405,533	49,804,799
Less accumulated depreciation	19,369,090	1,297,294	76,625	20,589,759
Capital assets—net	$ 27,453,325	$ 2,090,623	$ 328,908	$ 29,215,040

	2003			
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 100,000	$ -	$ -	$ 100,000
Other capital assets:				
Infrastructure	199,887	230,646		430,533
Buildings	39,588,994	326,470	(54,000)	39,861,464
Equipment	3,488,123	495,736	(229,821)	3,754,038
Leased equipment	297,185	21,162	16,675	335,022
Library books	2,392,439	35,342	(86,423)	2,341,358
Total other capital assets	45,966,628	1,109,356	(353,569)	46,722,415
Less accumulated depreciation for:				
Infrastructure	10,590	24,519		35,109
Buildings	14,998,620	651,379	(54,000)	15,595,999
Equipment	3,014,255	197,832	(244,158)	2,967,929
Leased equipment	87,754	51,409	31,012	170,175
Library books	339,475	346,826	(86,423)	599,878
Total accumulated depreciation	18,450,694	1,271,965	(353,569)	19,369,090
Other capital assets—net	$ 27,515,934	$ (162,609)	$ -	$ 27,353,325
Capital asset summary:				
Capital assets not being depreciated	$ 100,000	$ -	$ -	$ 100,000
Other capital assets	45,966,628	1,109,356	(353,569)	46,722,415
Total cost of capital assets	46,066,628	1,109,356	(353,569)	46,822,415
Less accumulated depreciation	18,450,694	1,271,965	(353,569)	19,369,090
Capital assets—net	$ 27,615,934	$ (162,609)	$ -	$ 27,453,325

The College maintains various 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.

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2004 and 2003:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable	$ 101,000	$ 13,736,227	$ (371,000)	$ 13,466,227	$275,000
Capital leases payable	2,042,446	-	(357,455)	1,684,991	382,528
Total bonds and capital leases	2,143,446	13,736,227	(728,455)	15,151,218	
Other long-term liabilities:					
Accrued compensated absences	2,657,747	155,104		2,812,851	553,288
Advances from Federal Sponsors	1,537,884	35,829		1,573,713	
Debt obligation to Commission	4,590,548	27,213	(286,901)	4,330,860	213,944
Total long-term liabilities	$ 10,929,625	$ 13,954,373	$ (1,015,356)	$ 23,868,642	

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds and capital leases:					
Revenue bonds payable	$ 120,000	$ -	$ (19,000)	$ 101,000	$ 19,000
Capital leases payable	2,398,694	-	(356,248)	2,042,446	357,456
Total bonds and capital leases	2,518,694	-	(375,248)	2,143,446	
Other long-term liabilities:					
Accrued compensated absences	2,438,481	219,266	-	2,657,747	608,749
Advances from Federal Sponsors	1,603,710	-	(65,826)	1,537,884	-
Debt obligation to Commission	4,834,043	-	(243,495)	4,590,548	286,902
Total long-term liabilities	$ 11,394,928	$ 219,266	$ (684,569)	$ 10,929,625	

7. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2004 and 2003:

	2004			2003		
	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
Student Union Revenues Bonds Series B 1967, due 2007	N/A			3.0 %	$ 19,000 to 21,000	$ 101,000
Capital Improvements 2003:						
Series A Due 2028	3.0% - 6.125 %	$185,000 to 650,000	$ 8,685,000			
Series B Due 2018	4.125% - 5.625 %	$ 65,000 to 120,000	1,145,000			
Series C Due 2028	3.0% - 5.5 %	$ 85,000 to 285,000	3,805,000			
			13,635,000			101,000
Discount			(168,773)			
			$ 13,466,227			$ 101,000

The Series B 1967 bond issue was specific to the College, although the bonds were also issued in the name of the State's former Board of Regents, previously responsible for the governance of the State's higher education system, or the State itself. As debt service was required on the bond issue, the College remitted the funds to the State's Municipal Bond Commission for payment to the trustee of the bond issue and the bondholders. The mandatory debt service transfers were recorded as the funds were remitted. The Municipal Bond Commission may hold certain cash and cash equivalents for debt service or other bond issue purposes on behalf of the College. The Bonds were paid off on September 3, 2003.

The Board of Governors of West Liberty State College issued bonds on September 3, 2003. The Dormitory Revenue bonds or Series 2003A for $8,870,000, the College Union Revenue Bonds or Series 2003B for $1,145,000, and the Capital Improvement Revenue Bonds or Series 2003C for $3,890,000 for a total of bonds issued for capital improvements to the College of $13,905,000. The College set up three separate capital fees to be used solely for the payment of the bonds. The bond proceeds are maintained with a trustee until funds are requested for payments on capital projects that were preapproved by the Board of Governors of West Liberty State College. The West Virginia State Treasurer's Office verifies and remits payments for the bonds to the trustee.

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

Year Ending June 30	Principal	Interest	Total
2005	$ 275,000	$ 747,062	$ 1,022,062
2006	355,000	738,812	1,093,812
2007	365,000	725,499	1,090,499
2008	380,000	711,811	1,091,811
2009	400,000	697,561	1,097,561
2010 - 2014	2,300,000	3,185,272	5,485,272
2015 - 2019	2,880,000	2,517,008	5,397,008
2020 - 2024	3,260,000	1,651,815	4,911,815
2025 - 2028	3,420,000	536,275	3,956,275
Total	$13,635,000	$11,511,115	$25,146,115

8. CAPITAL LEASE OBLIGATIONS

The College leases various equipment and building improvements. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2004:

Year Ending June 30	Total
2005	$ 479,646
2006	479,646
2007	444,414
2008	347,279
2009	164,713
	1,915,698
Less interest	(230,707)
Total	$ 1,684,991

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2004 and 2003:

	2004	2003
Health or life insurance benefits	$ 2,211,241	$ 2,066,028
Accrued vacation leave	601,610	591,719
	$ 2,812,851	$ 2,657,747

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2003 and 2004, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately $218,000 and

$248,000, respectively. As of June 30, 2004 and 2003, there were 61 and 57 retirees, respectively, currently eligible for these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the College'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 universities and colleges, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (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 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, effective as of June 30, 2002.

For the years ended June 30, 2004 and 2003 the debt service assessed was as follows:

	2004	2003
Principal	$ 286,901	$ 243,495
Interest	199,470	257,000
Other	396,073	424,193
	$ 882,444	$ 924,688

11. RETIREMENT PLANS

Substantially all full-time employees of the College 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 College 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 Great West Retirement Services 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, there were no employees enrolled in the Great west Retirement Services 401(a) basic retirement plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College 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, 2003 and 2004, respectively. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2003 and 2004, respectively. 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 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit 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 College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002 were $200,139, $221,060, and $260,432, respectively, which consisted of $142,956, $157,900 and $185,444 from the College in 2004, 2003 and 2002, respectively, and $57,183, $63,160, and $74,988 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 College. 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.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002, were $1,119,708, $1,168,081, and $1,179,062, respectively, which consisted of contributions of $559,854 from the College and $559,854 from the covered employees in 2004, $584,040 from the College and $584,040 from the covered employees in 2003, and $584,357 from the College and $594,705 from the covered employees in 2002.

The College's total payroll for the years ended June 30, 2004 and 2003 was $10,664,393 and $11,196,424, respectively, total covered employees' salaries in the STRS and TIAA-CREF were $1,100,577 and $1,212,058 and $8,637,095 and $9,511,971 in 2004 and 2003, respectively.

12. FOUNDATION

The West Liberty State College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations. . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. 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 West Liberty State College 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 is restricted to the activities of West Liberty State College by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, West Liberty State College, the Foundation is considered a component unit of West Liberty State College and is therefore discretely presented with West Liberty State College's financial statements in accordance with GASB Statement No. 39

During the years ended June 30, 2004 and 2003, the Foundation contributed $212,022 and $210,597, respectively, to the College for scholarships.

13. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College 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 College would not seriously impact 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 approximate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The College's management believes disallowances, if any, will not have a significant financial impact on the College's financial position.

The College owns various buildings which are known to contain asbestos. The College is not required by Federal, State or local law to remove the asbestos from its buildings. The College is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College 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

During August, 2004, the West Virginia Higher Education Policy Commission issued $167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The College has been approved for $2,000,000 of the bond proceeds for capital projects from this bond issuance.

15. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors of West Liberty State College, West Liberty State College issued revenue bonds to finance certain of its auxiliary enterprise activities and capital improvements. Investors in those bonds rely solely on the revenue generated from new capital fees created for repayment.

Descriptive information for each of West Liberty State College's segments is show below:

a. *Board of Governors of West Liberty State College, issued Dormitory Revenue Bonds 2003, Series A*

On September 3, 2003, West Liberty State College issued Dormitory Revenue Bonds 2003, Series A, amounting to $8,870,000. The Bonds were issued.

The 2003A Bonds consist of $1,230,000 Serial Bonds with varying interest rates from 3.0% to 6.125% and mature from June 30, 2004 to June 1, 2028 and Term Bonds of $7,640,000.

b. *Board of Governors of West Liberty State College, issued College Union Revenue Bonds 2003, Series B*

On September 3, 2003, West Liberty State College issued College Union Revenue Bonds 2003, Series B, amounting to $1,145,000. The Bonds were issued.

The 2003B Bonds consists of $940,000 Serial Bonds with varying interest rates from 4.125% to 5.625% and mature from June 30, 2009 to June 1, 2018 and Term Bonds of $205,000 maturating on June 1, 2006, 2007, 2008.

c. *Board of Governors of West Liberty State College, issued Capital Improvement Revenue Bonds 2003, Series C*

On September 3, 2003, West Liberty State College issued Capital Improvement Revenue Bonds 2003, Series B, amounting to $3,890,000. The Bonds were issued.

The 2003C Bonds consist of $840,000 Serial Bonds with varying interest rates from 3.0% to 5.5% and mature from June 1, 2004 to June 1, 2017 and Term Bonds of $3,050,000 maturating on June 1, 2006, 2007, 2008.

d. *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 were secured by and payable from the Student Union fees and certain funds held under the indenture. The Bonds were paid off early during fiscal 2004.

Condensed Statement of Net Assets as of June 30,	West Liberty State College Student Union Revenue Bonds 1967, Series B 2003	West Liberty State College Revenue Bonds Series 2003 A, Dormitory 2003A	College Union 2003B	B, C Capital Improvements 2003C
			2004	
ASSETS:				
Current assets	$ 38,537	$ 5,289,899	$ 400,902	$ 2,187,617
Noncurrent assets	646,885	3,161,570	741,316	1,506,443
Total assets	$ 685,422	$ 8,451,470	$1,142,218	$ 3,694,060
LIABILITIES:				
Current liabilities	$ 19,000	$ 190,000	$ -	$ 85,000
Noncurrent liabilities	82,000	8,389,822	1,134,082	3,667,323
Total liabilities	101,000	8,579,822	1,134,082	3,752,323
NET ASSETS:				
Invested in capital assets, net of related debt	444,867	(128,352)	8,136	(58,263)
Restricted:				
Specific purposes by State Code	63,770			
Debt service	37,248			
Unrestricted	38,537			
Total net assets and liabilities	$ 685,422	$ 8,451,470	$1,142,218	$ 3,694,060
Condensed Statement of Revenues, Expenses and Changes in Net Assets as of June 30,				
Operating:				
Operating revenues	$ 332,552	$ 688,425	$ 84,859	$ 461,101
Operating expenses	(474,686)	364,483	41,189	156,504
Net operating income	(142,134)	323,942	43,670	304,597
Nonoperating:				
Nonoperating revenues	88,395			
Nonoperating expenses	(36,931)	(148)	(18)	
Net proceeds related to bond issuance		8,127,676	1,098,566	3,389,463
Changes in net assets	(90,670)	8,451,470	1,142,218	3,694,060
Net assets—beginning of year	675,092			
Net assets—end of year	$ 584,422	$ 8,451,470	$1,142,218	$ 3,694,060
Condensed Statement of Cash Flows as of June 30,				
Net cash (used in) provided by operating activities	$ (54,393)	$ 323,942	$ 43,670	$ 304,597
Net cash used in capital and related financing	(22,370)	4,965,957	357,232	1,883,020
Increase (decrease) in cash	(76,763)	5,289,899	400,902	2,187,617
Cash—beginning of year	115,300			

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2004 and 2003, the following table represents operating expenses 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 Commission	Total
Instruction	$ 5,841,494	$ 1,412,906	$ 737,507	$ 60,281	$ -	$ -	$ -	$ -	$ 8,052,188
Research	32,816		62,493						95,309
Public service	6,032	1,070	7,472						14,574
Academic support	952,342	234,167	226,526	253					1,413,288
Student services	969,670	249,339	311,192	597					1,530,798
General institutional support	1,238,355	719,916	1,183,958						3,142,229
Operations and maintenance of plant	605,974	212,270	673,897	657,365					2,149,506
Student financial aid					1,876,752				1,876,752
Auxiliary enterprises	1,017,710	249,555	2,911,295	526,603					4,705,163
Depreciation						1,297,294			1,297,294
Other							35,808	144,883	180,691
Total	$ 10,664,393	$ 3,079,223	$ 6,114,340	$ 1,245,099	$ 1,876,752	$ 1,297,294	$ 35,808	$ 144,883	$ 24,457,792

2003

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed By Commission	Total
Instruction	$ 5,561,072	$1,720,733	$ 860,330	$ 79,944	$ -	$ -	$ -	$ -	$ 8,222,079
Research			16,718						16,718
Public service	15,941	1,857	2,226						20,024
Academic support	783,953	301,108	176,354						1,261,415
Student services	1,167,026	226,230	306,054	622					1,699,932
General institutional support	1,583,403	593,968	1,575,031	44					3,752,446
Operations and maintenance of plant	792,574	163,390	649,016	904,440					2,509,420
Student financial aid					1,611,929				1,611,929
Auxiliary enterprises	1,292,455	280,466	2,875,792	835,698					5,284,411
Depreciation						1,271,965			1,271,965
Other							47,848	144,883	192,731
Total	$11,196,424	$3,287,752	$6,461,521	$1,820,748	$1,611,929	$1,271,965	$47,848	$144,883	$25,843,070

* * * * * *

17. COMPONENT UNIT'S DISCLOSURE

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

Nature of Activities—The West Liberty State College Foundation, Incorporated (the "Foundation") is a not-for-profit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. The Foundation was formed to receive and administer funds for scientific, educational and charitable purposes for the support and benefit of West Liberty State College (the "College"). Oversight of the Foundation is the responsibility of an independently elected Board of Directors not otherwise affiliated with the College. The president of the College is a non-voting member of the Board of Directors. While contributions are generally for the benefit and support of the College, the Foundation exercises discretion over the distribution of assets.

Summary of Significant Accounting Policies:

Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting.

Use of Estimates—The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reporting amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash—Cash consists of cash on hand and deposits held in financial institutions such as demand deposits. Interest-bearing accounts are considered as investments.

Contributions and Contributions Receivable—All contributions are recorded at their estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates for United States government securities. Amoritization of the discounts is included in contribution revenue. Conditional promises to give are not recorded as support until the conditions are substantially met.

Investments—Investments in equity securities and all debt securities are reported at their fair value based upon quoted market prices.

The Foundation operates a pooled investment portfolio for all funds. New funds or additions to existing funds are assigned a share in the investment pool based upon the amount of cash or estimated fair value of securities deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, is allocated on a monthly basis. Consequently, investment income, gain and losses allocated to temporarily restricted funds is also classified as temporarily restricted.

Split interest agreements:

Beneficial interest in perpetual trust—The Foundation was bequeathed a beneficial interest in a perpetual trust established at a local bank in accordance with a decendent's will. Under the terms of this split-interest agreement, the Foundation is to receive distributions of 10% of the income from the trust in perpetuity. These distributions are to be used to establish an endowment, the income from which will be used to provide scholarships. The Foundation's beneficial interest is valued in the financial statements at 10% of the fair market value of the trust assets. Adjustments due to changes in the market value of the trust assets are recorded as changes in value of split interest agreements. Additions to the trust from the benefactor's estate are treated as permanently restricted contribution revenue to the extent of the Foundation's 10% interest in the trust. Distributions received from the trust are permanently restricted for endowed scholarships and are recorded as permanently restricted investment income.

Chartiable gift annuities—The Foundation participates in charitable gift annuity agreements with certain donors. Under these agreements temporarily restricted contribution revenue is recorded when donors transfer assets to the Foundation. The amount of revenue recognized is the difference between the fair market value of the assets received and the liability calculated at the net present value of the estimated future payments to the beneficiaries over their life expectancies. In estimating the net present value of the liability, the Foundation uses life expectancy information prepared by American Council on Gift Annuities and discount rates ranging from 4.5% to 7.75%.

Fixed assets—The Foundation's fixed assets consist of a vehicle which is carried at cost less accumulated depreciation which is computed on the straight-line method over the estimated useful life of the asset.

Net assets—The Foundation has classified its net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Below is a summary of those classifications:

Unrestricted—Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted.

Temporarily restricted—Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for College support according to the restriction are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently restricted—Assets and contributions for which the donor stipulates that resources be maintained permanently, but permits the Foundation to use or expend part or all of the income derived from the donated assets, are permanently restricted. Such assets are comprised of endowment accounts which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. The investment income, including realized and unrealized gains and losses, are recorded as temporarily restricted until disbursed according to the terms of the gift instrument.

Both temporarily and permanently restricted net assets are to be used for the support and benefit of West Liberty State College.

Promises to give:

Unconditional promises to give at June 30, 2004 and 2003, are as follows:

	2004	2003
Receivable in less than one year	$ 221,823	$ 240,658
Receivable in one to five years	228,103	169,909
Total unconditional promises to give	449,926	410,567
Less discount to net present value	(8,459)	(7,399)
Net unconditional promises to give at June 30, 2004 and 2003	$ 441,467	$ 403,168

Investments:

The cost and estimated fair values of investments at June 30, 2004 and 2003, are as follows:

	2004		2003	
	Estimated Fair Value	Cost	Estimated Fair Value	Cost
Corporate bonds and notes	$ 181,440	$ 200,007	$ 199,500	$ 200,008
United States Treasury, government agency, and other government obligations	195,312	200,006	564,336	559,755
Equity securities	3,930,212	3,166,242	2,890,248	2,634,712
Mutual funds	1,479,076	1,462,850	818,379	819,243
Money markets funds	1,081,201	1,081,201	697,504	697,504
	$ 6,867,241	$ 6,110,306	$ 5,169,967	$ 4,911,222

Interest and dividends from investments

Investments—The cost and estimated fair values of investments at June 30, 2004 and 2003, are as follows:

	2004		2003	
	Estimated Fair Value	Cost	Estimated Fair Value	Cost
Corporate bonds and notes	$ 181,440	$ 200,007	$ 199,500	$ 200,008
United States Treasury, government agency, and other government obligations	195,312	200,006	564,336	559,755
Equity securities	3,930,212	3,166,242	2,890,248	2,634,712
Mutual funds	1,479,076	1,462,850	818,379	819,243
Money markets funds	1,081,201	1,081,201	697,504	697,504
	$6,867,241	$6,110,306	$5,169,967	$4,911,222

Interest and dividends from investments are recorded net of investment expenses of $14,835 and $11,803, respectively in 2004 and 2003.

Investments include securities held to satisfy charitable gift annuity agreements as follows:

	2004	2003
Fair value	$ 111,370	$ 66,833
Cost	$ 101,928	$ 67,268

Split-interest Agreements—The following summarize the transactions affecting the beneficial interest in the perpetual trust for the years ended June 30, 2004 and 2003:

	2004	2003
Permanently restricted contribution revenue resulting from additions to the trust	$ -	$ -
Distributions received from the trust recorded as permanently restricted investment income	$ 89,108	$ 90,332
Change in value of the split interest agreement	$ 52,613	$ 29,633

Fixed Assets—At June 30, 2004 and 2003, fixed assets consist of the following:

	2004	2003
Vehicle	$ 19,446	$ 19,446
Accumulated depreciation	(4,112)	(823)
Fixed assets—net	$ 15,334	$ 18,623

Note Payable:

	2004	2003
Bank loan, at 6.14%, payable monthly, secured by vehicle	$ 13,872	$ 18,365

Maturities for the next five years are as follows:

	Amount
2005	$ 4,776
2006	5,078
2007	4,018
2008	
2009	
Total	$ 13,872

Interest expense included in the statement of activities for the years ended June 30, 2004 and 2003, was $1,003 and $293, respectively.

Related Party Transactions—West Liberty State College through its Office of Development provides facilities and administrative services to the Foundation in exchange for which the Foundation pays a fee equivalent to the salary and benefits of certain staff positions within the Office of Development. General and administrative expenses included $271,266 and $241,712, respectively, in 2004 and 2003 for these expenses. Part of these payroll costs were funded by a private donation which provided $57,528 and $54,086, respectively in 2004 and 2003. Accounts payable included $0 and $6,612 for these expenses as of June 340, 2004 and 2003, respectively.

Supplemental Cash Flow Information—The Foundation had the following noncash transactions in the years ended June 30, 2004 and 2003:

	2004	2003
Noncash contributions received:		
Property and equipment for use by the College	$ 11,637	$ 64,173
Investment securities	51,247	158,674
	$ 62,884	$ 222,847
Noncash fixed asset additions—		
Vehicle purchased with bank loan	$ -	$ 19,446
Interest paid	$ 1,003	$ 293

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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*

To the West Liberty State College Governing Board

We have audited the financial statements of West Liberty State College (the "College") as of and for the years ended June 30, 2004 and 2003, and have issued our report thereon dated January 12, 2005, which contains a consistency exception for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* 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.

Internal Control Over Financial Reporting

In planning and performing our audits, we considered the College'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. However, in our 2003 audit we noted certain matters involving the College's internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operations of the internal control over financial reporting that, in our judgement, could adversely affect the College's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying appendix.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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 audits 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 and use of the West Liberty State College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

January 12, 2005

APPENDIX

Subsequent to an extensive closing process to prepare financial statements, the change in net assets as per the Statement of Revenue, Expenses and Changes in Net Assets differed by a substantial amount when compared to the roll forward of net assets required for a balanced presentation in the Statement of Net Assets. This difference was driven by difficulties encountered in the implementation of the Banner financial reporting system such that revenues and cash received do not appear to be captured and reported in an accurate manner. The resolution of implementation issues was exacerbated by the weak technology support structure for Banner, including heavy reliance on parties outside the College's control who have little knowledge of accounting. Additionally, many accounts such as fixed assets, loan and debt activity, and certain accruals are maintained outside of the general ledger system and such balances are not reconciled and updated in a timely manner. The identification of these items resulted in significant adjustments to be subsequently posted to the June 30, 2003 trial balance. There was no timely process to prevent, detect, or resolve the out of balance condition throughout the fiscal year and subsequent thereto. We recommend that the College revisit the established automated and manual procedures regarding the posting of transactions, specifically in relation to the recognition of revenue and cash received, and enhancing such preventative and detective procedures to ensure timely identification and correction of misapplied transactions. In addition, the College should revisit all their procedures regarding controls for valuation, recording, and reconciliation of accounts to create a complete trial balance on a regular basis.