

# **Bluefield State College**

Financial Statements

Years Ended June 30, 2004 and 2003

and

Independent Auditors' Reports

**BLUEFIELD STATE COLLEGE  
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## INDEPENDENT AUDITORS' REPORT

To the Governing Board  
Bluefield State College

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of Bluefield State College (the "College"), a component unit of the West Virginia Higher Education Policy Commission and the State of West Virginia, as of June 30, 2004 and for the year ended which collectively comprise the College's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the discretely presented financial statements of The Bluefield State College Foundation, Incorporated (a component of the College) for the years ended June 30, 2004. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion for 2004, insofar as it relates to the discretely presented financial statements of The Bluefield State College Foundation, Incorporated (Foundation), is based solely on the report of such other auditors. The financial statements of the College and Foundation as of June 30, 2003 were audited by other auditors whose reports dated December 18, 2003 and September 29, 2004 expressed an unqualified opinion on those statements.

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

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

As discussed in Note 2 to the financial statements, the 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*, an amendment to GASB Statement No. 14 as of July 1, 2003.

The management's discussion and analysis (MD&A) on pages 5 through 13 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information, and express no an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2004, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that 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 considered in assessing the results of our audit.

*Subtle & Stalaker, PLLC*

November 17, 2004

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

Our discussion and analysis of Bluefield State College's (the College) financial performance provides an overview of the College's financial activities during the year ended June 30, 2004. Since this discussion and analysis is designed to focus on current activities, resulting changes, and currently known facts, please refer to the College's basic financial statements on pages 15 to 20 and the notes to financial statements on pages 21 to 46.

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

Complete financial statements for the Foundation can be obtained from the President of the Bluefield State College Foundation at 804 Edgewood Road, Bluefield, West Virginia 24701.

### **Financial Highlights**

- The College's assets exceeded its liabilities at the end of the year by \$18.3 million, a 7% increase.
- Total net assets increased during the year by \$1.2 million.
- Operating revenues increased by \$3.4 million, operating expenses increased by \$3.9 million, and nonoperating revenues increased by \$0.8 million.

### **Overview of the Financial Statements**

The College has implemented GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities beginning fiscal year 2002*. GASB No. 35 requires the College to present financial information as a whole rather than focusing on individual funds. Two major changes in the last three years are the recording of depreciation for capital assets and reclassifying certain loan program equity balances as liabilities. In addition, federal and state loan and grant programs are no longer reported as revenues and expenses in the financial statements since the transactions are directly with the student receiving the loan or grant.

This report consists of management's discussion and analysis, the basic financial statements, and the notes to the financial statements. The basic financial statements include the statement of net assets; statement of revenues, expenses, changes in net assets; and statement of cash flows.

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

The statement of net assets presents the College's assets and liabilities, with the difference reported as net assets. Increases or decreases in net assets can be an indicator of improvement or deterioration of the College's financial position.

Changes in net assets during the year are reported in the statement of revenues, expenses and changes in net assets. All revenues, expenses, and changes are reported as the underlying event occurs that results in the revenue, expense, or change. The statement of cash flows presents information on actual cash inflows or outflows as they occur.

**Financial Analysis of the College**

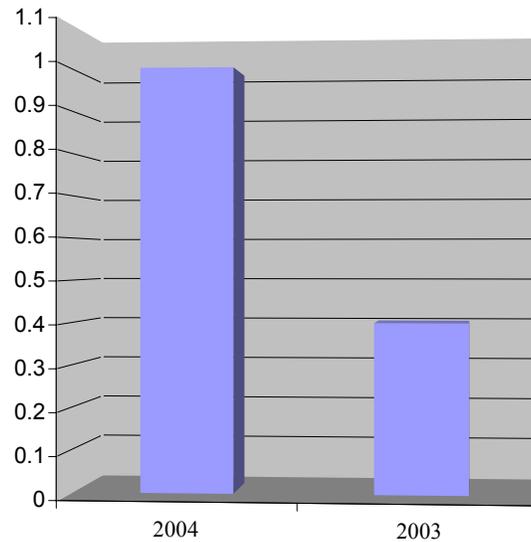
Of the College's net assets of \$18.3 million, \$13 million (71%) of net assets represents its investment in capital assets of land, land improvements, buildings, equipment, and library books. These capital assets are utilized to provide educational and related services to students and the communities and are not available for future spending. Unrestricted net assets are available to meet the College's obligations. The unrestricted net assets increased from \$3.6 million the previous year to \$4.6 million. Unrestricted net assets were 25% of net assets, of which \$2.8 million in cash was unrestricted, or 15% of net assets. The unrestricted cash represents the amount not restricted via plant operations, auxiliaries, grant and loan funds, and state code restrictions.

**Net Assets**  
**As of June 30, 2004, 2003 and 2002**  
**(in millions)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash	\$ 7.8	\$ 6.2	\$ 5.6
Other current assets	<u>.8</u>	<u>1.0</u>	<u>.7</u>
Total current assets	<u>8.6</u>	<u>7.2</u>	<u>6.3</u>
Investment in plant	13.3	13.0	10.3
Other noncurrent assets	<u>.4</u>	<u>.4</u>	<u>.2</u>
Total noncurrent assets	<u>13.7</u>	<u>13.4</u>	<u>10.5</u>
Total assets	<u>22.3</u>	<u>20.6</u>	<u>16.8</u>
Current liabilities	1.7	1.5	1.6
Noncurrent liabilities	<u>2.3</u>	<u>2.0</u>	<u>1.7</u>
Total liabilities	<u>4.0</u>	<u>3.5</u>	<u>3.3</u>
Net assets			
Invested in capital assets	13.0	12.8	10.1
Restricted, expendable	.7	.7	.2
Unrestricted	<u>4.6</u>	<u>3.6</u>	<u>3.2</u>
Total net assets	<u>\$18.3</u>	<u>\$17.1</u>	<u>\$13.5</u>

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

**Increase in Unrestricted Net Assets  
(in millions)**



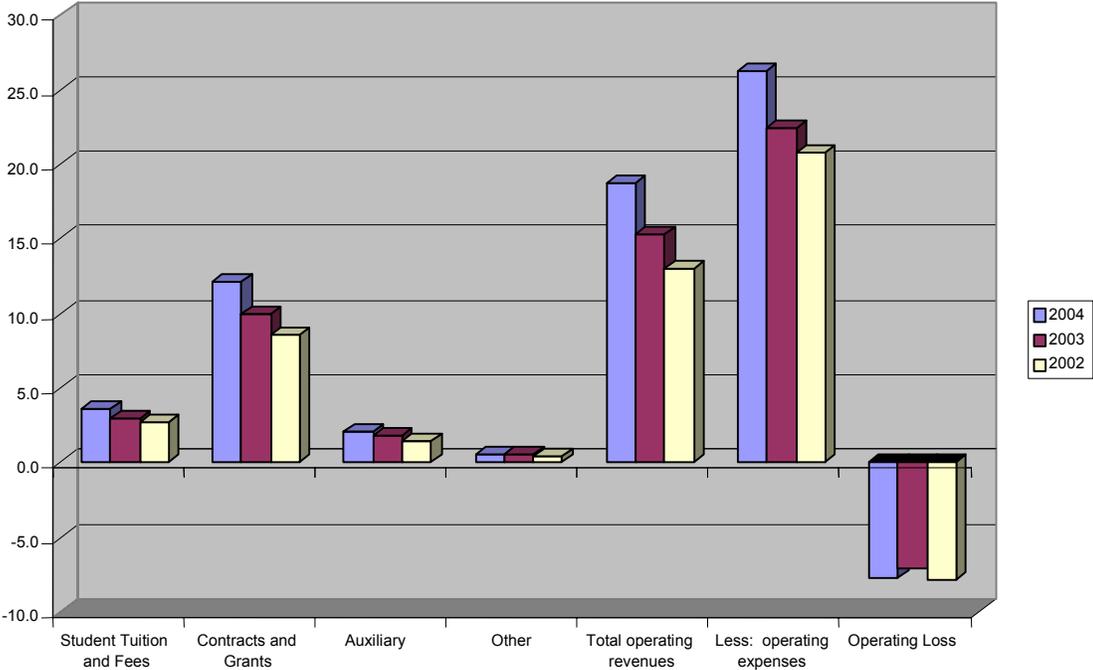
**Operating Results  
for the Years Ended June 30, 2004, 2003 and 2002  
(in millions)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Operating Revenues			
Tuition and fees	\$ 3.7	\$ 3.0	\$ 2.7
Contracts and grants	12.6	10.0	8.5
Auxiliary	2.0	1.8	1.4
Other	<u>.5</u>	<u>.5</u>	<u>.4</u>
	18.8	15.3	13.0
Less: Operating expenses	<u>26.4</u>	<u>22.5</u>	<u>20.8</u>
Operating loss	(7.6)	(7.2)	(7.8)
Nonoperating revenues			
State appropriation	8.7	7.8	8.0
Other	<u>.1</u>	<u>.2</u>	<u>.2</u>
Net Nonoperating Revenue	<u>8.8</u>	<u>8.0</u>	<u>8.2</u>
Increase (decrease) in net assets	<u>\$ 1.2</u>	<u>\$ .8</u>	<u>\$ .4</u>

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

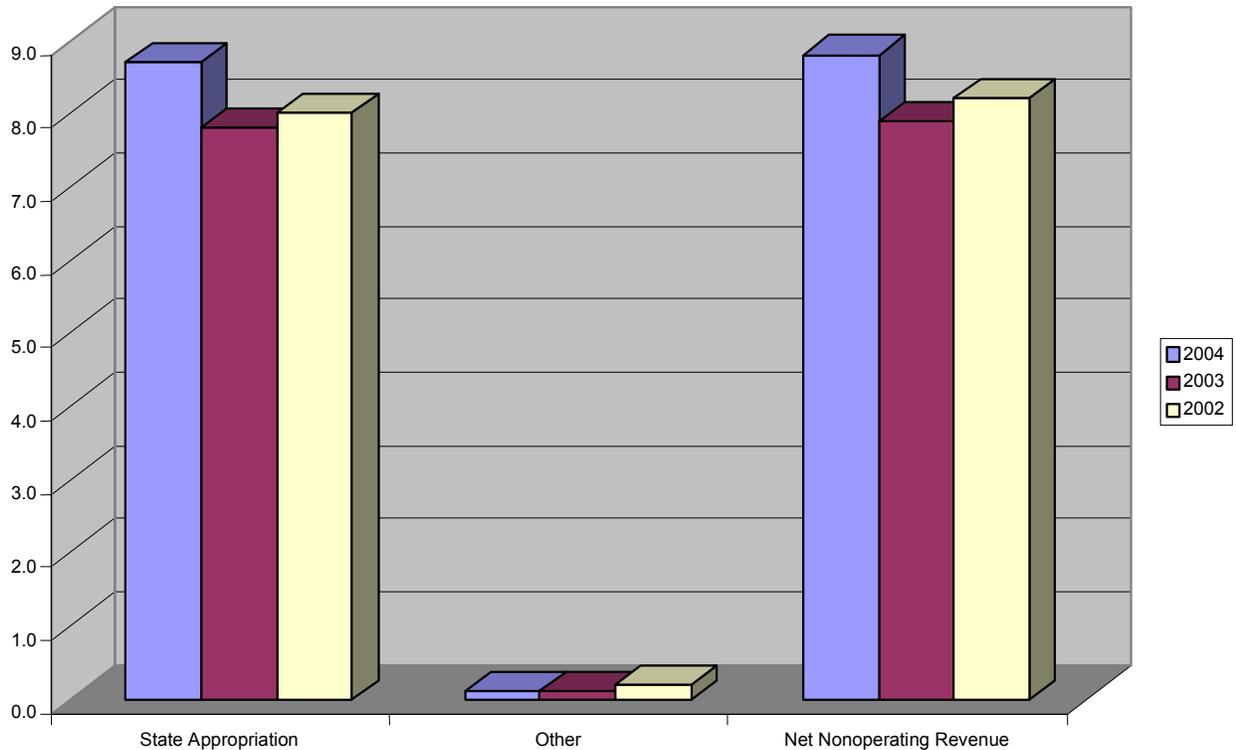
For the year ended June 30, 2004, the operating loss increased by \$0.5 million, and the net nonoperating revenue increased by \$0.8 million. These were directly related to the transfer of the Nicholas County operations from Glenville State College to Bluefield State College, as required in HB2224. Variations in tuition and fee revenue, contracts and grants, and auxiliary revenue are all directly related to the increase in enrollment at the College of 29%, of which 17% was the transfer of Nicholas County. The following charts summarize the operating results and nonoperating revenue.

Operating Results



BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

**Nonoperating Revenues**  
(in millions)



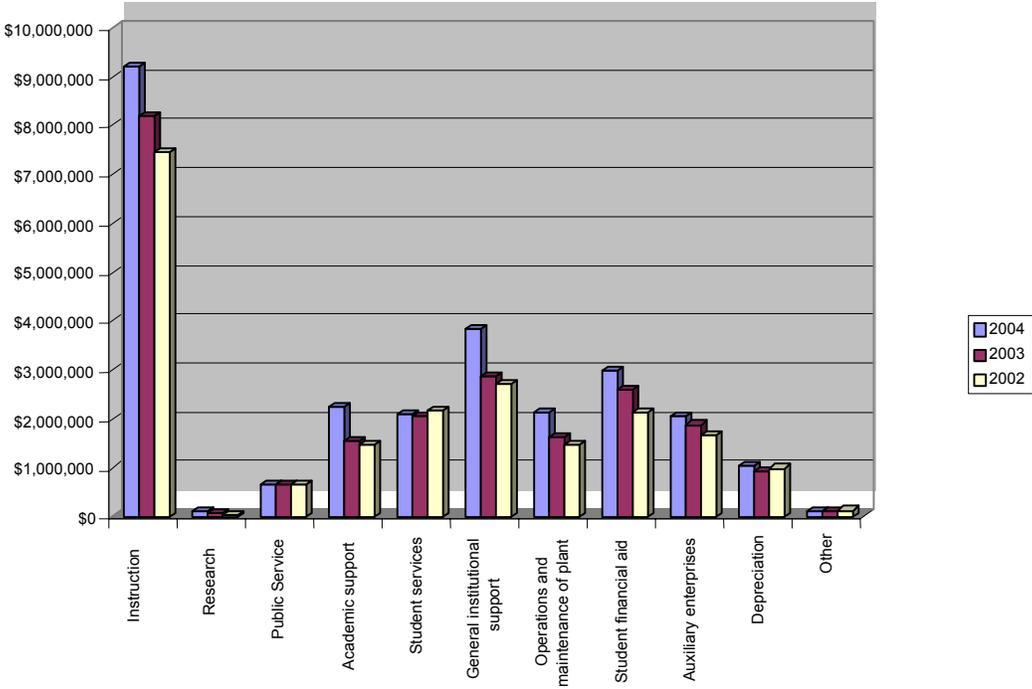
**Operating Expenses**  
**for the Years ended June 30, 2004, 2003 and 2002**  
(in millions)

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Instruction	\$ 9.2	\$ 8.2	\$ 7.5
Research	.1	.1	.0
Public service	.7	.7	.6
Academic support	2.3	1.5	1.5
Student services	2.1	2.1	2.2
Operation and maintenance of plant	2.1	1.6	1.5
Institutional support	3.8	2.9	2.7
Student financial aid	3.0	2.6	2.1
Depreciation	1.0	.9	1.0
Auxiliary enterprises	<u>2.1</u>	<u>1.9</u>	<u>1.7</u>
<b>Total</b>	<u><b>\$ 26.4</b></u>	<u><b>\$ 22.5</b></u>	<u><b>\$ 20.8</b></u>

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

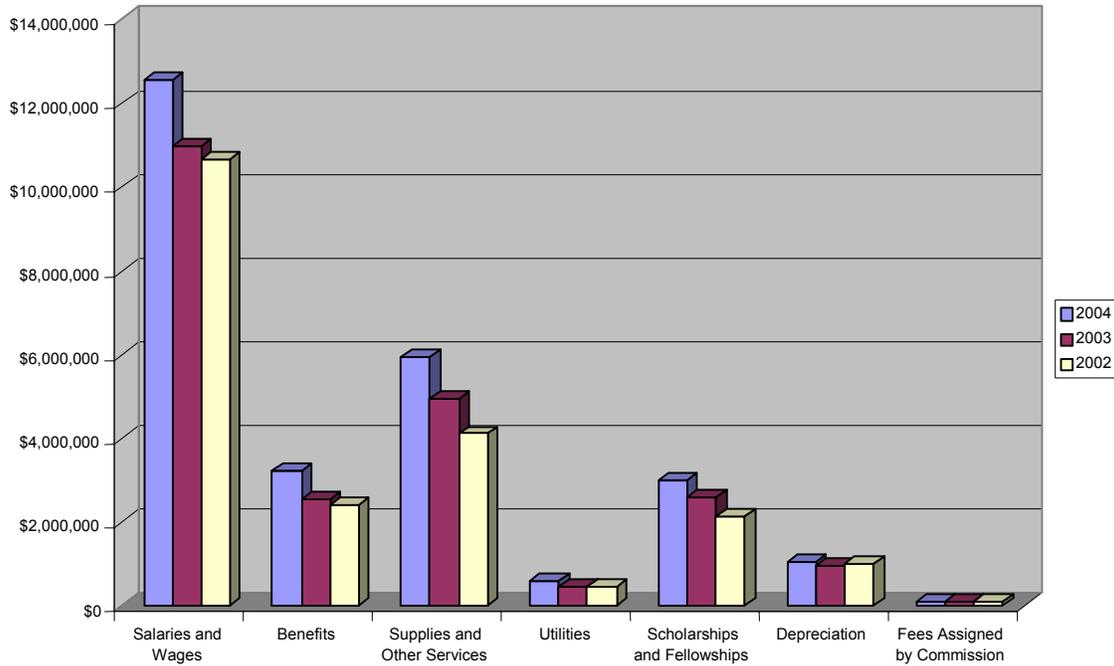
Increases for the year ended June 30, 2004 in all of the above areas are directly related to the increased enrollment for the College, the largest increase being instruction of \$1 million. Increases in operation and maintenance of plant are also related to the increase in various utilities, especially natural gas. The following charts indicate variances over the last three years in both the functional classifications and the natural classifications.

Functional Classifications of Expenses



BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

Natural Classifications of Expenses



Statement of Cash Flows  
For the Year Ended June 30, 2004

The Statement of Cash Flows presents detailed information about the cash activities of Bluefield State College 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 Bluefield State College. 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 the 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 Statement of Revenues, Expenses and Changes in Net Assets. Cash and cash equivalents increased by \$1.6 million for the year ended June 30, 2004. This increase varied across different revenue streams, the largest being from related tuition and fees, also due to enrollment growth.

BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

**Cash Flows**  
**for the Years ended June 30, 2004, 2003 and 2002**  
**(in thousands of dollars)**

	<u>2004</u>	<u>2003</u>	<u>2002</u>
Cash provided by (used in)			
Operating activities	\$ (6,135)	\$ (6,205)	\$ (6,211)
Non capital financing activities	8,843	7,660	8,118
Capital and related financing activities	(1,150)	(1,051)	(1,660)
Investing activities	<u>50</u>	<u>197</u>	<u>287</u>
Increase in cash and cash equivalents	1,608	601	534
Cash and cash equivalents, beginning of year	<u>6,192</u>	<u>5,591</u>	<u>5,057</u>
Cash and cash equivalents, end of year	<u>\$ 7,800</u>	<u>\$ 6,192</u>	<u>\$ 5,591</u>

**Capital Asset and Debt Administration**

The debt service obligation for Bluefield State College amounted to \$294,139 as of June 30, 2004, an increase of \$103,595 over the obligation at June 30, 2003. A portion of this increase is due to the transition of the Nicholas County campus to the College during the year.

Bluefield State College had several projects during fiscal year 2004:

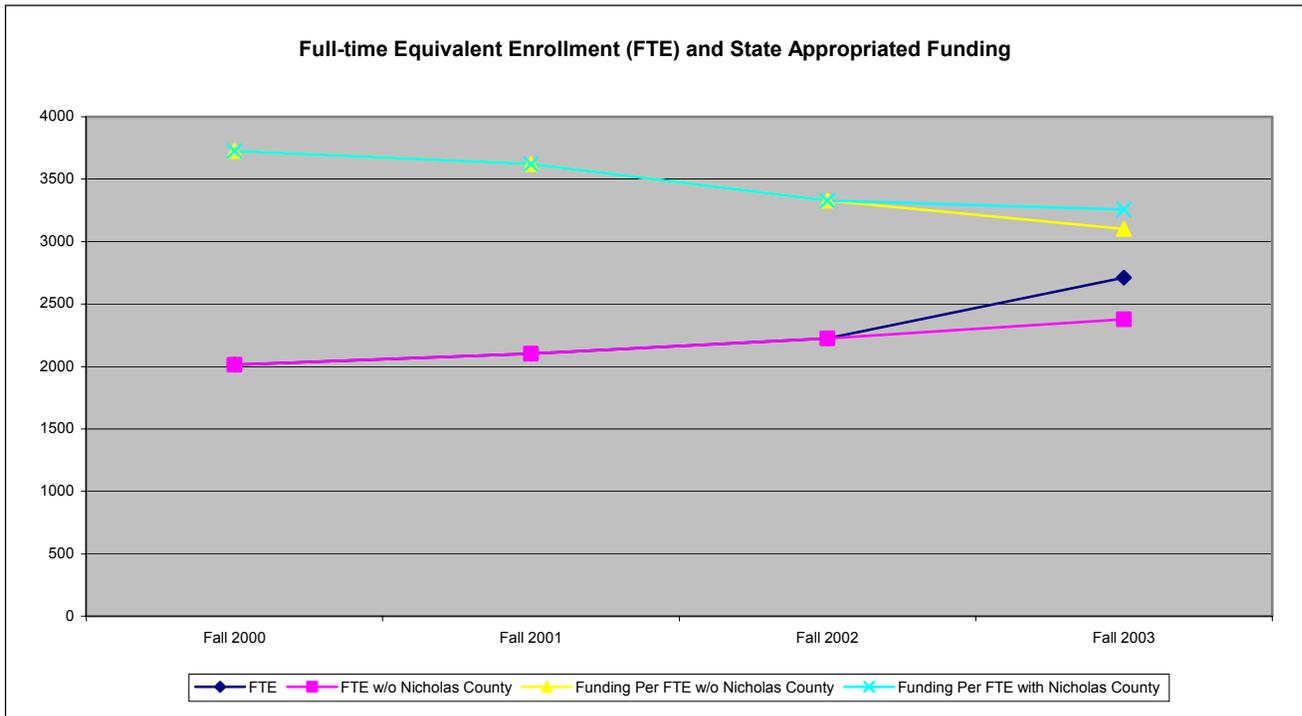
- Land improvements increased by \$601,438 of which \$578,501 was moved from construction in progress to land improvements for recent sidewalk and ADA improvements throughout the Bluefield campus. The transfer of \$22,937 of land improvements was made from Glenville State College for Nicholas County.
- Building improvements increased by \$766,457. The Dickason Hall exterior project totaled \$319,330, and the College expended \$391,776 for fire alarm replacements in Conley Hall, Mahood Hall, Wendell G. Hardway Library, and the Ned Shott Physical Education buildings. Building improvement transfers of \$55,351 were also transferred for Nicholas County from Glenville State College.
- Equipment purchases were \$718,088 which included mostly technology purchases, and \$326,452 for the Nicholas County transfer.
- Library book purchases were \$46,127.

**Economic Outlook**

Southern West Virginia continues to show slow economic growth and employment finally appears to be stable. High school enrollment in surrounding counties is continuing to decline. However, College initiatives have successfully targeted adult population segments as well as those who have recently completed their secondary education. As a result, the College's enrollment for the year ended June 30, 2004 increased to record levels for the third straight year.

The College's overall financial position is strong and continues to grow as evidenced by the increase in net assets during the past several years. By continuously assessing postsecondary educational needs of its market area and developing educational programs to meet those needs, the College has a strategic plan to maintain and grow its enrollment.

With the passage of HB2224 and SB448, opportunities and challenges have been brought to the forefront. Bluefield State College has been charged with separating its community college component into an independently accredited community college, New River Community and Technical College. As mandated in SB448, New River Community and Technical College will remain administratively linked to Bluefield State College. With the continuing decline in state support for higher education in West Virginia, and the continued enrollment increases for Bluefield State College and New River Community and Technical College of Bluefield State College, both institutions must become even more efficient, innovative, and resourceful. The following graph compares the last four years of full-time equivalent enrollment growth, and state appropriated funding decline.



BLUEFIELD STATE COLLEGE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
Year Ended June 30, 2004

**Contacting the College's Financial Management**

This financial report is designed to provide a general overview of Bluefield State College's finances. Questions concerning any of the information provided in this report should be addressed to the Vice President of Financial and Administrative Affairs at Bluefield State College, 219 Rock Street, Bluefield, WV 24701.

BLUEFIELD STATE COLLEGE  
STATEMENTS OF NET ASSETS  
JUNE 30, 2004 AND 2003

15

	<u>2004</u>	<u>2003</u>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$ 7,800,457	\$ 6,192,815
Appropriations due from primary government	10,980	69,687
Accounts receivable, net of allowance of \$357,442 in 2004 and \$221,615 in 2003	374,966	536,181
Loans receivable - current portion	59,036	63,153
Prepaid expenses	32,063	21,644
Inventories	375,941	327,874
Total current assets	<u>8,653,443</u>	<u>7,211,354</u>
Noncurrent assets		
Cash and cash equivalents	227,165	238,071
Loans receivable, net of allowance of \$401,000 in 2004 and \$401,000 in 2003	182,963	167,270
Capital assets - net	<u>13,270,151</u>	<u>12,988,120</u>
Total noncurrent assets	<u>13,680,279</u>	<u>13,393,461</u>
 Total assets	 <u>\$ 22,333,722</u>	 <u>\$ 20,604,815</u>
<b>LIABILITIES</b>		
Current liabilities		
Accounts payable	477,043	334,346
Accrued liabilities	680,666	690,505
Deferred revenue	26,003	23,283
Compensated absences - current portion	490,676	442,592
Debt service obligation payable to the Commission - current portion	36,916	28,042
Total current liabilities	<u>1,711,304</u>	<u>1,518,768</u>
Noncurrent liabilities		
Advances from federal government	257,269	257,269
Compensated absences	1,760,192	1,560,250
Debt service obligation payable to the Commission	<u>257,223</u>	<u>162,502</u>
Total noncurrent liabilities	<u>2,274,684</u>	<u>1,980,021</u>
 Total liabilities	 <u>3,985,988</u>	 <u>3,498,789</u>
<b>NET ASSETS</b>		
Invested in capital assets - net of related debt	<u>12,976,012</u>	<u>12,797,576</u>
Restricted for:		
Nonexpendable:		
Endowment	275,652	271,781
Expendable:		
Scholarships	26,022	12,766
Loans	37,740	35,775
Other	<u>409,803</u>	<u>385,311</u>
Total restricted	749,217	705,633
Unrestricted	<u>4,622,505</u>	<u>3,602,817</u>
Total net assets	<u>18,347,734</u>	<u>17,106,026</u>
 Total liabilities and net assets	 <u>\$ 22,333,722</u>	 <u>\$ 20,604,815</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE  
 THE BLUEFIELD STATE COLLEGE FOUNDATION, INCORPORATED,  
 A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE  
 STATEMENTS OF NET ASSETS  
 JUNE 30, 2004 AND 2003

	ASSETS	2004	2003
<b>ASSETS</b>			
Cash and short-term investments		\$ 662,971	\$ 1,060,541
Interest receivable		34,950	42,862
Contributions receivable		31,916	2,556
Investments		6,856,078	6,024,658
Other assets		<u>11,004</u>	<u>6,781</u>
 Total assets		 <u>\$ 7,596,919</u>	 <u>\$ 7,137,398</u>
 <b>LIABILITIES AND NET ASSETS</b>			
<b>LIABILITIES</b>			
Amounts held on behalf of others		<u>\$ 32,124</u>	<u>\$ 44,382</u>
 Total liabilities		 <u>32,124</u>	 <u>44,382</u>
 <b>NET ASSETS</b>			
Unrestricted		1,154,061	1,116,332
Temporarily restricted		6,155,025	5,721,475
Permanently restricted		<u>255,709</u>	<u>255,209</u>
 Total net assets		 <u>7,564,795</u>	 <u>7,093,016</u>
 Total liabilities and net assets		 <u>\$ 7,596,919</u>	 <u>\$ 7,137,398</u>

The Accompanying Notes Are An Integral  
 Part Of These Financial Statements

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

	<u>2004</u>	<u>2003</u>
Operating revenues		
Student tuition and fees (net of scholarship allowance of \$5,277,133 and \$3,776,429)	\$ 3,712,568	\$ 3,046,113
Contracts and grants		
Federal	10,054,141	7,836,850
State	2,012,637	1,551,508
Private	526,465	645,042
Interest on student loans receivable	5,074	7,848
Sales and services of educational activities	319,296	326,577
Auxiliary enterprise revenue (net of scholarship allowance of \$287,397 and \$198,759)	2,045,267	1,774,847
Miscellaneous - net	111,945	158,086
Total operating revenues	<u>18,787,393</u>	<u>15,346,871</u>
Operating expenses		
Salaries and wages	12,555,192	10,957,097
Benefits	3,213,963	2,542,921
Supplies and other services	5,923,498	4,946,652
Utilities	599,704	439,739
Student financial aid - scholarships and fellowships	2,997,927	2,590,935
Depreciation	1,049,137	941,295
Assessments by the Policy Commission for operations	106,955	96,414
Total operating expenses	<u>26,446,376</u>	<u>22,515,053</u>
Operating loss	<u>(7,658,983)</u>	<u>(7,168,182)</u>
Nonoperating revenues (expenses)		
State appropriations	8,783,729	7,769,802
Investment income	50,006	196,965
Assessments by the Commission for debt service	(36,977)	(15,995)
Net nonoperating revenues	<u>8,796,758</u>	<u>7,950,772</u>
Income before other revenues, expenses, gains or losses	1,137,775	782,590
Capital project proceeds from the Policy Commission	-	211,587
Capital gifts and grants	<u>-</u>	<u>2,502,942</u>
Increase in net assets before transfers	1,137,775	3,497,119
Transfer of assets from Policy Commission	-	70,000
Transfer of net assets from Glenville State	240,642	-
Transfer of debt service (liability) from Policy Commission	<u>(136,709)</u>	<u>-</u>
Increase in net assets	1,241,708	3,567,119
Net assets, beginning of year	<u>17,106,026</u>	<u>13,538,907</u>
Net assets, end of year	<u>\$ 18,347,734</u>	<u>\$ 17,106,026</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE  
THE BLUEFIELD STATE COLLEGE FOUNDATION, INCORPORATED,  
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE  
STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues and other support				
Net gifts	\$ 21,256	\$ 209,694	\$ 500	\$ 231,450
Interest income	20,202	129,758	-	149,960
Dividend income	5,640	62,097	-	67,737
Net realized and unrealized gains (losses)	32,716	246,226	-	278,942
Net assets released from restrictions	<u>214,225</u>	<u>(214,225)</u>	<u>-</u>	<u>-</u>
	<u>294,039</u>	<u>433,550</u>	<u>500</u>	<u>728,089</u>
Expenses and support				
College support:				
Student support	207,580	-	-	207,580
Institutional support	19,018	-	-	19,018
Conferences, meetings and travel	3,252	-	-	3,252
Other expenses	<u>13,265</u>	<u>-</u>	<u>-</u>	<u>13,265</u>
	243,115	-	-	243,115
Financial management expenses	<u>13,195</u>	<u>-</u>	<u>-</u>	<u>13,195</u>
	<u>256,310</u>	<u>-</u>	<u>-</u>	<u>256,310</u>
Increase in net assets	37,729	433,550	500	471,779
Net assets				
Beginning, as restated	<u>1,116,332</u>	<u>5,721,475</u>	<u>255,209</u>	<u>7,093,016</u>
Ending	<u>\$ 1,154,061</u>	<u>\$ 6,155,025</u>	<u>\$ 255,709</u>	<u>\$ 7,564,795</u>

BLUEFIELD STATE COLLEGE  
THE BLUEFIELD STATE COLLEGE FOUNDATION, INCORPORATED,  
A COMPONENT UNIT OF BLUEFIELD STATE COLLEGE  
STATEMENTS OF ACTIVITIES  
YEAR ENDED JUNE 30, 2003

	<u>Unrestricted</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>	<u>Total</u>
Revenues and other support				
Net gifts	\$ 65,968	\$ -	\$ 5,209	\$ 71,177
Interest income	24,022	160,748	-	184,770
Dividend income	5,329	52,131	-	57,460
Net realized and unrealized gains (losses)	(9,585)	34,444	-	24,859
Net assets released from restrictions	<u>148,182</u>	<u>(148,182)</u>	<u>-</u>	<u>-</u>
	<u>233,916</u>	<u>99,141</u>	<u>5,209</u>	<u>338,266</u>
Expenses and support				
College support:				
Student support	180,174	-	-	180,174
Institutional support	21,270	-	-	21,270
Conferences, meetings and travel	383	-	-	383
Other expenses	<u>11,488</u>	<u>-</u>	<u>-</u>	<u>11,488</u>
	213,315	-	-	213,315
Financial management expenses	<u>14,161</u>	<u>-</u>	<u>-</u>	<u>14,161</u>
	<u>227,476</u>	<u>-</u>	<u>-</u>	<u>227,476</u>
Increase in net assets	6,440	99,141	5,209	110,790
Net assets				
Beginning, as restated	<u>1,109,892</u>	<u>5,622,334</u>	<u>250,000</u>	<u>6,982,226</u>
Ending	<u>\$ 1,116,332</u>	<u>\$ 5,721,475</u>	<u>\$ 255,209</u>	<u>\$ 7,093,016</u>

BLUEFIELD STATE COLLEGE  
STATEMENTS OF CASH FLOWS  
YEARS ENDED JUNE 30, 2004 AND 2003

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	<u>2004</u>	<u>2003</u>
Cash flows from operating activities		
Student tuition and fees	\$ 3,694,462	\$ 2,982,312
Contracts and grants	12,619,127	9,934,293
Payments to and on behalf of employees	(15,530,968)	(13,208,449)
Payments to suppliers	(5,755,940)	(5,088,347)
Payments to utilities	(547,224)	(439,739)
Payments for scholarships and fellowships	(2,997,927)	(2,590,935)
Loans issued to students	(70,944)	(75,860)
Collections of loans to students	59,368	67,756
Sales and service of educational activities	313,604	338,622
Auxiliary enterprise charges	2,064,667	1,766,032
Fees assessed by Commission	(106,955)	(96,414)
Other receipts - net	<u>122,773</u>	<u>205,740</u>
Net cash provided (used) in operating activities	<u>(6,135,957)</u>	<u>(6,204,989)</u>
Cash flows from noncapital financing activities		
State appropriations	8,842,436	7,700,115
William D. Ford direct lending receipts	7,202,502	4,313,495
William D. Ford direct lending payments	<u>(7,201,633)</u>	<u>(4,353,301)</u>
Net cash provided (used) in noncapital financing activities	<u>8,843,305</u>	<u>7,660,309</u>
Cash flows from capital financing activities		
Purchases of capital assets	(1,090,526)	(1,119,272)
Payments to Commission for debt service	(70,092)	(42,790)
Transfer of funds from Commission	-	281,587
Decrease (increase) in noncurrent cash and cash equivalents	<u>10,906</u>	<u>(170,095)</u>
Net cash provided (used) in capital financing activities	<u>(1,149,712)</u>	<u>(1,050,570)</u>
Cash flows from investing activities		
Interest on investments	<u>50,006</u>	<u>196,965</u>
Net cash provided (used) in investing activities	<u>50,006</u>	<u>196,965</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,607,642	601,715
Cash and cash equivalents - beginning of year	<u>6,192,815</u>	<u>5,591,100</u>
Cash and cash equivalents - end of year	<u>\$ 7,800,457</u>	<u>\$ 6,192,815</u>
Reconciliation of net operating loss to net cash used in operating activities		
Operating loss	\$ (7,658,981)	\$ (7,168,182)
Adjustments to reconcile net operating loss to net cash used in operating activities		
Depreciation expense	1,049,137	941,295
Loss on disposal of equipment	-	20,539
Changes in assets and liabilities:		
Accounts receivables - net	161,215	(192,777)
Loans to students - net	(11,576)	(8,104)
Prepaid expenses	(10,419)	1,572
Inventories	(48,067)	(40,769)
Accounts payable	142,697	(91,423)
Accrued liabilities	(9,839)	(36,487)
Compensated absences	248,026	328,056
Deferred revenue	2,720	1,485
Other	<u>(870)</u>	<u>39,806</u>
Net cash used in operating activities	<u>\$ (6,135,957)</u>	<u>\$ (6,204,989)</u>
Noncash transactions		
Transfer of assets from Policy Commission	<u>\$ -</u>	<u>\$ 2,502,942</u>
Transfer of net assets from Glenville State College	<u>\$ 240,642</u>	<u>\$ -</u>
Transfer of debt service (liability) from Policy Commission	<u>\$ (136,709)</u>	<u>\$ -</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 1 - ORGANIZATION

Bluefield State College (the “College”) is governed by the Bluefield 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.

During fiscal year 2004, Senate Bill 448 (“S.B. 448”) was passed. Beginning for fiscal years ending June 30, 2005, S.B. 448 requires the College to separate its community and technical college after that community and technical college receives independent accreditation, to be governed by a separate governing board. The amounts of assets and liabilities to be transferred have not yet been determined.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* (an Amendment of GASB State 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.

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 West Virginia Network for Educational Telecomputing), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the College. Bluefield State College Research and Development Corporation is a newly formed corporation and financial data is presently immaterial; therefore, its financial information is not included in the statements. The basic criteria 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.

As of July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment to GASB Statement No. 14. As a result, the audited financial statements of The Bluefield State College Foundation, Incorporated (the “Foundation”) are presented as a discrete component unit with the College’s financial statements for the fiscal years ended June 30, 2004 and 2003. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s audited financial information as it is presented herein.

The Center for Applied Research and Technology of Bluefield State College, Bluefield State College Alumni Association and the Greenbrier Community College Foundation, Inc. are not part of the College reporting entity and are not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of the entity and is not accountable for the fiscal matters of the entity under GASB Statement No. 14, *The Financial Reporting Entity* and/or because they are not significant under GASB Statement No. 39.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Financial Statement Presentation* - During fiscal year 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 an entity-wide basis to focus on the College as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The 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.
- *Restricted net assets, nonexpendable* - This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net assets* - Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the College and may be designated for specific purposes by action of the Board of Governors.

*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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*Cash and Cash Equivalents* - For purposes of the statements 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. Investment income from the investment pools is allocated by the State Treasurer to the various participants in the investment pools based upon the balances of the various participants and their deposits with the State Treasurer in the month in which income was earned. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments 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, (2) to purchase capital or other noncurrent assets and (3) permanently restricted net assets, is classified as a noncurrent asset in the statements of net assets.

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

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

*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 and library books and 3 to 10 years for furniture and equipment. The College's capitalization threshold is \$1,000.

*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 orientation fees and 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 statements 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 nonoperating revenues according to the following criteria:

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

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Nonoperating revenues*-Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

*Use of Restricted Net Assets* - The 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 statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2004 and 2003, the College received and disbursed approximately \$7,200,000 and \$4,300,000, 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 financial statements. In 2004 and 2003, the College received and disbursed approximately \$6,100,000 and \$4,500,000, respectively, under these federal student aid programs.

*Scholarship Allowances* - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements 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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

*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 statements 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.

BLUEFIELD STATE COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The GASB has also issued Statement No. 42, *Accounting for 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 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 an impairment of a capital asset. 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 financials.

NOTE 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	\$ 7,736,994	\$ 35,988	\$ 7,772,982
Cash in bank	54,363	191,177	245,540
Cash on hand	9,100	-	9,100
	<u>\$ 7,800,457</u>	<u>\$ 227,165</u>	<u>\$ 8,027,622</u>
	2003		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 6,172,725	\$ 23,367	\$ 6,196,092
Cash in bank	12,340	214,704	227,044
Cash on hand	7,750	-	7,750
	<u>\$ 6,192,815</u>	<u>\$ 238,071</u>	<u>\$ 6,430,886</u>

BLUEFIELD STATE COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Cash held by the State Treasurer and cash in bank includes \$4,993,362 and \$245,540 in 2004 and \$5,041,557 and \$227,044 in 2003, respectively, of restricted cash for specific purposes by West Virginia State Code, grant resources and loan funds.

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

Bank balances are insured by federal deposit insurance up to \$100,000 per financial institution. Balances in these accounts sometimes exceed the federal deposit insurance limits; however, management believes the banks to be creditworthy and believes that credit risk associated with these deposits is minimal. At June 30, 2004, total bank balances exceeded federal deposit insurance by approximately \$228,000.

NOTE 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 \$357,442 in 2004 and \$221,615 in 2003	\$ 87,930	\$ 202,931
Grants and contracts receivables	188,138	214,022
Due from other State agencies	3,699	10,321
Other accounts receivable	<u>95,199</u>	<u>108,907</u>
	<u>\$ 374,966</u>	<u>\$ 536,181</u>

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 5 - CAPITAL ASSETS

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

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 502,242	\$ -	\$ -	\$ 502,242
Construction in progress	<u>636,845</u>	<u>-</u>	<u>(636,845)</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 1,139,087</u>	<u>\$ -</u>	<u>\$ (636,845)</u>	<u>\$ 502,242</u>
Other capital assets:				
Land improvements	\$ 789,657	\$ 601,438	\$ -	\$ 1,391,095
Buildings	19,487,675	766,457	-	20,254,132
Equipment	5,696,112	718,088	(213,035)	6,201,165
Library books	<u>1,545,334</u>	<u>46,127</u>	<u>-</u>	<u>1,591,461</u>
Total other capital assets	<u>27,518,778</u>	<u>2,132,110</u>	<u>(213,035)</u>	<u>29,437,853</u>
Less accumulated depreciation for:				
Land improvements	303,432	92,739	-	396,171
Buildings	9,742,730	391,677	-	10,134,407
Equipment	4,259,456	677,115	(213,035)	4,723,536
Library books	<u>1,364,127</u>	<u>51,703</u>	<u>-</u>	<u>1,415,830</u>
Total accumulated depreciation	<u>15,669,745</u>	<u>1,213,234</u>	<u>(213,035)</u>	<u>16,669,944</u>
Other capital assets - net	<u>\$ 11,849,033</u>	<u>\$ 918,876</u>	<u>\$ -</u>	<u>\$ 12,767,909</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,139,087	\$ -	\$ (636,845)	\$ 502,242
Other capital assets	<u>27,518,778</u>	<u>2,132,110</u>	<u>(213,035)</u>	<u>29,437,853</u>
Total cost of capital assets	28,657,865	2,132,110	(849,880)	29,940,095
Less accumulated depreciation	<u>15,669,745</u>	<u>1,213,234</u>	<u>(213,035)</u>	<u>16,669,944</u>
Capital assets - net	<u>\$ 12,988,120</u>	<u>\$ 918,876</u>	<u>\$ (636,845)</u>	<u>\$ 13,270,151</u>

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 5 - CAPITAL ASSETS (Continued)

	2003			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 502,242	\$ -	\$ -	\$ 502,242
Construction in progress	<u>700,468</u>	<u>48,982</u>	<u>(112,605)</u>	<u>636,845</u>
Total capital assets not being depreciated	<u>\$ 1,202,710</u>	<u>\$ 48,982</u>	<u>\$ (112,605)</u>	<u>\$ 1,139,087</u>
Other capital assets:				
Land improvements	\$ 789,657	\$ -	\$ -	\$ 789,657
Buildings	16,159,125	3,328,550	-	19,487,675
Equipment	5,719,729	312,782	(336,399)	5,696,112
Library books	<u>1,500,830</u>	<u>44,504</u>	<u>-</u>	<u>1,545,334</u>
Total other capital assets	<u>24,169,341</u>	<u>3,685,836</u>	<u>(336,399)</u>	<u>27,518,778</u>
Less accumulated depreciation for:				
Land improvements	250,788	52,644	-	303,432
Buildings	9,418,744	323,986	-	9,742,730
Equipment	4,060,320	514,997	(315,861)	4,259,456
Library books	<u>1,314,459</u>	<u>49,668</u>	<u>-</u>	<u>1,364,127</u>
Total accumulated depreciation	<u>15,044,311</u>	<u>941,295</u>	<u>(315,861)</u>	<u>15,669,745</u>
Other capital assets - net	<u>\$ 9,125,030</u>	<u>\$ 2,744,541</u>	<u>\$ (20,538)</u>	<u>\$ 11,849,033</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,202,710	\$ 48,982	\$ (112,605)	\$ 1,139,087
Other capital assets	<u>24,169,341</u>	<u>3,685,836</u>	<u>(336,399)</u>	<u>27,518,778</u>
Total cost of capital assets	25,372,051	3,734,818	(449,004)	28,657,865
Less accumulated depreciation	<u>15,044,311</u>	<u>941,295</u>	<u>(315,861)</u>	<u>15,669,745</u>
Capital assets - net	<u>\$ 10,327,740</u>	<u>\$ 2,793,523</u>	<u>\$ (133,143)</u>	<u>\$ 12,988,120</u>

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 Policy Commission.

BLUEFIELD STATE COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 6 - CHANGES IN LONG-TERM LIABILITIES

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

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 257,269	\$ -	\$ -	\$ 257,269	\$ -
Accrued compensated absences	2,002,842	248,026	-	2,250,868	490,676
Debt obligation due Commission	<u>190,544</u>	<u>136,709</u>	<u>(33,114)</u>	<u>294,139</u>	<u>36,916</u>
Total noncurrent liabilities	<u>\$ 2,450,655</u>	<u>\$ 384,735</u>	<u>\$ (33,114)</u>	<u>\$ 2,802,276</u>	<u>\$ 527,592</u>

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 257,269	\$ -	\$ -	\$ 257,269	\$ -
Accrued compensated absences	1,674,786	328,056	-	2,002,842	442,592
Debt obligation due Commission	<u>217,341</u>	<u>-</u>	<u>(26,797)</u>	<u>190,544</u>	<u>28,042</u>
Total noncurrent liabilities	<u>\$ 2,149,396</u>	<u>\$ 328,056</u>	<u>\$ (26,797)</u>	<u>\$ 2,450,655</u>	<u>\$ 470,634</u>

NOTE 7 - 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	\$ 1,513,783	\$ 1,344,510
Accrued vacation leave	<u>737,085</u>	<u>658,332</u>
	<u>\$ 2,250,868</u>	<u>\$ 2,002,842</u>

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, 2004 and 2003, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately \$35,839 and \$37,399, respectively. As of June 30, 2004 and 2003, there were 18 and 18 retirees, respectively, currently receiving these benefits.

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 7 - COMPENSATED ABSENCES (Continued)

As of July 1, 2003, due to recent legislation (HB2224), Bluefield State College assumed responsibility for the Summersville Campus of Glenville State College, in creating New River Community and Technical College of Bluefield State College. In the process, as of July 1, 2003, Bluefield State College assumed the liability for compensated absences for 23 additional employees.

NOTE 8 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the College 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 assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a 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. During 2004, the College assumed \$136,709 in additional debt obligation from the Commission, including amounts from Glenville State College for the Nicholas County Campus. During 2004 and 2003, the College paid \$33,114 and \$26,797, respectively, to the Commission against the debt obligation. The amount due to Commission at June 30, 2004 is \$294,139.

NOTE 9 - 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 new Educators Money 401(a) basic retirement plan. New hires have a choice of either plan. As of June 30, 2004, 0 employees were enrolled in the new Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, multiple employer defined benefit 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 both of the years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for both the years ended June 30, 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002 were \$207,589, \$177,346 and \$180,503, respectively, which consisted of \$148,278, \$126,686, and \$128,931 from the College, and \$59,311, \$50,660 and \$51,572 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.

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 9 - RETIREMENT PLANS (Continued)

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. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003, and 2002 were \$1,127,674, \$1,004,398 and \$981,608, respectively, which consisted of equal contributions of \$563,837, \$502,199 and \$490,804, respectively, from both the College and covered employees.

The College's total payroll for the year ended June 30, 2004 and 2003 was \$12,273,601 and \$10,738,313, respectively. Total covered employees' salaries in the STRS and TIAA-CREF were \$988,522 and \$9,397,300, respectively, in 2004, and \$844,333 and \$8,387,871, respectively, in 2003.

NOTE 10 - LEASES

The College leases various branch campus facilities in the State. Rental payments for these facilities were \$322,260 and \$125,652 for the year end June 30, 2004 and 2003, respectively. Following is a schedule of future minimum lease payments for the term of these operating leases.

Year Ending June 30	Rental Payments
2005	\$294,902
2006	41,956
2007	2,700
2008	-
2009	-

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 10 - LEASES (Continued)

During fiscal 2003 the College took title to a facility previously leased from the Greenbrier County Building Commission and recognized contribution revenue related to the facility for the year ended June 30, 2003 of \$2,502,942. This facility is a branch facility which is to be known as the Greenbrier Community College Center. As of July 1, 2003, the College assumed various lease obligations for the Nicholas County Campus from Glenville State College. In fiscal year 2005, the College expects to purchase a building from the Nicholas County Building Commission for \$1,335,000, with proceeds received from a recent higher education bond issue. The above operating lease payments for fiscal year 2005 are estimated through December 31, 2005.

NOTE 11 - FOUNDATION

The Bluefield State College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia 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 the 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 are restricted to the activities of the College by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2004 and 2003, the Foundation's net assets (including unrealized gains) totaled \$7,564,795 and \$7,093,016, respectively. Complete financial statements for the Foundation can be obtained from the President of the Bluefield State College Foundation at 804 Edgewood Road, Bluefield, West Virginia 24701.

During the year ended June 30, 2004 and 2003, the Foundation contributed \$154,331 and \$150,046, respectively, to the College for scholarships and grants.

NOTE 12 - AFFILIATED ORGANIZATIONS

The College has separately incorporated affiliated organizations including the Bluefield State College Research and Development Corporation, the Center for Applied Research and Technology of Bluefield State College, Bluefield State College Alumni Association and Greenbrier Community College Foundation, Inc. Oversight responsibility for these entities rests with independent boards and management not otherwise affiliated with the College. Accordingly, the financial statements of these organizations are not included in the College's accompanying financial statements under GASB Statement No. 14, and they are not included in the College's accompanying financial statements under GASB Statement No. 39 because they are not significant.

NOTE 13 - CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against colleges 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 position of the College.

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The 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 under 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.

BLUEFIELD STATE COLLEGE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 14 - SUBSEQUENT EVENT

On August 31, 2004 the West Virginia Higher Education Policy Commission issued \$167,260,000 of 2004 series B Revenue Bonds (Higher Education Facilities) bonds. The College has been approved for \$3,085,000 of the bond proceeds for capital projects from this bond issuance. The planned capital projects include the purchase of the Nicholas County Campus (\$1,335,000), a Bluefield campus ADA project (\$750,000), and Lewisburg campus assistance with construction of a new library building in co-operation with the Greenbrier County library of (\$1,000,000).

NOTE 15 - COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the Foundation's financial statements starting on the following page:

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

Note 1. **Significant Accounting Policies and Other Matters**

Nature of Foundation:

The Bluefield State College Foundation, Inc. (the Foundation) is incorporated as a non-profit corporation under the laws of the State of West Virginia. The purpose of the Foundation is to provide for student scholarships and faculty and staff development at Bluefield State College (the College).

The Foundation is managed by an independently elected Board of Directors not otherwise affiliated with the College. All contributions generally are for the benefit of the College and are administered by the Foundation.

Basis of accounting:

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

The accompanying financial statements present information regarding the Foundation's financial position and activities according to three classes of net assets: unrestricted, temporarily restricted and permanently restricted. The three classes are differentiated based on the existence or absence of donor-imposed restrictions, as described below:

**Unrestricted net assets** are free of donor-imposed restrictions. Unrestricted net assets may be designated for specific purposes by action of the Board of Trustees or may otherwise be limited by contractual agreements with outside parties. Expenses, revenues, gains and losses that are not temporarily or permanently restricted by donors are included in this classification.

**Temporarily restricted net assets** are limited in use by donor-imposed stipulations that expire either by the passage of time or that can be fulfilled by action of the Foundation pursuant to those stipulations.

**Permanently restricted net assets** are amounts required by donors to be held in perpetuity; however, the income on these assets is available to meet various restricted and other operating needs. These net assets primarily include permanent endowment funds and funds held in trust by others.

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

(continued)

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1. **Significant Accounting Policies and Other Matters** (continued)

Contributions:

Contributions received, including unconditional promises to give, are recorded as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions in the period received.

Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

The Foundation occasionally utilizes office space located in a college owned building and receives assistance in development and administration of the Foundation by an employee of the College.

The value of these services as well as other donated volunteer services are not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services.

Cash and short-term investments:

The Foundation considers all highly liquid investments with maturity of three months or less when purchased to be cash and cash equivalents.

The money market investment accounts are approximately \$531,205 and \$1,043,137 for June 30, 2004 and 2003, respectively, and the principal underlying assets are securities of the U. S. Government, its agencies, authorities and instrumentality's and obligations of U.S. banks. The estimated fair value of short-term investments approximates cost. Cash held for long-term investment is classified as investment.

Contributions receivable:

Unconditional promises are recognized as revenue in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Promises are recorded at net realizable value if they are expected to be collected in one year and at fair value if they are expected to be collected in more than one year. Conditional promises are recognized when the conditions on which they depend are substantially met.

(continued)

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1. **Significant Accounting Policies and Other Matters (continued)**

Investments:

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statement of Financial Position. Net unrealized and realized gains or losses are reflected in the Statement of Activities. Certain land and other investments, which are not readily marketable, are carried at cost.

Gifts of investments are recorded at their fair value (based on quotations or appraisals) at date of gift. Purchases and sales of investments are recorded on the trade date.

Income and realized and unrealized net gains on investments of endowment and similar net asset classes are reported as follows:

- As increases in permanently restricted net assets if the terms of the gift require that they be added to the principal of a permanent endowment fund;
- As increases in temporarily restricted net assets if the terms of the gift impose restrictions on the use of the income;
- As increases in unrestricted net assets in all other cases.

Amounts held on behalf of others:

Amounts held on behalf of others are used to account for assets held by the Foundation as an agent. These funds are custodial by nature (assets equal liabilities) and do not involve measurement of operations.

Income tax status:

The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, when applicable, any income from certain activities not directly related to the Foundation's tax-exempt purpose would be subject to taxation as unrelated business income. In addition, the Foundation qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

Credit risk concentration:

Financial instruments, which potentially subject the Foundation to concentrations of credit risk, consist principally of cash and cash equivalents and investments. The Foundation places its temporary cash investments with high credit quality financial institutions and does not believe it is exposed to any significant credit risk on cash and cash equivalents. Concentration of credit risk for investments is limited by the Foundation's policy of diversification of investments.

(continued)

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 1. **Significant Accounting Policies and Other Matters** (continued)

Reclassifications:

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

Note 2. **Contributions Receivable**

Contributions receivable and the related allowance at June 30 consist of:

	2004	2003
Cash pledges, less allowance for uncollectible promises 2004 and 2003, \$-0-	<u>\$ 31,916</u>	<u>\$ 2,556</u>
Expected to be collected in:		
	2004	2003
Less than one year	<u>\$ 31,916</u>	<u>\$ 2,556</u>

The ownership of pledges receivable for each class of net assets as of June 30 is as follows:

	2004	2003
Unrestricted	<u>\$ -</u>	<u>\$ 2,556</u>
Temporarily restricted	<u>\$ 31,916</u>	<u>\$ -</u>
Permanently restricted	<u>\$ -</u>	<u>\$ -</u>

Note 3. **Investments**

Investments are comprised of the following:

	2004	2003
Certificate of Deposits, 1 to 5 year maturity	\$ 115,000	\$ 205,000
Corporate and Municipal bonds and notes	602,659	664,989
United States Treasury, Government and other obligations	2,509,223	2,247,357
Equity investments	3,202,092	2,413,718
Mutual funds	97,709	167,594
Land	326,000	326,000
Limited partnership	<u>3,395</u>	<u>-</u>
	<u>\$6,856,078</u>	<u>\$6,024,658</u>

(continued)

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

Note 3. **Investments (continued)**

The ownership of investments for each class of net assets as of June 30 is as follows:

	2004	2003
Unrestricted	\$ 947,974	\$ 931,297
Temporarily restricted	5,646,200	4,824,272
Permanently restricted	<u>261,904</u>	<u>269,089</u>
	<u>\$6,856,078</u>	<u>\$6,024,658</u>

Note 4. **Unrestricted Net Assets**

Unrestricted net assets as of June 30 include the following:

	2004	2003
Designated:		
Unrealized gains on endowment	\$ -	\$ (115)
Investment in land, leased for charitable purposes	250,000	250,000
Undesignated:		
Other	828,061	790,447
Investment in land	<u>76,000</u>	<u>76,000</u>
	<u>\$1,154,061</u>	<u>\$1,116,332</u>

Land is leased to another non-profit entity for \$1 per year to assist in its charitable purpose. The lease renews in 10 year terms, but automatically terminates May 31, 2083 or if the land is not used for the stated purpose. The lease provides that the lessee must maintain liability coverage of one million dollars to protect the Foundation.

Note 5. **Temporarily Restricted Net Assets**

Temporarily restricted net assets are available for the following purposes or periods:

	2004	2003
Business department	\$ 167,046	\$ 161,915
Provide scholarship assistance and operations of the Foundation	5,942,532	5,519,397
Engineering technology department	<u>45,447</u>	<u>40,163</u>
	<u>\$6,155,025</u>	<u>\$5,721,475</u>

(continued)

BLUEFIELD STATE  
COLLEGE FOUNDATION, INC.

NOTES TO FINANCIAL STATEMENTS  
June 30, 2004

**Note 6. Permanently Restricted Net Assets**

Permanently restricted net assets as of June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	2004	2003
Engineering technology department	\$150,000	\$150,000
Financial aid	<u>105,709</u>	<u>105,209</u>
	<u>\$255,709</u>	<u>\$255,209</u>

**Note 7. Related Party Transactions**

Certain local financial institutions hold substantially all the Foundation's assets in their trust departments. Some of the Foundation's board members also serve as officers and directors of these institutions. The Foundation paid approximately \$13,200 and \$15,000 in management fees to these related parties for the years ended June 30, 2004 and 2003, respectively.

**Note 8. Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**Note 9. Prior Period Adjustment and Correction of Error**

During the year ended June 30, 2004, the Foundation discovered errors made in prior periods in accounting for temporarily and permanently restricted assets. Assets totaling \$170,971 had been recorded by both the Foundation and Bluefield State College. Research determined that the Foundation should not have recorded the endowment. Restatement decreased the temporarily and permanently restricted assets by \$14,803 and \$150,000, respectively, as of July 1, 2002.

	2003	
	Previously Reported	As Corrected
Cash and short-term investments	\$1,131,133	\$1,060,541
Interest receivable	44,052	42,862
Investments	6,123,847	6,024,658
Temporarily restricted net assets	5,742,446	5,721,475
Permanently restricted net assets	405,209	255,209
Interest income	192,075	184,770
Net realized and unrealized gains	24,319	24,859
Financial management expenses	14,758	14,161
Change in net assts	116,958	110,790

BLUEFIELD STATE COLLEGE  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2004 AND 2003

NOTE 16 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

These tables represent operating expenses within both natural and functional classifications for the years ended June 30:

	2004							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assigned by Commission	Total
Instruction	\$ 6,724,876	\$ 1,560,511	\$ 927,684	\$ -	\$ -	\$ -	\$ -	\$ 9,213,071
Research	79,792	15,653	15,554	-	-	-	-	110,999
Public service	343,599	105,834	185,517	-	-	-	-	634,950
Academic support	1,047,155	295,655	889,632	-	-	-	-	2,232,442
Student services	1,252,122	378,009	464,473	-	-	-	-	2,094,604
General institutional support	2,053,513	550,535	1,223,117	-	-	-	-	3,827,165
Operations and maintenance of plan	722,599	220,731	644,162	553,136	-	-	-	2,140,628
Student financial aid	-	-	-	-	2,997,927	-	-	2,997,927
Auxiliary enterprises	331,536	87,035	1,573,359	46,568	-	-	-	2,038,498
Depreciation	-	-	-	-	-	1,049,137	-	1,049,137
Other	-	-	-	-	-	-	106,955	106,955
<b>Total</b>	<b>\$ 12,555,192</b>	<b>\$ 3,213,963</b>	<b>\$ 5,923,498</b>	<b>\$ 599,704</b>	<b>\$ 2,997,927</b>	<b>\$ 1,049,137</b>	<b>\$ 106,955</b>	<b>\$ 26,446,376</b>

	2003							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assigned by Commission	Total
Instruction	\$ 5,808,413	\$ 1,274,450	\$ 1,114,307	\$ -	\$ -	\$ -	\$ -	\$ 8,197,170
Research	29,188	3,878	26,584	-	-	-	-	59,650
Public service	341,826	93,306	226,605	-	-	-	-	661,737
Academic support	805,943	194,635	552,071	-	-	-	-	1,552,649
Student services	1,223,611	307,468	523,338	-	-	-	-	2,054,417
General institutional support	1,765,302	427,851	679,156	-	-	-	-	2,872,309
Operations and maintenance of plan	655,224	167,700	388,859	401,468	-	-	-	1,613,251
Student financial aid	-	-	-	-	2,590,935	-	-	2,590,935
Auxiliary enterprises	327,590	73,633	1,435,732	38,271	-	-	-	1,875,226
Depreciation	-	-	-	-	-	941,295	-	941,295
Other	-	-	-	-	-	-	96,414	96,414
<b>Total</b>	<b>\$ 10,957,097</b>	<b>\$ 2,542,921</b>	<b>\$ 4,946,652</b>	<b>\$ 439,739</b>	<b>\$ 2,590,935</b>	<b>\$ 941,295</b>	<b>\$ 96,414</b>	<b>\$ 22,515,053</b>



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

To the Governing Board  
Bluefield State College

We have audited the financial statements of Bluefield State College (the "College") as of and for the year ended June 30, 2004, and have issued our report thereon dated November 17, 2004, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving internal control over financial reporting and its operation that we consider to be material weaknesses.

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### 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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted other matters that we have reported to management of the College in a separate letter dated November 17, 2004.

This report is intended for the information and use of the College's management, the Members of the College's Governing Board, 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 those specified parties.

*Suttle & Stalraker, PLLC*

November 17, 2004