

***West Virginia State University***  
***(Formerly West Virginia State College)***

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

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

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## INDEPENDENT AUDITORS' REPORT

West Virginia State University Governing Board

We have audited the accompanying combined statements of the net assets of West Virginia State University (formerly West Virginia State College) (the "University") as of June 30, 2004 and 2003, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended and the discretely presented component unit as of June 30, 2004, and for the year then ended, which collectively comprise the University basic financial statements as listed in the foregoing Table of Contents. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the discretely presented financial statements of The West Virginia State University Foundation, Incorporated (the "Foundation") (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and in our opinion, insofar as it relates to the discretely presented financial statements of The West Virginia State College Foundation, Incorporated, is solely based on the report of such auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

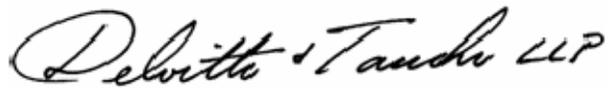
In our opinion, based on our audits and the report of the other auditors, such combined financial statements present fairly, in all material respects, the financial position of the University at June 30, 2004 and 2003 and their changes in net assets and their cash flows for the years then ended and the financial position of the discretely presented component unit of the University at June 30, 2004, and its changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis on pages 3 to 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements. The additional information listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This supplemental information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied by us in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 13, 2005, on our consideration of the University's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned above the date.

January 13, 2005

# **West Virginia State University**

## **Management Discussion and Analysis**

**For the Years ended June 30, 2004 and 2003**

### **Overview of the Financial Statements and Financial Analysis**

West Virginia State University (the “University”) is pleased to present the combined Financial Statements for the years ended June 2004 and 2003. The combined information also includes the administratively linked West Virginia State Community and Technical College (“WVSCTC”) and the West Virginia State University Research and Development Corporation (the “Corporation”). There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

This required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal years ended June 30, 2004 and 2003.

The Governmental Accounting Standards Board (“GASB”) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University. The University has adopted the new standards as of July 1, 2001.

## **Statement of Net Assets**

The purpose of the University’s Combined Statement of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net assets of the University as of June 30, 2004 and 2003.

The year-end data regarding assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets minus liabilities) is also presented in the financial statements. The difference between current and noncurrent assets and liabilities are discussed in the note section of the combined financial statements.

By reviewing the Combined Statement of Net Assets, the reader is able to ascertain the assets available to continue the operations of the University. Also, readers can see data presented in a way to discern how much the institution owes vendors, employees and lending institutions. In addition, the Combined Statement of Net Assets offers an overview picture of the net assets (assets minus liabilities) and the University's availability of the assets to utilize for future expenditure by the University.

Net assets are divided into three major types:

- Invested in Capital Assets, Net of Debt = net book value of the University's capital assets less any related debt
- Restricted Net Assets = restricted assets categorized as:
  - a. Nonexpendable
  - b. Expendable

The University only has minimal nonexpendable restricted net assets since most net assets of this type have been directed to the University's related Foundation.

Expendable Restricted Net Assets are net assets which are available for expenditure as determined by donors and/or external entities in regard to time or purpose.

- Unrestricted Net Assets = assets available to the institution to utilize for any lawful purpose.

### Net Assets

#### June 30, 2004, 2003 and 2002

	2004	2003	2004 Change	2002
<b>ASSETS</b>				
<b>Current Assets</b>	\$10,572,733	\$12,029,356	\$(1,456,623)	\$10,501,914
<b>Noncurrent Assets</b>	<u>27,949,933</u>	<u>30,428,353</u>	<u>(2,478,420)</u>	<u>23,562,202</u>
<b>Total assets</b>	<u>38,522,666</u>	<u>42,457,709</u>	<u>(3,935,043)</u>	<u>34,064,116</u>
<b>LIABILITIES</b>				
<b>Current Liabilities</b>	4,603,572	6,176,942	(1,573,370)	3,759,304
<b>Noncurrent liabilities</b>	<u>13,591,527</u>	<u>13,903,777</u>	<u>(312,250)</u>	<u>8,913,158</u>
<b>Total liabilities</b>	<u>18,195,099</u>	<u>20,080,719</u>	<u>(1,885,620)</u>	<u>12,672,462</u>
<b>NET ASSETS</b>				
<b>Invested in capital assets, net of related debt</b>	16,270,765	18,123,329	(1,852,564)	16,575,818
<b>Restricted – expendable</b>	1,220,386	3,799,265	(2,578,879)	4,933,981
<b>Restricted - nonexpendable</b>	43,361	57,048	(13,687)	66,621
<b>Unrestricted</b>	<u>2,793,055</u>	<u>397,348</u>	<u>2,395,707</u>	<u>(184,766)</u>
<b>Total net assets</b>	<u>20,327,567</u>	<u>22,376,990</u>	<u>(2,049,423)</u>	<u>21,391,654</u>
<b>Total liabilities and net assets</b>	<u>\$38,522,666</u>	<u>\$42,457,709</u>	<u>\$(3,935,043)</u>	<u>\$34,064,116</u>

The decrease in current assets from 2003 to 2004 was due primarily to a decrease in cash and cash equivalents of \$1.4 million primarily because of \$1.2 million for Land Grant match that was received during FY 2003 was spent during FY 2004. The increase in current assets from 2002 to

2003 was due to an increase in cash and cash equivalents of \$1.8 million primarily due to the continuation of budget restrictions and efficiency measures imposed by the University's Executive Council.

The significant decrease in noncurrent assets from 2003 to 2004 in the restricted cash and cash equivalents was due to the expenditure of the Student Union Bond Funds of \$2.8 million that remained as of June 30, 2003. The significant increase in noncurrent assets from 2002 to 2003 in the restricted cash and cash equivalents was due to the \$2.8 million of the Student Union Bond issue that remained to fund the remaining construction as of June 30, 2003. Also, there was an increase in capital assets because of additions to property of \$2.1 million and \$5.6 million in 2004 and 2003, respectively.

The primary changes in the University's current liabilities from 2003 to 2004 are 1) accrued expenses decreased due to \$0.7 million retainage payable for Student Union and 2) deferred revenue decreased because of the \$1.2 million Land Grant state matching funds which were recognized as revenue in FY 2004. The primary changes in the University's current liabilities from 2002 to 2003 are 1) accrued liability increased due to the University's Union construction in progress accrual of \$1.0 million and 2) an increase in deferred revenue of \$1.0 million due to the Land-Grant matching contribution that was received in FY2003.

Total noncurrent liabilities increased from 2002 to 2003 due to the bonds payable of \$5.2 million for the Student Union Bond issue.

A major change in net assets to restricted related to expendable net assets, as balances restricted by State Code for specific purposes was reclassified as unrestricted due to the change in State Code dealing with the fee simplification.

## **Statement of Revenues, Expenses and Changes in Net Assets**

The purpose of the University's Combined Statement of Revenues, Expenses and Changes in Net Assets is to present the operating and nonoperating revenues earned and expenses incurred by the University, and any other revenues, expenses, gains and losses of the University.

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

## Revenues, Expenses and Changes in Net Assets Years Ended June 30, 2004, 2003 and 2002

	2004	2003	2004 Change	2002
Operating revenues	\$33,728,428	\$30,280,495	\$3,447,933	\$27,469,520
Operating expenses	<u>47,929,820</u>	<u>43,925,596</u>	<u>4,004,224</u>	<u>41,361,105</u>
Operating loss	(14,201,392)	(13,645,101)	(566,291)	(13,891,585)
Nonoperating revenues – net	<u>12,152,007</u>	<u>13,558,040</u>	<u>(1,405,833)</u>	<u>14,282,333</u>
(Loss) before other revenues, expenses, gains or losses	(2,049,185)	(87,061)	(1,962,124)	390,748
Transfer of liability from the Commission	(174,929)	-	(174,929)-	-
Capital Projects (payments to) proceeds from the Commission	-	433,920	(433,920)	-
Capital grants and gifts	<u>174,691</u>	<u>638,477</u>	<u>(463,786)</u>	<u>1,060,799</u>
(Decrease) increase in net assets before transfers	(2,049,423)	985,336	(3,034,759)	1,451,547
Transfer to liability from the Commission	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,088,632)</u>
Increase (decrease) in net assets	(2,049,423)	985,336	(3,034,759)	(1,637,085)
Net assets, beginning of year	<u>22,376,990</u>	<u>21,391,654</u>	<u>985,336</u>	<u>23,028,739</u>
Net assets, end of year	<u>\$20,327,567</u>	<u>\$22,376,990</u>	<u>\$(2,049,423)</u>	<u>\$21,391,654</u>

A review of the individual revenue and expense categories that contribute to the overall change of net assets reveals the following explanations:

The operating revenues of the University from 2003 to 2004 were greater in part because of an increase in tuition and fees and in great part because of the recognition of the \$1.2 million Land-Grant State match which has been deferred as of June 30, 2003 and also due to slight increases in several smaller State and private grants.

The operating revenue of the University from 2002 to 2003 was greater mainly because of a slight increase in enrollment, an increase in tuition and fees, and funding from federal grants and contracts increased by \$2.2 million. For instance, Title III, Pell and SEOG and other smaller grants increased.

Operating expenses from 2003 to 2004 increased primarily due to an increase in salaries of \$0.4 million and benefits of \$0.3 million. Scholarships and fellowships increased by \$1.1 million and supplies and other services increased by \$2.0 million in large part due to the \$1.2 million Land Grant State match.

Operating expenses for the University from 2002 to 2003 increased mainly due to salaries, wages, and benefits of \$1.0 million. Scholarships and fellowships increased by \$0.4 million. Supplies and other services increased by \$0.4 million and depreciation and amortization increased almost \$0.5 million.

Nonoperating revenues (expenses) - net decreased from 2003 to 2004 primarily because State

appropriations were reduced by almost \$1.3 million due to budget cuts imposed by the Governor of the State of West Virginia. Investment income decreased by almost \$0.3 million due to market conditions.

Nonoperating revenues (expenses) - net decreased from 2002 to 2003 because State appropriations were reduced due to budget cuts imposed by the Governor of the State of West Virginia. There was a 3.4% reduction in Fiscal Year 2003 resulting in revenue decline of almost \$0.9 million. Other contributing factors were more modest increases in interest earnings due to market conditions and increased amounts invested. Interest expense also increased attributable to University's bond issue in FY 2003.

## Statement of Cash Flows

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

### Cash Flows Years Ended June 30, 2004, 2003 and 2002

	2004	2003	2004 Change	2002
Cash flows from operating activities:				
Net cash (used in) provided by operating activities	\$(13,841,933)	\$(10,029,152)	\$(3,812,781)	\$(11,912,330)
Cash flows from noncapital financing activities:				
Net cash provided by noncapital financing activities	12,473,510	14,962,713	(2,489,203)	13,993,252
Cash flows from capital financing activities:				
Net cash used in capital financing activities	(223,257)	(3,491,781)	3,268,524	(1,548,890)
Cash flows from investing activities:				
Net cash provided by investing activities	<u>105,498</u>	<u>358,139</u>	<u>(252,641)</u>	<u>353,181</u>
(Decrease) Increase in cash and cash equivalents	(1,486,182)	1,799,919	(3,286,101)	885,213
Cash and cash equivalents, beginning of year	<u>10,633,602</u>	<u>8,833,683</u>	<u>1,799,919</u>	<u>7,948,470</u>
Cash and cash equivalents, end of year	<u>\$9,147,420</u>	<u>\$10,633,602</u>	<u>\$(1,486,182)</u>	<u>\$8,833,683</u>

A review of the cash flows activities reveals the following changes:

The increase in net cash used in operating activities from 2003 to 2004 was due to expense increases greater than revenue increases as previously discussed, as compared to a decrease in net cash used in operating activities from 2002 to 2003, primarily due to the \$1.2 million grant, which was deferred in FY 2003.

The decrease in net cash provided by noncapital financing activities for FY 2004 was primarily due to a decrease in State appropriations of \$2.6 million.

The increase in net cash provided by noncapital financing activities for FY 2003 was due primarily to the increase in State appropriations of \$0.6 million, a decrease in the fees assessed by the Commission for debt service, and reserves of \$0.4 million.

The decrease in net cash used in capital financing activities for FY 2004 was due to a decrease in capital grants and gifts received of almost \$0.5 million and to capital projects proceeds from the Commission of \$0.4 million received in FY 2003 only. These Commission funds were from prior years that the Commission had in their accounts which were transferred to the University in FY 2003. Additionally there was a decrease in purchases of capital assets of \$3.5 million in FY 2004 from FY 2003.

The increase in the net cash used in capital financing activities of \$1.9 million for FY 2003 was mainly due to purchases and construction of capital assets of over \$1.2 million at the Wilson University Union, Hamblin Hall research laboratory and motor vehicle purchases, excluding the effect of the new bond issue. The remainder of the increase was caused by the \$0.4 million of principal repaid during the year and the increase in interest expenses for the year of \$0.3 million. The proceeds from the sale of the revenue bonds caused cash inflow of \$5.4 million, which increased the noncurrent cash and cash equivalents by \$3.3 million as of June 30, 2003.

## **Capital Asset and Debt Administration**

The Wilson University Union renovation was finished in FY 04 and the building is now in operation. With the purchase of bonds, (Moody's A3 rating), over \$3.7 million of construction was possible and completed. In addition, improvements to the University cafeteria configuration and development of a substitute Bookstore were made while the major renovation was occurring, which was not part of the bond issue.

In addition, there was property purchased with Land-Grant funds on Washington Avenue for future development of their programs and offices.

The \$.4 million one-time transfer of capital funding in FY 03 was still kept in reserve as of June 30, 2004.

Continuing emphasis was placed on developing technology classrooms and meeting rooms. Cole Complex and Ferrell Hall received improvements in this area, as did Wallace Hall in the amount of \$0.1 million. Numerous campus improvements costing approximately \$1.2 million were made. The following improvements are examples of such projects: 1) Davis Fine Arts received a new chiller and the auditorium seating was upgraded, 2) Cole Complex had classroom and office development, 3) Wallace Hall had classroom furniture and roof flashing and wall sealant applied, 4) the south end of campus was upgraded at the stadium, and 4) the electrical infrastructure received further upgrading for greater reliability, and this is a multi-year project.

With the new legislation regarding the administratively linked West Virginia State Community and Technical College, there was need for more signage and customizing the office areas utilized on the University campus. In addition, West Virginia State College became West Virginia State University in the spring of FY 2004 and purchases were made to illustrate the change in the name and status.

The Corporation further assumed management of the WVSC Booker T. Washington Institute in Malden, West Virginia.

## **Economic Outlook**

The funding for the major activities of the University come from a variety of sources: tuition and fees; financial aid programs; State and federal appropriations; gifts; grants; and contracts. In addition, the same can be said of the administratively-linked West Virginia State Community and Technical College. Revenues are also generated through recovery of costs associated with grants and contract activities that serve to offset related administrative and capital costs.

The downturn in the State and national economies has had an impact on the amount of funding appropriated by the State of West Virginia to all of the higher education institutions in West Virginia. In FY 03 there was a 3.4% budget cut incurred and in FY 04 there were budget cuts imposed by the Governor of West Virginia of 10%. Nearly \$2 million was adjusted out of the base budget of the University resulting in decrease of net assets of the University, primarily due to the Governor's cuts.

In addition, contributions to the retirement systems and health insurance contributions continue to rise. The University including its administratively-linked Community and Technical College are tasked with managing the increases. No salary increases were given in FY 03 and FY 04, except obligatory ones for promotion of faculty. In effect, however, the University including its administratively-linked Community and Technical College did provide salary increases by covering the increased premiums for the insurances.

Tuition has been increased to help offset the cuts that the Governor has imposed. However, the University including its Community and Technical College costs have only been raised to meet the needs and not to exceed them. The tuition charges at both institutions are among the most affordable and competitive in the the State of West Virginia. This affordability, it is hoped, will generate more revenue as a result of an increasing student population.

Also helping keep the financial health of the University is the fact that research volume remains strong as have grant and contract revenues, along with increased cost recoveries. It is also anticipated that revenue will be generated at a continuing level as intellectual property is generated.

Importantly, the University including its administratively-linked Community and Technical College continue to approve scenarios to reduce costs while protecting the student experience. Efficiency measures of the last two years continue to be in place and significantly help in preserving the financial viability of the institutions. Admirably, the various areas of the University including its Community College have worked cooperatively to shepherd the financial resources.

During the fiscal years of 2003 and 2004, the University and the administratively-linked Community and Technical College had state appropriations reduced. However, continuing research, modest tuition increases, indirect revenue, and projected stability of enrollment should offset any foreseeable dilemmas.

There are no currently known facts, decisions or conditions that are expected to have a significant effect on the financial position of the total budget or operations of the University or the administratively linked Community and Technical College during the upcoming fiscal year. Of course, this means beyond those unknowns having a large-scale or global consequence on virtually all types of business operations. Spending freezes might result if the less than promising economic forecasts continue for the State of West Virginia, but the financial position of the University and the administratively-linked Community and Technical College should remain stable.

The overall financial position of the University, including its administratively linked Community and Technical College and the Corporation, remains stable and adequate. A close watch will be maintained over the total budgeting resources to maintain the University's abilities to react to any unknown internal and external impacting conditions.

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**COMBINED STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003**

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	<b>2004</b>	<b>2003</b>
<b>ASSETS:</b>		
Current assets:		
Cash and cash equivalents	\$ 9,147,420	\$10,633,602
Appropriations due from Primary Government		16,149
Accounts receivable—net	934,144	783,418
Loans to students—current portion	131,386	205,766
Inventories	262,741	340,192
Prepaid expenses	<u>97,042</u>	<u>50,229</u>
 Total current assets	 <u>10,572,733</u>	 <u>12,029,356</u>
Noncurrent assets:		
Restricted cash and cash equivalents	668,981	3,507,271
Loans to students, net of allowance of \$242,794 and \$250,796 in 2004 and 2003, respectively	407,681	309,616
Deferred finance costs—net	44,904	47,399
Investment in capital assets—net	<u>26,828,367</u>	<u>26,564,067</u>
 Total noncurrent assets	 <u>27,949,933</u>	 <u>30,428,353</u>
 <b>TOTAL ASSETS</b>	 <b><u>\$38,522,666</u></b>	 <b><u>\$42,457,709</u></b>

(Continued)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**COMBINED STATEMENTS OF NET ASSETS**  
**JUNE 30, 2004 AND 2003**

	<b>2004</b>	<b>2003</b>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	\$ 1,246,515	\$ 987,219
Accrued liabilities	1,602,666	2,149,612
Compensated absences—current portion	871,011	886,725
Deferred revenue	302,590	1,492,352
Debt obligation to the Commission—current portion	302,766	398,539
Bonds payable—current portion	205,000	200,000
Notes payable—current portion	<u>73,024</u>	<u>62,495</u>
Total current liabilities	<u>4,603,572</u>	<u>6,176,942</u>
Noncurrent liabilities:		
Deposits	75,019	69,569
Compensated absences	2,915,670	2,756,090
Debt obligation to the Commission	2,109,598	2,309,529
Bonds payable	4,864,151	5,061,882
Notes payable	3,047,967	3,127,585
Advances from federal sponsors	<u>579,122</u>	<u>579,122</u>
Total noncurrent liabilities	<u>13,591,527</u>	<u>13,903,777</u>
<b>TOTAL</b>	<u>18,195,099</u>	<u>20,080,719</u>
<b>NET ASSETS:</b>		
Invested in capital assets	16,270,765	18,123,329
Restricted for:		
Nonexpendable	43,361	57,048
Expendable:		
Restricted by State Code for specific purposes		2,833,635
Sponsored projects	520,329	290,897
Loans	99,386	52,890
Debt service	<u>600,671</u>	<u>621,843</u>
Total expendable	1,220,386	3,799,265
Unrestricted net assets	<u>2,793,055</u>	<u>397,348</u>
Total net assets	<u>20,327,567</u>	<u>22,376,990</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$38,522,666</u>	<u>\$42,457,709</u>

See notes to combined financial statements.

(Concluded)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**THE WEST VIRGINIA STATE UNIVERSITY**  
**FOUNDATION, INCORPORATED, A COMPONENT**  
**UNIT OF WEST VIRGINIA STATE UNIVERSITY**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2004**

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**ASSETS**

ASSETS:

Cash	\$ 203,573
Other receivables	137,100
Investments, at fair market value	2,526,773
Beneficial interest in trusts	106,945
Property and improvements:	
Land	166,000
Buildings and improvements	1,276,425
Furniture and equipment	<u>42,068</u>
	1,484,493
Less accumulated depreciation	<u>344,355</u>
	<u>1,140,138</u>
Other assets	<u>6,338</u>
TOTAL ASSETS	<u>\$4,120,867</u>

**LIABILITIES AND NET ASSETS**

LIABILITIES:

Accounts payable and accrued expenses	\$ 2,604
Accrued scholarship support	69,340
Liability for split interest agreements	<u>28,904</u>
Total liabilities	<u>100,848</u>

NET ASSETS:

Unrestricted	207,008
Temporarily restricted	1,094,397
Permanently restricted	<u>2,718,614</u>
Total net assests	<u>4,020,019</u>

TOTAL LIABILITIES AND NET ASSETS	<u>\$4,120,867</u>
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See notes to financial statements.

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

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

	<b>2004</b>	<b>2003</b>
<b>OPERATING REVENUES:</b>		
Student tuition and fees, net of scholarship allowance of \$2,875,339 and \$2,795,931 in 2004 and 2003, respectively	\$ 9,035,404	\$ 8,150,026
Contracts and grants:		
Federal	13,536,253	13,563,142
State	3,677,876	2,300,006
Private	462,535	295,386
Sales and services of educational activities	100,417	93,728
Auxiliary enterprise revenue, net of scholarship allowance of \$1,617,127 and \$1,644,366 in 2004 and 2003, respectively	5,093,007	4,800,453
Miscellaneous—net	<u>1,822,936</u>	<u>1,077,754</u>
 Total operating revenues	 <u>33,728,428</u>	 <u>30,280,495</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	21,193,635	20,784,122
Benefits	5,660,726	5,277,998
Supplies and other services	12,566,146	10,399,821
Utilities	1,686,372	1,513,399
Student financial aid—scholarships and fellowships	4,890,920	3,733,155
Depreciation and amortization	1,775,982	2,005,915
Loan cancellations and write-offs	(8,002)	47,145
Fees assessed by the Commission	<u>164,041</u>	<u>164,041</u>
 Total operating expenses	 <u>47,929,820</u>	 <u>43,925,596</u>
 OPERATING LOSS	 <u>(14,201,392)</u>	 <u>(13,645,101)</u>

(Continued)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

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

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	<b>2004</b>	<b>2003</b>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 12,576,585	\$ 13,846,119
Investment income	105,498	358,139
Interest on indebtedness	(426,801)	(418,592)
Fees assessed by the Commission for debt service and reserves	<u>(103,075)</u>	<u>(227,626)</u>
Net nonoperating revenues	<u>12,152,207</u>	<u>13,558,040</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(2,049,185)	(87,061)
TRANSFER OF LIABILITY FROM THE COMMISSION	(174,929)	
CAPITAL PROJECTS (PAYMENTS TO) PROCEEDS FROM THE COMMISSION		433,920
CAPITAL GRANTS AND GIFTS	<u>174,691</u>	<u>638,477</u>
(DECREASE) INCREASE IN NET ASSETS	(2,049,423)	985,336
NET ASSETS—Beginning of year	<u>22,376,990</u>	<u>21,391,654</u>
NET ASSETS—End of year	<u>\$ 20,327,567</u>	<u>\$ 22,376,990</u>
See notes to combined financial statements.		(Concluded)

**WEST VIRGINIA STATE UNIVERSITY  
(Formerly West Virginia State College)**

**THE WEST VIRGINIA STATE UNIVERSITY  
FOUNDATION, INCORPORATED, A COMPONENT  
UNIT OF WEST VIRGINIA STATE UNIVERSITY  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2004**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER				
SUPPORT:				
Grants and donations	\$ 164,559	\$ 362,851	\$ 188,093	\$ 715,503
Rental income		14,421		14,421
Investment income	6,566		87,175	93,741
Miscellaneous	187	781		968
	<u>171,312</u>	<u>378,053</u>	<u>275,268</u>	<u>824,633</u>
Total revenues, gain and other support				
TRANSFER		<u>(12,549)</u>	<u>12,549</u>	
EXPENSES:				
Salaries and wages	84,246			84,246
Taxes and licenses	9,837			9,837
Professional fees	22,135			22,135
Supplies	13,840			13,840
Maintenance	2,310			2,310
Travel	10,356			10,356
Telephone	3,119			3,119
Office expense	2,071			2,071
Printing	5,415			5,415
Meeting expense	25,862			25,862
Conference/seminar fees	5,223			5,223
Scholarships and grants	1,249			1,249
Depreciation	1,454	34,187		35,641
Miscellaneous	7,255			7,255
Program expenses		286,280	95,350	381,630
	<u>194,372</u>	<u>320,467</u>	<u>95,350</u>	<u>610,189</u>
Total expenses				
NET (DECREASE) INCREASE	(23,060)	45,037	192,467	214,444
CHANGE IN VALUE OF SPLIT INTEREST AGREEMENT			8,272	8,272
CHANGE IN VALUE OF PERPETUAL TRUSTS			7,702	7,702
UNREALIZED GAIN ON INVESTMENTS			41,704	41,704
CHANGE IN NET ASSETS	(23,060)	45,037	250,145	272,122
NET ASSETS—Beginning of year	230,068	1,049,360	2,468,469	3,747,897
NET ASSETS—End of year	<u>\$ 207,008</u>	<u>\$ 1,094,397</u>	<u>\$ 2,718,614</u>	<u>\$ 4,020,019</u>

See notes to financial statements.

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

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

	<b>2004</b>	<b>2003</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 8,882,861	\$ 8,423,884
Contracts and grants	17,678,481	15,805,814
Payments to and on behalf of employees	(26,706,041)	(24,638,759)
Payments to suppliers	(12,829,286)	(10,207,678)
Payments to utilities	(1,645,501)	(1,537,212)
Payments for scholarships and fellowships	(4,890,920)	(3,733,155)
Loans issued to students	(147,100)	(111,087)
Collection of loans to students	131,417	89,269
Sales and service of educational activities	100,417	93,728
Auxiliary enterprise charges	5,098,457	4,872,331
Fees retained by Commission	(147,892)	(164,041)
Other receipts (payments)—net	<u>633,174</u>	<u>1,077,754</u>
Net cash used in operating activities	<u>(13,841,933)</u>	<u>(10,029,152)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	12,560,071	15,194,314
William D. Ford direct lending receipts		166,099
William D. Ford direct lending payments		(171,629)
FFELP lending receipts	11,013,172	9,151,149
FFELP lending payments	(10,996,658)	(9,149,594)
Fees assessed by the Commission for debt service and reserves	<u>(103,075)</u>	<u>(227,626)</u>
Net cash provided by noncapital financing activities	<u>12,473,510</u>	<u>14,962,713</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Capital grants and gifts received	174,691	638,477
Capital projects (payments to) proceeds from the Commission		433,920
Purchases of capital assets	(2,067,059)	(5,628,909)
Proceeds on sale of capital assets	1,798	7,515
Proceeds from sale of revenue bonds		5,354,613
Debt issue costs		(49,894)
Principal paid on payable to Commission	(470,633)	(380,564)
Principal paid on notes, bonds and leases	(269,089)	(185,963)
Interest paid on notes, bonds and leases	(431,255)	(418,592)
Decrease (increase) in noncurrent cash and cash equivalents	<u>2,838,290</u>	<u>(3,262,384)</u>
Net cash used in capital financing activities	<u>(223,257)</u>	<u>(3,491,781)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITY—</b>		
Interest on investments	<u>105,498</u>	<u>358,139</u>
Cash provided by investing activities	<u>105,498</u>	<u>358,139</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,486,182)	1,799,919
CASH AND CASH EQUIVALENTS—Beginning of year	<u>10,633,602</u>	<u>8,833,683</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 9,147,420</u>	<u>\$ 10,633,602</u>

(Continued)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

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

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	<b>2004</b>	<b>2003</b>
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (14,201,392)	\$ (13,645,101)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,775,982	2,005,915
Loss on sale of capital asset	34,743	1,669
Changes in assets and liabilities:		
Receivables—net	(134,577)	108,497
Loans to students—net	(23,685)	25,327
Prepaid expenses	(46,813)	26,619
Inventories	77,451	35,019
Accounts payable and accrued liabilities	(283,196)	1,027,415
Compensated absences	143,866	500,969
Deferred revenue	(1,189,762)	(118,076)
Deposits held in custody for others	<u>5,450</u>	<u>2,595</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<b><u>\$ (13,841,933)</u></b>	<b><u>\$ (10,029,152)</u></b>

See notes to combined financial statements.

(Concluded)

**WEST VIRGINIA STATE UNIVERSITY  
(FORMERLY WEST VIRGINIA STATE COLLEGE)**

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

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**1. ORGANIZATION**

West Virginia State University (formerly West Virginia State College) (the “University”) is governed by the West Virginia State University 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 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 be 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 transfer of certain nets assets from the University to its related community and technical college. The exact amounts to be transferred have not yet been determined. As West Virginia State University had previously met the criteria for university status and had been granted that status by the Commission, S.B. 448 also made effective West Virginia State University’s designation as a university.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

**Reporting Entity**—The University 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 University 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 combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation, a non-profit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. A related West Virginia State University Foundation and Alumni Association of the University are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003 the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The West Virginia State University Foundation, Incorporated (the "Foundation") are presented here with the University's financial statements for the fiscal year ended June 30, 2004. 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 (see also Note 20). No comparative information is shown as the restatement of the prior year was not practicable.

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

- *Invested in capital assets*—This represents the University'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 University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were primarily for the following: off campus instruction; public interest research group; libraries, library supplies and improvement in

student services; faculty improvement; health education student loan fund; health sciences education; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature.

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

***Basis of Accounting***—For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’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 are reported when materials or services are received. All intercompany accounts and transactions have been eliminated.

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

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

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

**Capital Assets**—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University’s threshold for capitalizing capital assets is \$5,000.

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

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

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

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

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the University 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 University 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 University and its employees. Such coverage may be provided to the University 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 University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

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

- *Operating revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most Federal, state, local, and nongovernmental grants and contracts and (4) sales and services of educational activities.
- *Non-operating revenues*—Non-operating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as non-operating 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. Non-operating revenues also exclude student fees which were billed for capital improvements.

**Use of Restricted Net Assets**—The University 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 University attempts to utilize restricted net assets first when practical.

**Federal Financial Assistance Programs**—Effective July 1, 2003, the University no longer makes loans to students under the Federal Direct Loan Program. In the year ended June 30, 2003, the University received and disbursed approximately \$0.2 million 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 University makes loans to students under the Federal Family Education Loan Program ("FFELP"). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University's balance sheet as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2004 and 2003, the University received and disbursed approximately \$11.0 million and \$9.2 million, respectively 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 University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the years ended June 30, 2004 and 2003, the University received and disbursed approximately \$6.3 million and \$6.0 million, respectively, under these federal student aid programs.

**Scholarship Allowances**—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the 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 University, and the amount that is paid by students and/or third parties making payments on the student’s behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (“NACUBO”). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending are 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 combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an University 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 an audit. The University 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 University 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 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 Governmental Accounting Standards Board**—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. The University 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 University’s financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of capital asset. The University 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 University has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

**Reclassification**—Certain prior year balances have been reclassified to conform to the 2004 fiscal year presentation.

### 3. CASH AND CASH EQUIVALENTS

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

	<b>2004</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer:			
University	\$ 7,823,271	\$ 43,361	\$ 7,866,632
Municipal Bond Commission for the University	1,896		1,896
Cash in escrow		600,863	600,863
Cash in bank	<u>1,322,253</u>	<u>24,757</u>	<u>1,347,010</u>
	<u>\$ 9,147,420</u>	<u>\$ 668,981</u>	<u>\$ 9,816,401</u>
	<b>2003</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer:			
University	\$10,085,822	\$ 57,049	\$10,142,871
Municipal Bond Commission for the University	1,878		1,878
Cash in escrow		621,842	621,842
Cash in bank	<u>545,902</u>	<u>2,828,380</u>	<u>3,374,282</u>
	<u>\$10,633,602</u>	<u>\$3,507,271</u>	<u>\$14,140,873</u>

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the University's bond trust indenture. Other cash held by the State Treasurer at June 30, 2004 and 2003 includes \$ -0- and \$4,440,451, respectively, of restricted cash for specific purposes due to the State Code. Cash shown above as cash in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 9 is paid in full.

The combined carrying amounts of cash in the bank at June 30, 2004 and 2003 were \$1,347,010 and \$3,374,282, respectively, compared with the combined bank balance of \$1,531,476 and \$3,574,083, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2004 and 2003, \$595,160 and \$582,105, respectively, was covered by Federal depository insurance while \$936,316 and \$2,991,978, respectively, was uninsured and uncollateralized.

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

#### 4. ACCOUNTS RECEIVABLE

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

	<b>2004</b>	<b>2003</b>
Student tuition and fees, net of allowance for doubtful accounts of \$799,209 and \$616,555, respectively	\$ 504,089	\$ 292,780
Grants and contracts receivable	361,888	435,002
Due from the Commission	23,537	20,650
Due from other State agencies	8,412	8,390
Other accounts receivable	<u>36,218</u>	<u>26,596</u>
	<u>\$ 934,144</u>	<u>\$ 783,418</u>

#### 5. DEFERRED FINANCE COSTS

The following is a summation of deferred finance costs transactions for the years ended June 30, 2004 and 2003:

<b>2004</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>2,495</u>	<u>2,495</u>	<u>          </u>	<u>4,990</u>
Deferred finance costs—net	<u>\$ 47,399</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 44,904</u>
<b>2003</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Deferred finance costs	\$ -	\$ 49,894	\$ -	\$ 49,894
Less accumulated amortization	<u>          </u>	<u>2,495</u>	<u>          </u>	<u>2,495</u>
Deferred finance costs—net	<u>\$ -</u>	<u>\$ 47,399</u>	<u>\$ -</u>	<u>\$ 47,399</u>

## 6. CAPITAL ASSETS

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

	<b>2004</b>			<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	
Capital assets not being depreciated:				
Land	\$ 1,143,605	\$ -	\$ -	\$ 1,143,605
Construction in progress	<u>3,715,328</u>	<u>1,690,097</u>	<u>(5,405,425)</u>	
Total capital assets not being depreciated	<u>\$ 4,858,933</u>	<u>\$ 1,690,097</u>	<u>\$ (5,405,425)</u>	<u>\$ 1,143,605</u>
Other capital assets:				
Land improvements	\$ 1,398,000	\$ -	\$ -	\$ 1,398,000
Infrastructure	3,441,300			3,441,300
Buildings	30,269,300	5,427,734		35,697,034
Equipment	8,226,400	248,633	(156,048)	8,318,985
Motor vehicles	263,704			263,704
Software	342,318			342,318
Library books	<u>3,862,722</u>	<u>106,020</u>		<u>3,968,742</u>
Total other capital assets	<u>47,803,744</u>	<u>5,782,387</u>	<u>(156,048)</u>	<u>53,430,083</u>
Less accumulated depreciation for:				
Land improvements	457,496	33,896		491,392
Infrastructure	2,965,260	12,280		2,977,540
Buildings	13,924,591	610,455		14,535,046
Equipment	5,526,933	771,483	(119,507)	6,178,909
Motor vehicles	101,174	62,144		163,318
Software	198,722	46,108		244,830
Library books	<u>2,924,434</u>	<u>229,852</u>		<u>3,154,286</u>
Total accumulated depreciation	<u>26,098,610</u>	<u>1,766,218</u>	<u>(119,507)</u>	<u>27,745,321</u>
Other capital assets—net	<u>\$ 21,705,134</u>	<u>\$ 4,016,169</u>	<u>\$ (36,541)</u>	<u>\$ 25,684,762</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 4,858,933	\$ 1,690,097	\$ (5,405,425)	\$ 1,143,605
Other capital assets	<u>47,803,744</u>	<u>5,782,387</u>	<u>(156,048)</u>	<u>53,430,083</u>
Total cost of capital assets	52,662,677	7,472,484	(5,561,473)	54,573,688
Less accumulated depreciation	<u>26,098,610</u>	<u>1,766,218</u>	<u>(119,507)</u>	<u>27,745,321</u>
Capital assets—net	<u>\$ 26,564,067</u>	<u>\$ 5,706,266</u>	<u>\$ (5,441,966)</u>	<u>\$ 26,828,367</u>

	<b>2003</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 913,255	\$ 230,350	\$ -	\$ 1,143,605
Construction in progress	<u>299,108</u>	<u>3,416,220</u>	<u>          </u>	<u>3,715,328</u>
Total capital assets not being depreciated	<u>\$ 1,212,363</u>	<u>\$3,646,570</u>	<u>\$ -</u>	<u>\$ 4,858,933</u>
Other capital assets:				
Land improvements	\$ 1,344,000	\$ 54,000	\$ -	\$ 1,398,000
Infrastructure	3,441,300			3,441,300
Buildings	29,520,528	748,772		30,269,300
Equipment	7,347,507	912,919	(34,026)	8,226,400
Motor vehicles	214,628	49,076		263,704
Software	342,318			342,318
Library books	<u>3,645,150</u>	<u>217,572</u>	<u>          </u>	<u>3,862,722</u>
Total other capital assets	<u>45,855,431</u>	<u>1,982,339</u>	<u>(34,026)</u>	<u>47,803,744</u>
Less accumulated depreciation for:				
Land improvements	423,600	33,896		457,496
Infrastructure	2,952,980	12,280		2,965,260
Buildings	13,375,963	548,628		13,924,591
Equipment	4,487,951	1,063,824	24,842	5,526,933
Motor vehicles	47,350	53,824		101,174
Software	130,761	67,961		198,722
Library books	<u>2,708,696</u>	<u>215,738</u>	<u>          </u>	<u>2,924,434</u>
Total accumulated depreciation	<u>24,127,301</u>	<u>1,996,151</u>	<u>24,842</u>	<u>26,098,610</u>
Other capital assets—net	<u>\$21,728,130</u>	<u>\$ (13,812)</u>	<u>\$ (9,184)</u>	<u>\$21,705,134</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,212,363	\$3,646,570	\$ -	\$ 4,858,933
Other capital assets	<u>45,855,431</u>	<u>1,982,339</u>	<u>(34,026)</u>	<u>47,803,744</u>
Total cost of capital assets	47,067,794	5,628,909	(34,026)	52,662,677
Less accumulated depreciation	<u>24,127,301</u>	<u>1,996,151</u>	<u>24,842</u>	<u>26,098,610</u>
Capital assets—net	<u>\$22,940,493</u>	<u>\$3,632,758</u>	<u>\$ (9,184)</u>	<u>\$26,564,067</u>

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

Title for certain real property is with the Commission.

## 7. NONCURRENT LIABILITIES

The following is a summary of noncurrent obligation transactions for the University for the years ended June 30, 2004 and 2003:

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 3,190,080	\$ -	\$ 69,089	\$ 3,120,991	\$ 73,024
Bonds payable	5,261,882	7,269	200,000	5,069,151	205,000
Payable to the Commission	2,708,068	174,929	470,633	2,412,364	302,766
Other noncurrent liabilities:					
Accrued compensated absences	3,642,815	143,866		3,786,681	871,011
Advances from Federal Sponsors	579,122			579,122	
Deposits held in custody for others	69,569	5,450		75,019	
Total noncurrent liabilities	<u>\$ 15,451,536</u>	<u>\$ 331,514</u>	<u>\$ 739,722</u>	<u>\$ 15,043,328</u>	

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Notes payable	\$ 3,276,043	\$ -	\$ 85,963	\$ 3,190,080	\$ 62,495
Bonds payable		5,361,882	100,000	5,261,882	200,000
Payable to the Commission	3,088,632		380,564	2,708,068	398,539
Other noncurrent liabilities:					
Accrued compensated absences	3,141,846	500,969		3,642,815	886,725
Advances from Federal Sponsors	579,123		1	579,122	
Deposits held in custody for others	66,974	2,595		69,569	
Total noncurrent liabilities	<u>\$ 10,152,618</u>	<u>\$ 5,865,446</u>	<u>\$ 566,528</u>	<u>\$ 15,451,536</u>	

Additional information regarding noncurrent debt is included in Notes 8 and 9.

## 8. BONDS PAYABLE

On August 1, 2002, the College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds mature in intervals through June 1, 2022 and bear interest ranging from 2.0% to 6.2%. As of June 30, 2004 and 2003, the College had outstanding \$5,069,151 and \$5,216,882, respectively, net of an unamortized discount of \$130,849 and \$138,118, respectively.

Principal maturities for the years ending after June 30, 2004 are as follows:

2005	\$ 205,000
2006	210,000
2007	215,000
2008	220,000
2009	230,000
2010-2014	1,285,000
2015-2019	1,635,000
2020-2022	<u>1,200,000</u>
Total	<u>\$ 5,200,000</u>

## 9. NOTES PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories. As of June 30, 2004 and 2003, the University had outstanding \$3,120,991 and \$3,190,080, respectively. As of June 30, 2003, the renovations had been completed and the interest rate had been finalized. The interest rate at June 30, 2004 was approximately 6.3%.

Accordingly, current monthly principal and interest payments of \$21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the years ending after June 30, 2004 are as follows:

2005	\$ 73,024
2006	77,278
2007	80,621
2008	86,619
2009	91,977
2010-2014	543,651
2015-2019	723,090
2020-2022	962,041
2025-2026	<u>482,690</u>
Total	<u>\$3,120,991</u>

## 10. COMPENSATED ABSENCES LIABILITY

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

	2004	2003
Health or life insurance benefits	\$2,557,205	\$2,472,169
Accrued vacation leave	<u>1,229,476</u>	<u>1,170,646</u>
	<u>\$3,786,681</u>	<u>\$3,642,815</u>

For the years ended June 30, 2004 and 2003, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled \$39,941 and \$45,139, respectively. As of June 30, 2004 and 2003, there were 33 and 35 retirees, respectively, currently eligible for these benefits.

## 11. OPERATING LEASES

Future annual minimum lease payments for years subsequent to June 30, 2004 are as follows:

2005	\$ 557,000
2006	549,000
2007	549,000
2008	548,000
2009	541,000
Thereafter	<u>44,000</u>
Total	<u>\$2,788,000</u>

Total rental expense for the years ended June 30, 2004 and 2003 was \$614,777 and \$533,145, respectively.

## 12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2004 and 2003, the University paid \$295,704 and \$380,564, respectively, to the Commission against the debt obligation. The amount due to commission at June 30, 2004 is \$2,412,364.

## 13. RETIREMENT PLANS

Substantially all full-time employees of the University 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 University employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401( a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, -0- employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 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 \$433,244, \$461,323 and \$481,425, respectively, which consisted of \$308,922, \$328,959 and \$343,875 from the University, respectively, and \$124,322, \$132,364 and \$137,550, respectively, from the covered employees.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Combined Public Retirement Board. A copy of the report may be obtained by writing to the Combined Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

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 University 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 University.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were \$2,138,014, \$2,121,798 and \$2,073,959, respectively, which consisted of contributions of \$983,444 from the University and \$1,311,945 from the covered employees in 2004, \$958,256 from the University and \$1,290,744 from the covered employees in 2003 and \$1,006,468 from the University and \$1,287,593 from the covered employees in 2002.

The University's total payroll for the year ended June 30, 2004 was \$20,788,578; total covered employees' salaries in the STRS and TIAA-CREF were \$2,084,614 and \$16,390,739, respectively. The University's total payroll for the year ended June 30, 2003 was \$18,129,497; total covered employees' salaries in the STRS and TIAA-CREF were \$2,343,012 and \$15,310,743, respectively.

#### **14. COOPERATIVE AGREEMENT**

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the “Justice Department”) to implement and operate a Regional Community Police Institute (“RCPI”). The RCPI is part of the Justice Department’s involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenditures during fiscal year 2004 were \$316,300 and \$318,382, respectively. Total receipts and expenditures during fiscal year 2003 were \$374,478 and \$245,253, respectively. RCPI is not entirely or almost entirely for the benefit of the University and is therefore not a GASB No. 39 component unit.

#### **15. FOUNDATION**

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose “...to aid, strengthen and further in every proper and useful way, the work and services of the University 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 University. In carrying out its responsibilities, the Board of Directors of the Foundation employ management, form policy and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University’s financial statements in accordance with GASB Statement No. 39. Based on the Foundation’s audited financial statements as of June 30, 2004, the Foundation’s net assets (including unrealized gains) totaled \$4,020,019, on the accrual basis of accounting. Prior to the June 30, 2004 audit, the Foundation audit was on a cash basis.

During the years ended June 30, 2004 and 2003, the Foundation contributed \$119,527 and \$144,669, respectively, to the University for scholarships. Additionally, the Foundation paid operating lease expenses for the University of \$99,210 in the year ended June 30, 2004.

#### **16. AFFILIATED ORGANIZATION**

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University’s accompanying combined financial statements under GASB Statement No. 14. They are not included in the University’s accompanying combined financial statements, under GASB Statement No. 39 because they are not significant to the University.

#### **17. CONTINGENCIES**

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

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

The University owns various buildings which are known to contain asbestos. The University is not required by federal, state or local law to remove the asbestos from its buildings. The University is required under federal environmental, health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University 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 University 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.

## **18. SEGMENT INFORMATION**

The University issues revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

### **State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds, 2002 Series A**

On August 1, 2002, the University issued \$5,500,000 of College Facilities Revenue Bonds, 2002 Series A (the "2002 Bonds"). The 2002 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2002 Bonds will be secured pursuant to the Indenture and Security Agreement (the "Indenture") dated as of August 1, 2002, by and between the Board and Huntington National Bank (the "Trustee"). The 2002 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2002 Bonds are being used to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the University Union, (2) establishing a debt service reserve fund and (3) paying the costs of issuance of the Bonds and related costs.

Condensed financial information for the University's segment is as follows:

	<b>State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds</b>	
	<b>2004</b>	<b>2003</b>
<b>Condensed Statement of Net Assets as of June 30,</b>		
<b>ASSETS:</b>		
Current assets	\$ 303,275	\$ 242,646
Noncurrent assets	<u>6,306,693</u>	<u>7,208,178</u>
Total assets	<u>\$6,609,968</u>	<u>\$7,450,824</u>
<b>LIABILITIES:</b>		
Current liabilities	\$ 225,084	\$ 1,017,734
Noncurrent liabilities	<u>4,871,525</u>	<u>5,068,953</u>
Total liabilities	<u>5,096,609</u>	<u>6,086,687</u>
<b>NET ASSETS:</b>		
Invested in capital assets	793,112	482,542
Restricted:		
Balances restricted by State Code for specific purposes		442,631
Debt service	442,631	438,964
Unrestricted	<u>277,616</u>	<u>          </u>
Total net assets	<u>1,513,359</u>	<u>1,364,137</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><b>\$6,609,968</b></u>	<u><b>\$7,450,824</b></u>

**West Virginia State University,  
Student Union  
Revenue Bonds**

**Condensed Statement of Revenues, Expenses  
and Changes in Net Assets as of June 30,**

	<b>2004</b>	<b>2003</b>
<b>OPERATING:</b>		
Operating revenues	\$ 772,926	\$ 687,839
Operating expenses	<u>(393,521)</u>	<u>(227,640)</u>
Net operating income	379,405	460,199
<b>NONOPERATING:</b>		
Transfers from the College		642,851
Nonoperating revenues	9,383	45,214
Nonoperating expenses	<u>(239,566)</u>	<u>(211,855)</u>
<b>CHANGES IN NET ASSETS</b>	149,222	936,409
NET ASSETS—Beginning of year	<u>1,364,137</u>	<u>427,728</u>
NET ASSETS—End of year	<u><u>\$1,513,359</u></u>	<u><u>\$1,364,137</u></u>

**Condensed Statement of Cash Flows**

NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 379,405	\$ 460,199
NET CASH USED BY CAPITAL AND RELATED FINANCING	<u>(318,776)</u>	<u>(217,553)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	60,629	242,646
CASH AND CASH EQUIVLENTS—Beginning of year	<u>242,646</u>	<u>          </u>
CASH AND CASH EQUIVALENTS—End of year	<u><u>\$ 303,275</u></u>	<u><u>\$ 242,646</u></u>

**19. SUBSEQUENT EVENT**

During August 2004, the Commission issued \$167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The University has been approved for \$1,350,000 of bond proceeds for capital projects from this bond issuance.

**20. COMPONENT UNIT DISCLOSURES**

The following are the notes taken directly from the Foundation's financial statements as follows:

1. Summary of significant accounting policies:

A. Organization:

West Virginia State University Foundation (the "Foundation") was established to provide support for the private fundraising efforts of the West Virginia State University (the "University") and to manage privately donated funds on behalf of the University. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of West Virginia and managed by a volunteer Board of Directors.

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

B. Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles and the principles of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives specified by donors.

C. Consolidation policy:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, West Virginia State University Foundation Properties, Inc. Intercompany transactions and balances have been eliminated in the consolidation.

D. Basis of presentation:

The Foundation has adopted the provisions of Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and SFAS No. 117, *Financial Statements of Not-for-Profit Organizations*. Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

1. Summary of significant accounting policies (Cont'd):

D. Basis of presentation (Cont'd):

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

E. Cash equivalents:

For purposes of the reporting on the Statement of Cash Flows, the Foundation considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents.

F. Investments:

Investments in debt and equity marketable securities are carried at market value. Net appreciation (decline) in the fair value of investments, which consists of the realized gains or losses and the unrealized appreciation (decline) of those investments, is shown in the statement of activities. Investment income is accrued as earned, and reported net of investment advisory fees. Security transactions are recorded on a trade date basis.

G. Property and improvements:

Property and improvements are stated at cost. All donated assets are stated at the fair market value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

Buildings and improvements	31.5 - 39 years
Furniture and equipment	3 - 7 years

1. Summary of significant accounting policies (Cont'd):

H. Contributions:

Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. 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. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

I. Outstanding legacies:

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

J. Accrued scholarship support:

Accrued scholarship support is accrued when awarded by the Foundation and is considered unconditional.

K. Beneficial interest in trusts:

The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities or property, and the Foundation records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the value of split-interest trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

1. Summary of significant accounting policies (Cont'd):

L. Obligations to beneficiaries of split-interest agreements:

Obligations to beneficiaries of split-interest agreements, including charitable remainder trusts and charitable gift annuities, are recorded when incurred at the present value of the distributions to be made to the donor-designated beneficiaries. Distributions are paid over the lives of the beneficiaries or another specified period. Present values are determined using discount rates established by the Internal Revenue Service and actuarially determined expected lives. Obligations to beneficiaries of charitable trusts are revalued annually at June 30 to reflect actual experience; the discount rate is not changed. The net revaluations are recorded as net changes in the value of split-interest agreements.

M. In-kind contributions:

The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the statement of activities.

N. Spending policy:

Effective July 2004, the West Virginia State University Foundation, Inc.'s Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for grant making.

The revised spending policy provides that the amount which the Foundation makes available for scholarships, operating expenses and fees will be calculated by multiplying a Percentage by a Base. This computation will be made at the beginning of each fiscal year.

The Base for scholarship distributions will be an average of the market value of the Foundation's investments. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for scholarship distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

1. Summary of significant accounting policies (Cont'd):

O. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Foundation's management, such differences would not be significant.

P. Advertising and promotional expenses:

Advertising and promotional costs are charged to expense as they are incurred.

2. Concentrations of credit risk:

The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, certificates of deposit, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Certain receivables also subject the Foundation to concentrations of credit risk. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

3. Receivables:

Receivables at June 30, 2004 consist of the following:

Cash advance	\$ 16,300.
Matching pledge receivable	7,000.
Beneficial interest in estate	<u>113,800.</u>
	<u>\$ 137,100.</u>

4. Investments:

Investments are carried at market value at June 30, 2004 as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Government obligations and agencies	\$ 865,770.	\$ 871,441.	\$ 5,671.
Common stock	480,521.	732,804.	252,283.
Preferred stock	129,923.	125,814.	( 4,109.)
Mutual funds	35,015.	39,441.	4,426.
Corporate obligations	587,136.	583,118.	( 4,018.)
Cash equivalents	<u>174,155.</u>	<u>174,155.</u>	<u>-</u>
	<u>\$ 2,272,520.</u>	<u>\$ 2,526,773.</u>	<u>\$ 254,253.</u>

5. Liability for split interest agreements:

The Foundation has received assets from a charitable gift annuity. In exchange for this contribution, the Foundation is obligated to distribute a fixed dollar amount to the donor for the remainder of the donor's life.

The Foundation accounts for such agreements by recording the fair market value of assets donated as of the date of the gift and by recording an annuity payment liability, based on the present value of future cash flows expected to be paid to the donor. The excess of the fair market value of the donated assets over the liability is recorded as support in the year of the gift, unless the donor has placed restriction on the use of the gift, in which case the excess is recorded as temporarily or permanently restricted net assets.

As of June 30, 2004

Charitable gift annuity

\$ 28,904.

6. Federal income taxes:

The West Virginia State University Foundation, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, West Virginia State University Foundation Properties, Inc., is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

7. Retirement plan:

The Foundation had a defined contribution retirement plan that covered all full-time employees having at least one year of service. As of January 1, 2004, there are no longer any participants in the plan. All eligible employees are included in the University's retirement plan.

8. Restrictions and limitations on net asset balances:

Temporarily restricted:

Temporarily restricted net assets at June 30, 2004 consisted of the following:

Athletic participation	\$ 94,476.
Students' special projects	2,353.
Academic programs	116,299.
General scholarships	16,658.
WVSU Foundation programs	76,116.
Properties	<u>788,495.</u>
	<u>\$ 1,094,397.</u>

Permanently restricted:

Permanently restricted net assets at June 30, 2004 consisted of the following:

Scholarship endowments income	\$ 85,641.
Scholarship endowments principal	<u>2,632,973.</u>
	<u>\$ 2,718,614.</u>

## 21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2004 and 2003, the following table represents operating expenses within both natural and functional classifications:

	2004								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 10,272,691	\$ 2,583,568	\$ 1,779,913	\$ 73,870	\$ 76,602	\$ -	\$ -	\$ -	\$ 14,786,644
Research	973,778	220,668	1,317,628	20,683					2,532,757
Public service	545,894	119,672	957,197	26,558	3,300				1,652,621
Academic support	1,212,761	294,097	525,255	111,099					2,143,212
Student services	1,539,656	374,524	948,676	29,020					2,891,876
General institutional support	3,452,248	1,106,264	1,785,846	44,317	7,000				6,395,675
Operations and maintenance of plant	1,514,492	489,170	1,033,358	961,669	35,721				4,034,410
Scholarship and fellowship			24,549		4,614,133				4,638,682
Auxiliary enterprises	1,682,115	472,763	4,193,724	419,156	154,164				6,921,922
Depreciation and amortization expense						1,775,982			1,775,982
Tuition and fees retained by the Commission								164,041	164,041
Loan cancellations and write offs							(8,002)		(8,002)
<b>Total</b>	<b>\$ 21,193,635</b>	<b>\$ 5,660,726</b>	<b>\$ 12,566,146</b>	<b>\$ 1,686,372</b>	<b>\$ 4,890,920</b>	<b>\$ 1,775,982</b>	<b>\$ (8,002)</b>	<b>\$ 164,041</b>	<b>\$ 47,929,820</b>

	2003								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 9,455,639	\$ 2,665,994	\$ 1,614,994	\$ 76,637	\$ 71,245	\$ -	\$ -	\$ -	\$13,884,509
Research	751,234	150,804	821,434	6,278	17,890				1,747,640
Public service	762,661	204,195	305,774	11,399	33,258				1,317,287
Academic support	1,168,344	343,688	611,435	103,805					2,227,272
Student services	1,528,493	537,087	926,661	28,246					3,020,487
General institutional support	4,155,272	280,349	1,973,160	37,477	39,633				6,485,891
Operations and maintenance of plant	1,506,825	601,974	671,994	861,215	7,000				3,649,008
Scholarship and fellowship					3,429,723				3,429,723
Auxiliary enterprises	1,455,654	493,907	3,474,369	388,342	134,406				5,946,678
Depreciation and amortization expense						2,005,915			2,005,915
Tuition and fees retained by the Commission								164,041	164,041
Loan cancellations and write offs							47,145		47,145
<b>Total</b>	<b>\$20,784,122</b>	<b>\$ 5,277,998</b>	<b>\$10,399,821</b>	<b>\$ 1,513,399</b>	<b>\$ 3,733,155</b>	<b>\$ 2,005,915</b>	<b>\$ 47,145</b>	<b>\$ 164,041</b>	<b>\$43,925,596</b>

\* \* \* \* \*

## **ADDITIONAL INFORMATION**

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA**  
**SUMMARY OF CASH, RECEIVABLES AND PAYABLES**  
**JUNE 30, 2004**

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	<b>Community and Technical College</b>	<b>Four-Year and Other Components</b>	<b>Combined Institution</b>
<b>SELECTED ASSET CATEGORIES:</b>			
Cash and cash equivalents—current	\$ 161,142	\$ 8,986,278	\$ 9,147,420
Cash and cash equivalents—noncurrent	154,117	514,864	668,981
Accounts receivable, net—noncurrent	<u>284,575</u>	<u>649,569</u>	<u>934,144</u>
<b>TOTAL</b>	<u><u>\$ 599,834</u></u>	<u><u>\$ 10,150,711</u></u>	<u><u>\$ 10,750,545</u></u>
<b>SELECTED LIABILITY CATEGORIES:</b>			
Accounts payable—current	\$ 31,700	\$ 1,214,815	\$ 1,246,515
Accrued liabilities—current	<u>49,588</u>	<u>1,553,078</u>	<u>1,602,666</u>
<b>TOTAL</b>	<u><u>\$ 81,288</u></u>	<u><u>\$ 2,767,893</u></u>	<u><u>\$ 2,849,181</u></u>

See note to additional information—component financial data.

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2004**

	<b>Community and Technical College</b>	<b>Four-Year and Other Components</b>	<b>Combined Institution</b>
<b>OPERATING REVENUES:</b>			
Student tuition and fees, net of scholarship allowance of \$891,355, \$1,983,984 and \$2,875,339	\$ 2,450,325	\$ 6,585,079	\$ 9,035,404
Contracts and grants:			
Federal	65,659	13,470,594	13,536,253
State	209,454	3,468,422	3,677,876
Private		462,535	462,535
Sales and services of educational activities		100,417	100,417
Auxiliary enterprise revenue, net of scholarship allowance of \$1,617,127		5,093,007	5,093,007
Other operating revenues		1,822,936	1,822,936
	<u>2,725,438</u>	<u>31,002,990</u>	<u>33,728,428</u>
<b>OPERATING EXPENSES:</b>			
Salaries and wages	2,907,501	18,286,134	21,193,635
Benefits	415,968	5,244,758	5,660,726
Supplies and other services	2,363,190	10,202,956	12,566,146
Utilities		1,686,372	1,686,372
Student financial aid—scholarships and fellowships		4,890,920	4,890,920
Depreciation	18,256	1,757,726	1,775,982
Loan cancellations and write-offs		(8,002)	(8,002)
Fees assessed by the Commission		164,041	164,041
	<u>5,704,915</u>	<u>42,224,905</u>	<u>47,929,820</u>
<b>OPERATING LOSS</b>	<u>(2,979,477)</u>	<u>(11,221,915)</u>	<u>(14,201,392)</u>

(Continued)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA**  
**COMBINED STATEMENT OF REVENUES, EXPENSES**  
**AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2004**

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	<b>Community and Technical College</b>	<b>Four-Year and Other Components</b>	<b>Combined Institution</b>
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$2,765,589	\$ 9,810,996	\$ 12,576,585
Investment income	10,826	94,672	105,498
Interest on indebtedness		(426,801)	(426,801)
Fees assessed by the Commission for debt service		<u>(103,075)</u>	<u>(103,075)</u>
Net nonoperating revenues	<u>2,776,415</u>	<u>9,375,792</u>	<u>12,152,207</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	<u>(203,062)</u>	<u>(1,846,123)</u>	<u>(2,049,185)</u>
TRANSFER OF LIABILITY FROM THE COMMISSION		(174,929)	(174,929)
CAPITAL GRANTS AND GIFTS		<u>174,691</u>	<u>174,691</u>
DECREASE IN NET ASSETS	<u>\$ (203,062)</u>	<u>\$ (1,846,361)</u>	<u>\$ (2,049,423)</u>
See note to additional information—component financial data.			(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

(Formerly West Virginia State College)

**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA**  
**NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS**  
**YEAR ENDED JUNE 30, 2004**

	<b>Community and Technical College</b>								<b>Total</b>
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Amortization and Depreciation</b>	<b>Other Operating Expense</b>	<b>Fees Assessed by Commission</b>	
Instruction	\$ 1,347,212	\$ 321,604	\$ 936,840	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,605,656
Research									
Public service	33,367	6,385							39,752
Academic support	243,177	61,585	64,297						369,059
Student services									
General institutional support	1,283,745	26,394	1,362,053						2,672,192
Operations and maintenance of plant									
Scholarship and fellowship									
Auxiliary enterprises									
Depreciation and amortization expenses						18,256			18,256
Tuition and fees retained by the Commission									
Loan cancellation and write offs									
<b>Total</b>	<b>\$ 2,907,501</b>	<b>\$ 415,968</b>	<b>\$ 2,363,190</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 18,256</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,704,915</b>

	<b>Four Year and Other Components</b>								<b>Total</b>
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Amortization and Depreciation</b>	<b>Other Operating Expense</b>	<b>Fees Assessed by Commission</b>	
Instruction	\$ 8,925,479	\$2,261,964	\$ 843,073	\$ 73,870	\$ 76,602	\$ -	\$ -	\$ -	\$12,180,988
Research	973,778	220,668	1,317,628	20,683					2,532,757
Public service	512,527	113,287	957,197	26,558	3,300				1,612,869
Academic support	969,584	232,512	460,958	111,099					1,774,153
Student services	1,539,656	374,524	948,676	29,020					2,891,876
General institutional support	2,168,503	1,079,870	423,793	44,317	7,000				3,723,483
Operations and maintenance of plant	1,514,492	489,170	1,033,358	961,669	35,721				4,034,410
Scholarship and fellowship			24,549		4,614,133				4,638,682
Auxiliary enterprises	1,682,115	472,763	4,193,724	419,156	154,164				6,921,922
Depreciation and amortization expenses						1,757,726			1,757,726
Tuition and fees retained by the Commission								164,041	164,041
Loan cancellation and write offs							(8,002)		(8,002)
<b>Total</b>	<b>\$18,286,134</b>	<b>\$5,244,758</b>	<b>\$10,202,956</b>	<b>\$1,686,372</b>	<b>\$4,890,920</b>	<b>\$1,757,726</b>	<b>\$(8,002)</b>	<b>\$164,041</b>	<b>\$42,224,905</b>

(Continued)

**WEST VIRGINIA STATE UNIVERSITY**  
**(Formerly West Virginia State College)**

**ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA**  
**NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS**  
**YEAR ENDED JUNE 30, 2004**

	<b>COMBINED INSTITUTION</b>								
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Amortization and Depreciation</b>	<b>Other Operating Expense</b>	<b>Fees Assessed by Commission</b>	<b>Total</b>
Instruction	\$10,272,691	\$2,583,568	\$ 1,779,913	\$ 73,870	\$ 76,602	\$ -	\$ -	\$ -	\$14,786,644
Research	973,778	220,668	1,317,628	20,683					2,532,757
Public service	545,894	119,672	957,197	26,558	3,300				1,652,621
Academic support	1,212,761	294,097	525,255	111,099					2,143,212
Student services	1,539,656	374,524	948,676	29,020					2,891,876
General institutional support	3,452,248	1,106,264	1,785,846	44,317	7,000				6,395,675
Operations and maintenance of plant	1,514,492	489,170	1,033,358	961,669	35,721				4,034,410
Scholarship and fellowship			24,549		4,614,133				4,638,682
Auxiliary enterprises	1,682,115	472,763	4,193,724	419,156	154,164				6,921,922
Depreciation and amortization expenses						1,775,982			1,775,982
Tuition and fees retained by the Commission								164,041	164,041
Loan cancellation and write offs							(8,002)		(8,002)
<b>Total</b>	<b><u>\$21,193,635</u></b>	<b><u>\$5,660,726</u></b>	<b><u>\$12,566,146</u></b>	<b><u>\$1,686,372</u></b>	<b><u>\$ 4,890,920</u></b>	<b><u>\$1,775,982</u></b>	<b><u>\$(8,002)</u></b>	<b><u>\$164,041</u></b>	<b><u>\$47,929,820</u></b>

See note to additional information—component financial data.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY (Formerly West Virginia State College)

## NOTE TO ADDITIONAL INFORMATION—WVSCTC FINANCIAL DATA YEAR ENDED JUNE 30, 2004

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### 1. WEST VIRGINIA STATE COMMUNITY AND TECHNICAL COLLEGE

West Virginia State Community and Technical College (“WVSCTC”) is administratively linked to the University. State appropriations are assigned specifically to each institution and separate expenditure schedules are submitted to the Budget Division of the West Virginia Department of Administration annually. Fee revenues available to the University and WVSCTC are driven by student enrollment.

WVSCTC receives annual operating income from state government appropriations, tuition and fees, sales and services of auxiliary enterprises and educational activities, state and local contracts and grants, restricted federal contracts and grants, private gifts, grants and contracts. There are services from some funds that benefit the WVSCTC solely due to being administratively linked to the University such as Land-Grant and Title III and vice versa.

State appropriations are specifically assigned in a lump sum by the West Virginia Legislature to the Commission and they in turn distribute the tax revenue to the University and WVSCTC, as well as other public higher education institutions in the State. The institutions individually and cooperatively fund institutional activities.

The University and WVSCTC have agreed to cooperatively provide and charge for services according to a document titled *Cooperative Administrative Service Agreement – West Virginia State University and West Virginia State Community and Technical College*. The proportion of enrollment in many instances and actual costs in other instances will be utilized in charging for services rendered by and to each provider. There is a process to adjust the cooperative agreement over the next few years as it is utilized by the two administratively linked institutions.

The enrollment percentage utilized for the 2004 fiscal year is 30% for WVSCTC and 70% for the University. The 30% of the total full time equivalent number of students (“FTE”) has been reported by the West Virginia State University Research and Development Corporation Office of Institutional Research to the Commission. In analyzing the percentage trend over a three-year period, the WVSCTC percentage of enrollment of 30% in fiscal year 2004 is indicative of the enrollment percentage pattern over the last few years.

According to the cooperative agreement, student fee revenues are directly assigned to the WVSCTC or the University based by student program major. Student fees include, but are not limited to, higher education resource fees, college operations fees, faculty improvement fees, activity fees, technology and other specific service fees charged to students to meet both direct and indirect operational and instructional costs. Any specifically restricted fees, for instance, athletic fees, health center fees or union fees, are counted in the WVSCTC budget, but are transferred to the specified activity account in their entirety.

Higher Education Resource fees, College Operations fees, and Faculty Improvement Fees are apportioned on the basis of student classification, which is translated ultimately into FTE. These fees are in the WVSCTC budget for appropriate utilization.

WVSCTC faculty and staff actual salaries and benefits are charged directly to WVSCTC funds. Chargeback activity for WVSCTC and the University identification is formalized in the cooperative agreement. A five-year phase-in regarding chargeback calculation is described in the agreement so that the accounting of the cooperative model of the administratively linked institutions can become ever more refined and tested.

***Federal Contracts and Grants***—Federal Contracts and Grants are apportioned to the WVSCTC budget based upon actual amounts.

***State Contracts and Grants***—State Contracts and grants are apportioned to the WVSCTC based upon actual amounts.

***Salaries and Wages, Benefits and Supplies and Other Services***—Actual data was used to allocate the salaries and wages, benefits and supplies and other services for the WVSCTC.

All other balances were allocated based on the actual amounts recorded for the entities in the general ledger.

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

West Virginia State University Governing Board

We have audited the combined financial statements of West Virginia State University (formerly West Virginia State College) (the "University") as of and for the year ended June 30, 2004, and have issued our report thereon dated January 13, 2005 which contains a consistency exception for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units* 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.

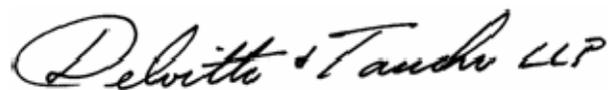
### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University'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 an opinion 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 the University's internal control over financial reporting and its operations that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's combined 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*.

This report is intended solely for the information and use of the West Virginia State University Governing Board, managements of West Virginia State University and the West Virginia Higher Education Policy Commission, federal and state awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



January 13, 2005