

WEST VIRGINIA UNIVERSITY

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

WEST VIRGINIA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined financial statements of West Virginia University (the "University") as of June 30, 2004 and 2003, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

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. 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, such combined financial statements present fairly, in all material respects, the financial position of the University at June 30, 2004 and 2003, and the combined changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 14 is not a required part of the basic combined 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 12, 2004, on our consideration of the University's internal control over financial reporting and its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

October 12, 2004

WEST VIRGINIA UNIVERSITY

Management's Discussion and Analysis Year Ended June 30, 2004

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statements No. 34 and No. 35. This section of West Virginia University's (the "University" or WVU) annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2004 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2003 compared to fiscal year 2002.

The University's annual report consists of three basic financial statements: the combined statement of net assets, the combined statement of revenues, expenses and changes in net assets, and the combined statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Financial Highlights

At June 30, 2004, the University's total net assets increased from the previous year-end by \$21.7 million, primarily due to increases in capital assets, net of depreciation and cash and cash equivalents and a decrease in debt service assessment payable to the Higher Education Policy Commission (the "Commission"). These increases in net assets were partially offset by increases in accounts payable and leases payable. Total revenues grew by 4.1%, mainly due to an increase in revenues from tuition and fees, auxiliary enterprises and grants and contracts. Total expenses decreased from prior year mainly because of decreased supplies and other services, other operating expenses and assessments by the Commission for debt service.

This increase is in contrast to a decrease in total net assets from fiscal year 2002 to fiscal year 2003 which was mainly due to an increase in the debt service assessment payable to the Commission and an increase in liability for compensated absences. There has been a steady reduction in state appropriations over the past two years, which has been partially offset by a growth in tuition and fee revenues and revenues from auxiliary enterprises.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category 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. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for 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. **Expendable restricted net assets** include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's management or the Board of Governors.

Net Assets (in thousands)

	As of June 30		
	2004	2003	2002
Assets			
Current Assets	\$ 138,548	\$ 125,816	\$ 124,337
Noncurrent Assets	671,969	657,378	642,286
Total Assets	\$ 810,517	\$ 783,194	\$ 766,623
Liabilities			
Current Liabilities	\$ 85,345	\$ 76,125	\$ 76,448
Noncurrent Liabilities	252,933	256,493	233,741
Total Liabilities	\$ 338,278	\$ 332,618	\$ 310,189
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 410,980	\$ 392,976	\$ 408,834
Restricted for:			
Nonexpendable	3,220	2,934	2,699
Expendable	29,917	31,741	24,179
Unrestricted	28,122	22,925	20,722
Total Net Assets	\$ 472,239	\$ 450,576	\$ 456,434

Total assets of the University increased by \$27.3 million to a total of \$810.5 million as of June 30, 2004. The increase was primarily due to an increase in capital assets, net, cash and cash equivalents, prepaid expenses, investments and loans receivable, net. These increases were partially offset by a decrease in accounts receivable, net. Cash and capital assets followed an upward trend and accounts receivable balances followed a downward trend from prior years.

- Capital assets, net increased by \$14.0 million primarily due to significant additions of construction-in-progress during fiscal year 2004, including stadium suites construction, Coliseum upgrade, soccer stadium construction, and final costs related to the Life Sciences Building and Wise Library addition. In contrast, the increase in capital assets, net from fiscal year 2002 to fiscal year 2003 was primarily due to additions of equipment, library books and land.
- Cash and cash equivalents increased by \$12.7 million primarily due to an increase in grants activity and a corresponding increase in facilities and administrative earnings. Cash also increased due to improved collection of accounts receivable. A significant increase in grants activity and faster collection of outstanding accounts receivable resulted in an increase in cash balances from fiscal year 2002 to fiscal year 2003.
- Prepaid expenses increased by \$1.1 million due to payments made in fiscal year 2004, for maintenance services and for provision of high speed data access services to be rendered in future periods. No such increase occurred from fiscal year 2002 to fiscal year 2003.
- Investments increased by \$880,000 primarily due to purchase of equity and debt securities and changes in the market value of endowed investments. The change in the fair value of investments from fiscal year 2002 to fiscal year 2003 was not significant.
- Loans receivable, net increased by \$610,000 attributable to increased activity in the Perkins loan program. This increase in disbursement of student loan funds is due to a federal requirement to deplete the excess cash in the Perkins loan fund. The increased activity in the Perkins loan program has occurred over the past few years, causing an increase in loans receivable balances from fiscal year 2002 to fiscal year 2003.
- Accounts receivable, net decreased by \$1.9 million primarily attributable to improvement in management and collectibility of balances due from sponsors. Accounts receivable balances had also experienced a decrease from fiscal year 2002 to fiscal 2003; however, such balances were partially offset by an increase in accounts receivable from the West Virginia University Hospital, Inc. for residents' salaries paid by the University. During fiscal year 2004 such receivables were collected in a timely manner resulting in a further decrease in accounts receivable.

Total liabilities for the year increased by \$5.7 million. This increase is primarily attributable to an increase in accounts payable, leases payable, accrued payroll, advances from federal government and deferred revenue. These increases were partially offset by a decrease in the reported debt service assessment payable to the Commission, bonds payable, other liabilities and accrued liabilities.

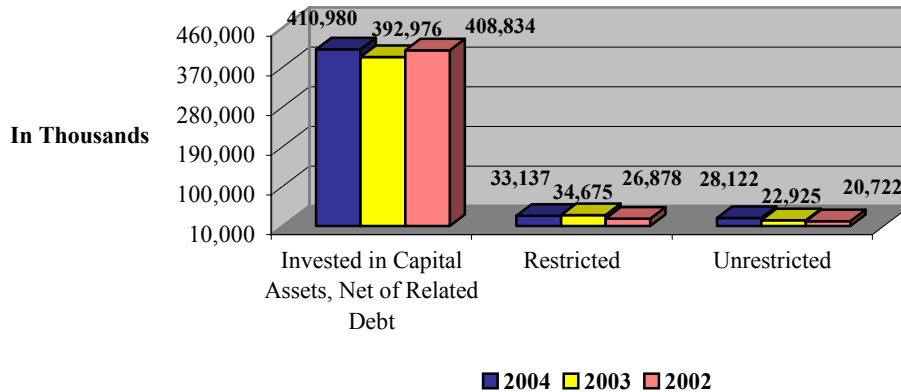
- Accounts payable increased by \$5.6 million primarily due to several construction and major repairs related invoices payable at the end of fiscal year 2004 compared to the previous year end. A very small increase was noted in accounts payable balances from fiscal year 2002 to fiscal year 2003.
- Leases payable increased by \$4.4 million primarily due to a capital lease agreement entered into during fiscal year 2004 with Wesbanco Bank, Inc. for refinancing of a residence hall (Madison House/Fieldcrest Hall) lease and for equipment upgrade and replacement. The University has experienced an increase in leases payable over the last two years due to various capital lease and financing agreements to finance equipment and capital projects.

- Accrued payroll increased by \$1.9 million mainly due to an increase in number of employees paid in arrears. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. This increase was expected and is comparable to the increase in accrued payroll from fiscal year 2002 to fiscal year 2003.
- Advances from federal government increased by \$600,000 primarily due to increased federal contributions to Perkins and School of Medicine loan programs. This increase is comparable to the increase in such balances from fiscal year 2002 to fiscal year 2003.
- Deferred revenue increased by \$560,000 primarily because of timing of receipt of payments on sponsored awards. Deferred revenue had decreased from fiscal year 2002 to fiscal year 2003 mainly because cash for several scheduled or advance payment sponsored awards was received in fiscal year 2002 but the expenses on such awards were incurred, and the corresponding revenue recognized, mostly in fiscal year 2003.
- Debt service assessment payable to the Commission decreased by \$5.2 million due to debt service payments in fiscal year 2004. There was a \$14.9 million increase in this liability from fiscal year 2002 to fiscal year 2003 due to additional bond proceeds received from the Commission during fiscal year 2003.
- Bonds payable decreased by \$1.1 million due to debt service payments on the 1997 auxiliary bonds shown below. This decrease is consistent with decreases in prior years.
 - Dormitory Refunding Revenue and Revenue Bonds \$600,000
 - Student Union Refunding Revenue and Revenue Bonds \$445,000
 - Athletic Facilities Refunding Revenue and Revenue Bonds \$150,000
- Other noncurrent liabilities decreased by \$770,000 mainly due to severance payments made to employees under the voluntary classified staff severance plan, offered by the University during fiscal year 2003. The accrual of liability for severance pay under such plan had caused this liability to increase from fiscal year 2002 to fiscal year 2003.
- Accrued liabilities decreased by \$720,000 mainly because no arbitrage rebate was owed and recorded in fiscal year 2004. In fiscal year 2003, a liability in the amount of \$621,000 was recorded for arbitrage rebate on the 1998 Series A University System revenue bonds.

The University's current assets of \$138.5 million were sufficient to cover current liabilities of \$85.3 million indicating that the University has sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.

COMPARISON OF NET ASSETS June 30, 2004, 2003 and 2002



Invested in capital assets, net of related debt increased by \$18 million primarily due to an increase in capital assets, net, and a decrease in debt assessment payable to the Commission. This increase was partially offset by an increase in leases payable. An increase in debt assessment payable to the Commission had caused a decrease in this net asset category from fiscal year 2002 to fiscal year 2003.

Unrestricted net assets increased by \$5.2 million mainly due to an increase in cash balances and facilities and administrative earnings. This increase is higher than but consistent with the increase noted in this net asset category from fiscal year 2002 to fiscal year 2003.

Restricted net assets decreased by \$1.5 million mainly due to a decrease in restricted net assets expendable for capital projects. This decrease was partially offset by additional funding made available to the Perkins and School of Medicine loan programs. Restricted net assets experienced an increase from fiscal year 2002 to fiscal year 2003 due to an increase in transfers of restricted funds budgeted for construction activity during fiscal year 2003 and because of increased activity in the Perkins and School of Medicine loan programs.

Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains or losses of the University for the fiscal years.

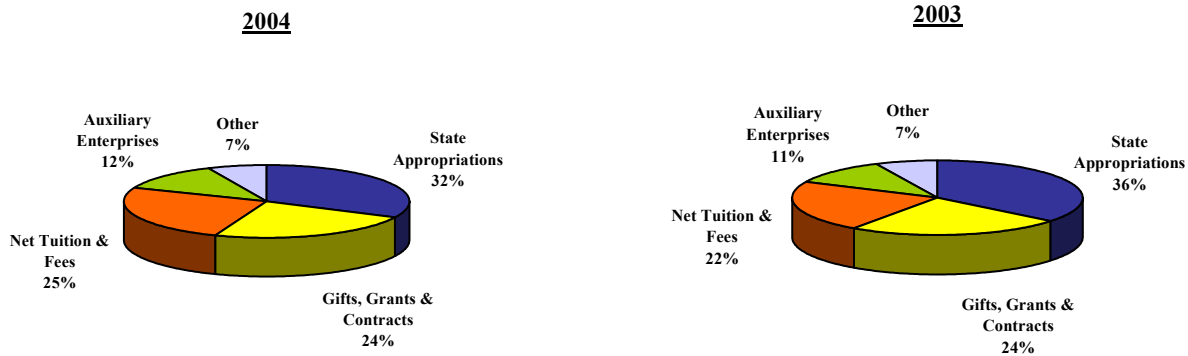
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because state appropriations are provided by the West Virginia Legislature (the “Legislature”) to the University without the Legislature directly receiving commensurate goods and services for those revenues. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Revenues, Expenses and Changes in Net Assets (in thousands)

	Years Ended June 30		
	2004	2003	2002
Operating Revenues	\$ 405,659	\$ 368,077	\$ 320,667
Operating Expenses	590,101	592,616	533,652
Operating Loss	(184,442)	(224,539)	(212,985)
Net Nonoperating Revenues	199,163	214,917	212,583
Income (Loss) before Other Revenues, Expenses, Gains or Losses	14,721	(9,622)	(402)
Capital grants and gifts	6,942	3,658	4,054
Bond proceeds/capital projects proceeds from the Commission	-	106	47,514
Increase (Decrease) in Net Assets Before Transfers	21,663	(5,858)	51,166
Transfer of Liability from the Commission	-	-	(107,036)
Decrease in Net Assets	21,663	(5,858)	(55,870)
Net Assets at Beginning of Year	450,576	456,434	790,810
Restatement of Beginning Net Assets	-	-	(278,506)
Net Assets at Beginning of Year - Restated	450,576	456,434	512,304
Net Assets at End of Year	\$ 472,239	\$ 450,576	\$ 456,434

Revenues:

The following charts illustrate the composition of revenues by source for 2004 and 2003.



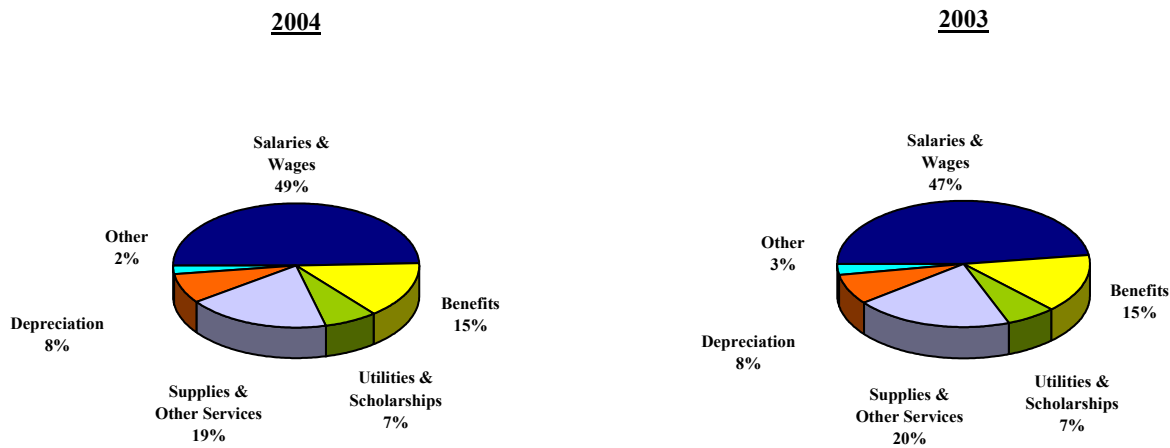
The total revenues for fiscal year 2004 were \$621.9 million, an increase of \$24.6 million over prior year. The most significant sources of revenue for the University are state appropriations, tuition and fees and grants and contracts. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Tuition and fees increased by \$23.4 million primarily due to an increase in the fee rate and an overall increase in enrollment. This increase is consistent with increases in prior years.

- Auxiliary revenue increased by \$9.5 million primarily due to an increase in student room and dining services revenue, athletics revenue and auxiliary fee revenue. Student room and dining services revenue increased due to increased meal plan rates, additional students and increased food sales at the Student Union restaurants. Athletics revenue increased due to the University's participation in the Gator Bowl and higher ticket sales and correspondingly higher surcharge and concession receipts. Auxiliary fee revenue increased due to an increase in the fee rate and number of students. Revenues from auxiliary enterprises grew comparably from fiscal year 2002 to fiscal year 2003.
- Grants and contracts revenue increased by \$5.5 million, a lower increase compared to the increase from fiscal year 2002 to fiscal year 2003. The increase is primarily because of revenues from new sponsored awards received during fiscal year 2004 and increase in revenues from existing sponsored awards. Contractual payments from University Health Associates to the WVU School of Medicine increased during fiscal year 2004. Student financial aid received and disbursed under the Pell Grant, Federal Work-Study, and the Supplemental Educational Opportunity Grant programs remained relatively constant with the prior year as opposed to an increase in such aid from fiscal year 2002 to fiscal year 2003.
- Capital grants & gifts increased by \$3.3 million because of funds received during fiscal year 2004 from the WVU Foundation for Athletics construction projects.
- State appropriations decreased by \$13.8 million primarily due to a mandated reduction in base budget allocations from the State and a mid year rescission of state funds. This decrease is considerably higher than the decrease in state appropriations from fiscal year 2002 to fiscal year 2003.
- Gift income decreased by \$1.9 million primarily due to a decrease in funds requested and received from the WVU Foundation for operating expenditures and building improvements. This decrease is in contrast to an increase in gift income from fiscal year 2002 to fiscal year 2003 caused by increase in reimbursements, by the Foundation, of operating expenditures initially incurred by the University and additional Foundation funds received during fiscal year 2003 for various projects.
- Federal appropriations decreased by \$580,000 primarily due to a reduction in appropriations from the United States Department of Agriculture and timing of expenditures and recognition of corresponding revenue. During fiscal year 2004 the University achieved its goal of expending federal funds within the annual allocation. In comparison, during fiscal year 2003, carryover balances from fiscal year 2002 were used in addition to annual appropriations for expenditures.
- Investment income decreased by \$550,000 primarily due to a decrease in interest receipts and dividend income. Investment income declined in fiscal year 2003 compared to fiscal year 2002 due to a decrease in cash held on deposit with the trustee and lower overall earnings resulting from declining interest rates and markets.

Expenses:

The following is a graphic comparison of total expenses by category between 2004 and 2003.



Total expenses for fiscal year 2004 were \$600.2 million, a decrease of \$3.0 million from prior year. This is in direct contrast to an increase in total expenses from fiscal year 2002 to fiscal year 2003. The decrease in total expenses underscores the University's commitment towards cost control. This decrease is primarily due to a decrease in several categories of expenses as detailed below.

- Supplies and other services decreased by \$6.9 million mainly because expenses were capitalized to construction-in-progress as a result of major construction activity during fiscal year 2004, whereas, during fiscal year 2003 expenses were incurred mainly for large repairs and maintenance projects and were not capitalized. The reduction in supplies expense during fiscal year 2004 is also a result of reduction in base budgets for University departments and indicates conservative spending across the University. This expense category had experienced an increase from fiscal year 2002 to fiscal year 2003 due to increased contractual and professional services, telecommunications, repairs and maintenance and travel costs and increase in off-campus facilities rentals due to increased demand for student housing.
- Other operating expenses decreased by \$3.3 million from fiscal year 2003 to fiscal year 2004. This is because the net present value of future severance payments, under the voluntary classified staff severance plan offered by the University, was recorded as an expense during fiscal year 2003. The expense in fiscal year 2004 reflects the difference between the net present value recorded in the prior year and benefit payments made to severed employees in fiscal year 2004.
- Assessments by the Commission for debt service decreased by \$1.9 million in fiscal year 2004. Assessments decreased from fiscal year 2002 to fiscal year 2003 as well due to principal payments being recorded as assessments in fiscal year 2002.
- Benefits expense decreased by \$700,000 primarily due to the voluntary classified staff severance plan offered by the University in fiscal year 2003 that reduced the number of employees eligible for postemployment health or life insurance benefits. An increase in health insurance premiums caused the benefits expense to increase from fiscal year 2002 to fiscal year 2003, whereas, there was no significant increase for fiscal year 2004.
- Salaries and wages increased by \$7.4 million from the prior year mainly due to a pay raise, for all University employees, instituted in October 2002 (fiscal year 2003). As a result, salary expense for fiscal year 2004 included twelve months of such salary increase compared to only nine months in fiscal year 2003. Additionally, an increase in the number of students on payroll and upgrades for nonclassified and

faculty non-tenure track employees contributed to the increase. Salary expense increased from fiscal year 2002 to fiscal year 2003 also primarily due to the pay raise effective October 2002.

- Other nonoperating income (expenses) - net changed by \$1.5 million from prior year. This is because no capital gains were recorded during fiscal year 2004, whereas, fiscal year 2003 recorded a gain on sale of University's old poultry farm under a land swap agreement with the Monongalia Health Systems, Inc.
- Scholarship and fellowship expenses increased by \$1.3 million over the prior year. This increase is related to an increase in student enrollment and a corresponding increase in tuition and fees.

Cash Flows

The statements of cash flows provide information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the University.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

Cash flows from capital financing activities. This section includes cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating income loss and net cash used in operating activities.

Cash Flows (in thousands)

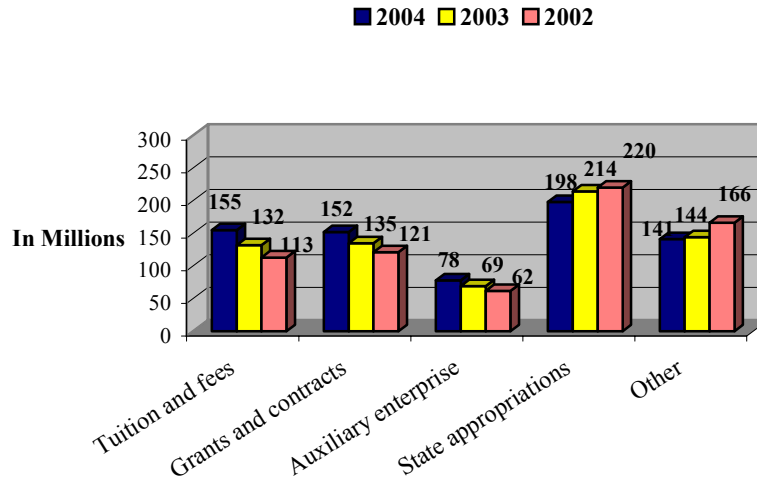
	Years Ended June 30		
	2004	2003	2002
Cash Provided (Used) By:			
Operating Activities	\$ (132,539)	\$ (166,971)	\$ (168,536)
Noncapital Financing Activities	200,392	215,414	212,384
Capital Financing Activities	(55,521)	(41,674)	(43,706)
Investing Activities	347	1,714	2,879
Increase in Cash and Cash Equivalents	12,679	8,483	3,021
Cash and Cash Equivalents, Beginning of Year	90,906	82,423	79,402
Cash and Cash Equivalents, End of Year	\$ 103,585	\$ 90,906	\$ 82,423

Total cash and cash equivalents increased by \$12.7 million during fiscal year 2004 to \$103.6 million.

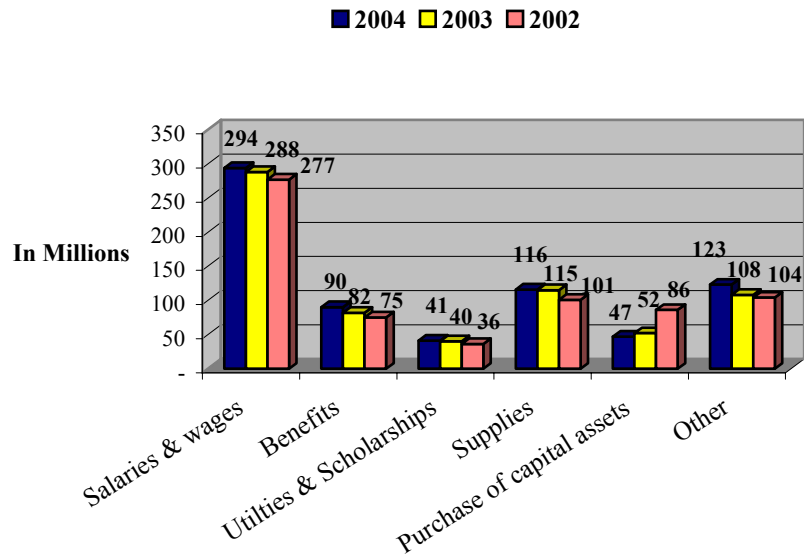
- Net cash used in operating activities decreased by \$34.4 million primarily due to increases in cash inflows from tuition and fees, grants and contracts and auxiliary activities. These increases were partially offset by higher salaries and wages, benefits, and payments for scholarships and fellowships. This decrease in net cash used in operating activities is higher than but consistent with the decrease of \$1.6 million from fiscal year 2002 to fiscal year 2003.
- Net cash provided by noncapital financing activities decreased by \$15.0 million primarily due to a decrease in cash inflows from state appropriations. Net cash provided by noncapital financing activities had increased from fiscal year 2002 to fiscal year 2003 primarily due to an increase in gifts and a decrease in assessments by the Commission for operations.
- Net cash used in capital financing activities increased by \$13.9 million mainly due to a decrease in proceeds from capital debt. From fiscal year 2002 to fiscal year 2003, net cash used in capital financing activities had decreased mainly due to a decrease in purchases of capital assets.
- Net cash provided by investing activities decreased by \$1.4 million primarily due to a decrease in investment income and an increase in investments purchased. This decrease in net cash provided by investing activities is consistent with the \$1.2 million decrease from fiscal year 2002 to fiscal year 2003.

The following graphs illustrate the sources and uses of cash -

SOURCES OF CASH



USES OF CASH



Capital Asset and Long Term Debt Activity

The University had significant construction activity in fiscal year 2004.

- Several Athletics projects were undertaken including construction of Stadium suites, club seats, sound system and scoreboard for \$7.3 million; Coliseum roof replacement, locker room renovations and life safety improvements for \$2.5 million; and construction of soccer stadium for \$1.4 million.
- Final costs were incurred associated with the completion of the Life Sciences Building for \$3.2 million and Wise Library addition for \$1.1 million.
- Other activity included renovation of the Mountainlair parking garage, upgrade of Boreman Hall sprinklers, and Sunnyside land purchase. Grant funds were used for the construction of the Blanchette Rockefeller Neurosciences Institute building, the Health Sciences Center Eastern Panhandle Clinical Campus and the National Education and Technology Center.
- The University capitalized final costs associated with the upgrade of its Oracle Financial and Human Resources systems to Oracle version 11i and ongoing costs associated with the implementation of KRONOS, a leave tracking system.
- The University entered into a lease purchase agreement for \$8.6 million with Wesbanco Bank, Inc. during fiscal year 2004. The total lease amount consists of \$3.9 million real property lease purchase agreement and \$4.7 million personal property lease purchase agreement. The real property lease refinanced the Madison House (Fieldcrest Hall) lease. Projects financed by the personal property lease include telephone system/equipment upgrade and electrical equipment upgrade at the Health Sciences Center, dental equipment upgrade at the WVU School of Dentistry and network services equipment upgrade at WVU.

The University has committed approximately \$211.6 million for capital projects. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the Downtown, Evansdale and Potomac State College campuses. These capital projects will be financed through bond proceeds and other sources of revenues available to the University including internal financing, operational revenue and other financing sources. The bond proceeds will be generated through the issuance of revenue bonds by the University and the Higher Education Facilities 2004 Series B bonds issued by the Commission (HEPC revenue bonds).

- This capital plan includes the following significant projects –

Renovation of Brooks Hall for \$32 million, downtown infrastructure upgrade for \$12.5 million, and replacement of brick facade at the Engineering building for \$5.5 million to be financed primarily by the HEPC revenue bonds.

Oglebay Hall renovation for \$19 million, acquisition of St. Francis real property for \$11 million, construction of plant pathology building for \$9.5 million, and Colson Hall upgrade for \$8 million to be funded primarily by University's revenue bond proceeds.

Such bond proceeds will also finance several athletic projects including construction or renovation of the football stadium, the Coliseum and the soccer stadium; housing projects including construction of residence halls at the Morgantown campus and Potomac State College; and Student Union and parking projects.

- The University has committed approximately \$3.0 million each year from fiscal year 2004 for repairs and deferred maintenance.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however \$116.7 million is reported as debt service assessment payable to the Commission by the University.

During fiscal year 2004, the University received an A+ and A1 credit ratings from Standard and Poor's and Moody's respectively. The University plans to issue approximately \$225 million of revenue bonds in fiscal year 2005, including refunding of outstanding 1997 Series A and B revenue bonds.

Economic Outlook

The University's financial position is closely tied to that of the State of West Virginia. The University is feeling the impact of not only a weakening West Virginia economy but also of reallocations of State appropriations away from higher education and WVU and its regional campuses. The level of State support is one of the key factors influencing the University's financial condition. State appropriations contribute approximately 32% of all revenues, down from 36% in fiscal year 2003. Current guidance from the Governor's Office projects a reduction of \$7.4 million in fiscal year 2005.

The University also anticipates an increase of approximately \$4.8 million in fiscal year 2005 for approved faculty and staff promotions. The commitment of operating funds to fund capital expenditures has an ongoing impact on the overall financial picture of the University.

A steady decline in State appropriations has necessitated the University to focus on cost control and revenue generation through both enrollment growth and tuition increases. The University has addressed the increased need for funding and maintaining quality academic programs and student services by approving tuition and fees increases for fiscal year 2005. The University is also pursuing other revenue enhancement and cost containment strategies to mitigate the budget shortfall. Despite the reductions in State appropriations and the necessity to cut costs, the University is committed to investing in the future and continues to offer an exceptional educational value. The University is looking at banner enrollment of more than 32,000 students for fiscal year 2005.

The University is faced with several challenges in light of the predicted State budget cuts. The University needs to continue to address priority requirements for investments in employees, in capital projects and in technology, as well as to make investments to generate resources. The University's senior leadership is actively engaged in developing processes to generate additional revenues, reduce expenditures and achieve efficiencies.

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

	2004	2003
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 97,089	\$ 82,240
Accounts receivable, net of allowances for doubtful accounts of \$3,667 and \$3,032	34,832	36,763
Loans receivable, current portion	3,935	5,237
Inventories	1,522	1,543
Prepaid expenses	1,170	33
Total current assets	<u>138,548</u>	<u>125,816</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	6,496	8,666
Investments	8,392	7,515
Loans receivable, net of allowances for doubtful accounts of \$5,702 and \$5,344	29,797	27,888
Bond issuance cost, net	682	721
Capital assets, net	<u>626,602</u>	<u>612,588</u>
Total noncurrent assets	<u>671,969</u>	<u>657,378</u>
TOTAL ASSETS	<u>\$ 810,517</u>	<u>\$ 783,194</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED) AS OF JUNE 30, 2004 AND 2003

(Dollars in Thousands)

	2004	2003
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 24,490	\$ 18,878
Accrued liabilities	1,556	2,272
Accrued payroll	7,273	5,426
Deposits	2,106	1,675
Deferred revenue	21,901	21,345
Due to the Commission	53	46
Compensated absences, current portion	18,484	17,584
College system debt owed to the Commission, current portion	213	199
Debt service assessment payable to the Commission, current portion	4,308	4,216
Leases payable, current portion	3,475	3,358
Bonds payable, current portion	1,391	1,126
Notes payable, current portion	95	-
Total current liabilities	<u>85,345</u>	<u>76,125</u>
Noncurrent Liabilities:		
Compensated absences	34,487	35,614
College system debt owed to the Commission	1,995	2,208
Advances from federal government	26,860	26,260
Debt service assessment payable to the Commission	112,422	117,675
Leases payable	11,169	6,913
Bonds payable	63,573	64,964
Notes payable	333	-
Other noncurrent liabilities	2,094	2,859
Total noncurrent liabilities	<u>252,933</u>	<u>256,493</u>
TOTAL LIABILITIES	<u>\$ 338,278</u>	<u>\$ 332,618</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 410,980	\$ 392,976
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	1,569	1,415
Loans	1,126	994
Other	525	525
Total nonexpendable	<u>3,220</u>	<u>2,934</u>
Expendable:		
Scholarships and fellowships	95	175
Sponsored programs	2,025	1,629
Loans	14,355	13,424
Capital projects	13,347	16,505
Debt service	8	8
Other	87	-
Total expendable	<u>29,917</u>	<u>31,741</u>
Unrestricted	<u>28,122</u>	<u>22,925</u>
TOTAL NET ASSETS	<u>\$ 472,239</u>	<u>\$ 450,576</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

	2004	2003
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of \$19,924 and \$17,315	\$ 156,157	\$ 132,791
Federal appropriations	7,218	7,795
Local appropriations	661	631
Federal grants and contracts	90,419	94,930
State grants and contracts	29,212	29,296
Local grants and contracts	401	462
Nongovernmental grants and contracts	27,011	16,898
Sales and services of educational departments	8,623	8,737
Auxiliary enterprises, net of scholarship allowances of \$2,521 and \$2,076	76,999	67,538
Interest on student loans receivable	670	688
Other operating revenues (including revenue from outsourced enterprise of \$1,550 and \$1,711)	8,288	8,311
Total operating revenues	<u>405,659</u>	<u>368,077</u>
OPERATING EXPENSES		
Salaries and wages	296,374	289,018
Benefits	89,131	89,829
Scholarships and fellowships	19,441	18,135
Utilities	21,226	21,115
Supplies and other services	114,765	121,730
Depreciation	45,755	45,936
Loan cancellations and write-offs	658	767
Assessments by the Commission for operations	2,194	2,194
Waivers in support of other State institutions	367	386
Other operating expenses	190	3,506
Total operating expenses	<u>590,101</u>	<u>592,616</u>
OPERATING LOSS	<u>(184,442)</u>	<u>(224,539)</u>

(continued)

WEST VIRGINIA UNIVERSITY**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2004 AND 2003****(Dollars in Thousands)**

	2004	2003
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 200,708	\$ 214,477
Gifts	7,366	9,321
Investment income	1,224	1,773
Interest on capital asset-related debt	(4,007)	(4,077)
Assessments by the Commission for debt service	(5,543)	(7,477)
Other nonoperating income (expenses) - net	(585)	900
Net nonoperating revenues	<u>199,163</u>	<u>214,917</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	14,721	(9,622)
Capital grants and gifts	6,942	3,658
Bond/capital projects proceeds from the Commission	-	106
INCREASE (DECREASE) IN NET ASSETS	21,663	(5,858)
NET ASSETS--BEGINNING OF YEAR	<u>450,576</u>	<u>456,434</u>
NET ASSETS--END OF YEAR	<u>\$ 472,239</u>	<u>\$ 450,576</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 154,928	\$ 131,990
Federal and local appropriations	7,879	8,426
Grants and contracts	151,569	134,636
Payments to suppliers	(115,698)	(114,836)
Payments to employees	(294,237)	(288,131)
Payments for benefits	(89,634)	(82,481)
Payments to utilities	(21,101)	(22,224)
Payments for scholarships and fellowships	(19,453)	(18,118)
Loan advances from federal government	623	646
Disbursements of loans to students	(1,265)	(1,974)
Interest earned on loans to students	669	688
Auxiliary enterprise charges	77,839	68,687
Sales and service of educational departments	8,566	8,677
Other receipts - net	6,776	7,043
Net cash used in operating activities	<u>(132,539)</u>	<u>(166,971)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	197,708	214,477
Gifts	7,366	9,321
Assessments by the Commission for operations	(5,823)	(7,477)
William D. Ford direct lending receipts	105,435	89,491
William D. Ford direct lending payments	(105,201)	(89,756)
Other nonoperating receipts (payments) - net	907	(642)
Net cash provided by noncapital financing activities	<u>200,392</u>	<u>215,414</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Proceeds from (payments on) Commission debt assessment payable	(4,936)	14,855
Capital gifts and grants received	6,935	3,369
Purchases of capital assets	(47,166)	(51,917)
Principal paid on capital debt and leases	(5,566)	(4,622)
Interest paid on capital debt and leases	(4,788)	(3,359)
Net cash used in capital financing activities	<u>(55,521)</u>	<u>(41,674)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,224	1,774
Purchase of investments	(877)	(60)
Net cash provided by investing activities	<u>347</u>	<u>1,714</u>
INCREASE IN CASH AND CASH EQUIVALENTS	12,679	8,483
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>90,906</u>	<u>82,423</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 103,585</u>	<u>\$ 90,906</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED) YEARS ENDED JUNE 30, 2004 AND 2003

(Dollars in Thousands)

	2004	2003
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (184,442)	\$ (224,539)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	45,755	45,936
Changes in assets and liabilities:		
Accounts receivable, net	1,963	(2,608)
Loans receivable, net	(607)	(1,198)
Prepaid expenses	(1,137)	80
Inventories	21	(89)
Accounts payable	3,255	5,230
Accrued liabilities	1,145	3,600
Deposits	431	484
Deferred revenue	556	(3,905)
Due to the Commission	148	2,422
Compensated absences	(227)	6,969
Advances from federal government	600	647
Net cash used in operating activities	<u>\$ (132,539)</u>	<u>\$ (166,971)</u>
Noncash Transactions:		
Equipment purchased on capital lease	<u>\$ 8,703</u>	<u>\$ 3,807</u>
Donated capital assets	<u>\$ 5,297</u>	<u>\$ 2,995</u>
Gain on investments	<u>\$ 301</u>	<u>\$ 105</u>
Bond discount amortization	<u>\$ 108</u>	<u>\$ 108</u>
Loss on dispositions	<u>\$ 1,092</u>	<u>\$ 1,003</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	\$ 97,089	\$ 82,240
Cash and cash equivalents classified as noncurrent assets	6,496	8,666
	<u>\$ 103,585</u>	<u>\$ 90,906</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

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

1. ORGANIZATION

West Virginia University (the “University”) is governed by the West Virginia 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(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

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

During fiscal year 2004, Senate Bill 448 (“S.B. 448”) was passed. Beginning for fiscal years ending June 30, 2005, S.B. 448 requires the transfer of certain net assets from West Virginia University Institute of Technology to its related community and technical college. The exact amounts to be transferred have not yet been determined.

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*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. 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 amendments thereof, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989 to its combined financial statements.

- a. *Reporting Entity* – The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of 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 (WVNET)), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (including the Community and Technical College at West Virginia University Institute of Technology) and West Virginia University at Parkersburg (the “Regional Campuses”) and the Tech Research and Development Corporation and the West Virginia University Research Corporation (the “Corporations”). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 14 and 15) 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 these entities 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. Related foundations and other affiliates of the University (see Notes 14 and 15) do not meet the criteria for determination as component units of the University as described in GASB Statement No. 39.

- b. *Basis of Accounting* – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the combined financial statements of the University have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses when materials or services are received. All accounts and transactions between the University, the Regional Campuses and the Corporations have been eliminated.
- c. *Cash and Cash Equivalents* – For purposes of the statement 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 on deposit with the West Virginia Treasurer’s Office (the “Treasurer”) are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the IMB). These funds are transferred to the IMB and the IMB is directed by the Treasurer to invest these funds in specific external investment pools. Investment income from the investment pools is allocated by the Treasurer to the various participants in the investment pools based on the balances of the various participants and their deposits with the Treasurer in the month in which the income was earned. Balances in the investment pools are recorded at fair value, which is determined by a third party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31,

Accounting and Financial Reporting for Certain Investments and 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 Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

- d. *Investments* – Investments are presented at fair value, based upon quoted market values. The University’s investments include investments pooled with other State funds in a cash liquidity pool to maximize investment income. Income on these investments is allocated as described above. Regulatory oversight for investments on deposit with the Treasurer is provided by the State’s Investment Management Board in accordance with statutory guidelines. These investments are non-categorized with respect to risk and collateral disclosure. Investments also include U.S. Government securities, municipal obligations, high-grade corporate obligations, and equity securities. The University’s other investments are categorized as to credit risk as insured and registered.
- e. *Allowance for Doubtful Accounts* – It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectibility experienced by the University on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- f. *Inventories* – Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- g. *Noncurrent Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students, maintain sinking fund or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets are classified as a noncurrent asset on the statement of net assets.
- h. *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 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. As of August 1, 2002, the University changed its capitalization threshold from \$1,000 to \$5,000.
- i. *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 deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.
- j. *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 on or after July 1, 2001 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 5 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 made on 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, has 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 statement of revenues, expenses, and changes in net assets.

- k. Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the “Severance Plan”) to provide incentives for the voluntary severance of the University’s classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants electing the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed \$45,000. Participants electing the January 15, 2004 exit date will receive their fiscal year 2003 base salary less \$5,000 not to exceed \$40,000. The total payment for either exit date will be divided into 96 equal consecutive monthly payments. If the employee is over age 59 at the time his or her payments begin, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67th birthday. Any employee age 66 or older at the time his or her benefits begin will receive his or her payment in a lump sum. The University’s total liability as of June 30, 2004 and 2003 was \$3.0 million and \$3.8 million, respectively, which includes approximately \$217,000 and \$268,000 for employee benefits as of June 30, 2004 and 2003, respectively.
- l. Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

- m. *Net Assets* – GASB Statements No. 34 and No. 35 report equity as “net assets” rather than “fund balance”. Net assets are classified 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, net of related debt: 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 which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, “Fees and Other Money Collected at State Institutions of Higher Education” of the West Virginia Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were for the following: off campus instruction; public interest research group; libraries; library supplies; and improvement in student services; faculty improvement; health education student loan fund; health sciences education; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature. At June 30, 2004 and 2003, the University had no restricted balances remaining in these funds.

Restricted net assets – nonexpendable: This includes endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted net assets: Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the Board of Governors.

- n. *Classification of Revenue* – The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal appropriations, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University’s academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statements No. 34 and No. 35, such as state appropriations and investment income.

- o. Use of Restricted Net Assets* – The University has 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. The University attempts to utilize restricted net assets first when practicable.
- p. Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net assets. Scholarship discounts and 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 students' behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a 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.

- q. Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed \$105.5 million in fiscal year 2004 and \$89.5 million in fiscal year 2003 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement 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 Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal years 2004 and 2003, the University received and disbursed \$23.0 million and \$22.3 million, respectively, under these other federal student aid programs.

- r. *Government Grants and Contracts* – Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to 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 three years.
- s. *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.
- t. *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.
- u. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.
- v. *Risk Management* – The State’s Board of Risk and Insurance Management (BRIM) provides general, property, casualty and medical malpractice liability coverage to the University and its employees, including those physicians employed by the University and related to the University’s academic medical center hospital. 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 future 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.

- w. *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- x. *Reclassifications* – Certain reclassifications have been made to the 2003 combined financial statements to conform to the current year presentation.
- y. *Recent Statements Issued By GASB* – 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.

3. CASH AND CASH EQUIVALENTS

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

2004

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 44,139	\$ 1,722	\$ 45,861
West Virginia University - Auxiliaries	19,835	-	19,835
Cash on deposit with Trustee or MBC	-	4,774	4,774
Cash in Bank	32,472	-	32,472
Cash on Hand	41	-	41
Cash in Money Market	602	-	602
	<u>\$ 97,089</u>	<u>\$ 6,496</u>	<u>\$ 103,585</u>

2003

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 30,948	\$ 8,580	\$ 39,528
West Virginia University - Auxiliaries	26,509	-	26,509
Cash on deposit with Trustee or MBC	-	86	86
Cash in Bank	23,854	-	23,854
Cash on Hand	42	-	42
Cash in Money Market	887	-	887
	<u>\$ 82,240</u>	<u>\$ 8,666</u>	<u>\$ 90,906</u>

Cash on deposit with Trustee or Municipal Bond Commission (MBC) represents various project revenue, repair and replacement and debt service accounts held by the Trustee or the State's MBC and related to various University specific bond issues (see Note 9).

The combined carrying amount of cash in bank at June 30, 2004 and 2003 was \$32.5 million and \$23.9 million, respectively, as compared with combined bank balances of \$35.6 million

and \$26.5 million, respectively. The difference was primarily caused by items in transit and outstanding checks. All bank balances and cash in money market were covered by federal depository insurance or were secured by securities held as collateral by the State's agent.

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

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30 (dollars in thousands):

	2004	2003
Student tuition and fees, net of allowances for doubtful accounts of \$1,950 and \$1,744	\$ 2,561	\$ 1,782
Grants and contracts receivable, net of allowances for doubtful accounts of \$749 and \$642	24,067	26,955
Due from West Virginia University Hospitals, Incorporated	2,469	4,237
Auxiliary Services, net of allowances for doubtful accounts of \$596 and \$573	865	923
Other, net of allowances for doubtful accounts of \$372 and \$73	4,723	2,693
Due from the Commission	143	58
Due from other State agencies	4	115
	<u>\$ 34,832</u>	<u>\$ 36,763</u>

All accounts receivable are classified as current on the combined statement of net assets. West Virginia University Hospitals, Incorporated receivables represent various administrative expenses incurred by the University on behalf of West Virginia University Hospitals, Incorporated for which reimbursement has not yet been received.

5. CAPITAL ASSETS

Balances and changes in capital assets were as follows June 30 (dollars in thousands):

2004	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 11,436	\$ 730	\$ -	\$ 12,166
Construction in progress	18,563	41,660	(14,395)	45,828
Total capital assets not being depreciated	<u>\$ 29,999</u>	<u>\$ 42,390</u>	<u>\$ (14,395)</u>	<u>\$ 57,994</u>
Other capital assets:				
Land improvements	\$ 9,953	\$ 91	\$ -	\$ 10,044
Buildings	604,693	11,975	(467)	616,201
Equipment	130,564	13,924	(8,823)	135,665
Library books	69,616	5,143	(502)	74,257
Software	40,381	1,519	(60)	41,840
Infrastructure	213,025	1,462	(27)	214,460
Total other capital assets	1,068,232	34,114	(9,879)	1,092,467
Less accumulated depreciation for:				
Land improvements	(4,531)	(652)	-	(5,183)
Buildings	(163,758)	(11,926)	297	(175,387)
Equipment	(79,523)	(13,380)	7,142	(85,761)
Library books	(54,045)	(4,138)	261	(57,922)
Software	(26,499)	(7,661)	1	(34,159)
Infrastructure	(157,287)	(7,998)	(162)	(165,447)
Total accumulated depreciation	<u>(485,643)</u>	<u>(45,755)</u>	<u>7,539</u>	<u>(523,859)</u>
Other capital assets, net	<u>\$ 582,589</u>	<u>\$ (11,641)</u>	<u>\$ (2,340)</u>	<u>\$ 568,608</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 29,999	\$ 42,390	\$ (14,395)	\$ 57,994
Other capital assets	1,068,232	34,114	(9,879)	1,092,467
Total cost of capital assets	1,098,231	76,504	(24,274)	1,150,461
Less accumulated depreciation	<u>(485,643)</u>	<u>(45,755)</u>	<u>7,539</u>	<u>(523,859)</u>
Capital assets, net	<u>\$ 612,588</u>	<u>\$ 30,749</u>	<u>\$ (16,735)</u>	<u>\$ 626,602</u>

2003	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 11,167	\$ 272	\$ (3)	\$ 11,436
Construction in progress	68,267	32,708	(82,412)	18,563
Total capital assets not being depreciated	<u>\$ 79,434</u>	<u>\$ 32,980</u>	<u>\$ (82,415)</u>	<u>\$ 29,999</u>
Other capital assets:				
Land improvements	\$ 9,672	\$ 281	\$ -	\$ 9,953
Buildings	538,705	70,631	(4,643)	604,693
Equipment	146,728	18,627	(34,791)	130,564
Library books	65,081	4,990	(455)	69,616
Software	33,944	6,437	-	40,381
Infrastructure	200,035	12,992	(2)	213,025
Total other capital assets	<u>994,165</u>	<u>113,958</u>	<u>(39,891)</u>	<u>1,068,232</u>
Less accumulated depreciation for:				
Land improvements	(3,891)	(640)	-	(4,531)
Buildings	(152,324)	(11,447)	13	(163,758)
Equipment	(93,952)	(14,996)	29,425	(79,523)
Library books	(50,561)	(3,765)	281	(54,045)
Software	(19,208)	(7,291)	-	(26,499)
Infrastructure	(149,195)	(7,797)	(295)	(157,287)
Total accumulated depreciation	<u>(469,131)</u>	<u>(45,936)</u>	<u>29,424</u>	<u>(485,643)</u>
Other capital assets, net	<u>\$ 525,034</u>	<u>\$ 68,022</u>	<u>\$ (10,467)</u>	<u>\$ 582,589</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 79,434	\$ 32,980	\$ (82,415)	\$ 29,999
Other capital assets	994,165	113,958	(39,891)	1,068,232
Total cost of capital assets	<u>1,073,599</u>	<u>146,938</u>	<u>(122,306)</u>	<u>1,098,231</u>
Less accumulated depreciation	(469,131)	(45,936)	29,424	(485,643)
Capital assets, net	<u>\$ 604,468</u>	<u>\$ 101,002</u>	<u>\$ (92,882)</u>	<u>\$ 612,588</u>

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

6. LONG-TERM LIABILITIES

Balances and changes in long-term liabilities were as follows at June 30 (dollars in thousands):

2004	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 53,198	\$ -	\$ (227)	\$ 52,971	\$ 18,484
College system debt owed to the Commission	2,407	-	(199)	2,208	213
Advances from federal government	26,260	600	-	26,860	-
Debt service assessment payable to the Commission	121,891	-	(5,161)	116,730	4,308
Leases payable	10,271	8,694	(4,321)	14,644	3,475
Bonds payable	66,090	-	(1,126)	64,964	1,391
Notes payable	-	428	-	428	95
Other noncurrent liabilities	3,774	-	(786)	2,988	894
Total long-term liabilities	<u>\$ 283,891</u>	<u>\$ 9,722</u>	<u>\$ (11,820)</u>	<u>\$ 281,793</u>	<u>\$ 28,860</u>

2003	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 46,229	\$ 6,969	\$ -	\$ 53,198	\$ 17,584
College system debt owed to the Commission	2,593	-	(186)	2,407	199
Advances from federal government	25,613	647	-	26,260	-
Debt service assessment payable to the Commission	107,036	19,048	(4,193)	121,891	4,216
Leases payable	9,774	3,857	(3,360)	10,271	3,358
Bonds payable	67,166	-	(1,076)	66,090	1,126
Other noncurrent liabilities	-	3,774	-	3,774	915
Total long-term liabilities	<u>\$ 258,411</u>	<u>\$ 34,295</u>	<u>\$ (8,815)</u>	<u>\$ 283,891</u>	<u>\$ 27,398</u>

7. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30 (dollars in thousands):

2004

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Health or life insurance benefits	\$ 1,521	\$ 34,487	\$ 36,008
Vacation leave	16,963	-	16,963
	<u>\$ 18,484</u>	<u>\$ 34,487</u>	<u>\$ 52,971</u>

2003

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Health or life insurance benefits	\$ 1,386	\$ 35,614	\$ 37,000
Vacation leave	16,198	-	16,198
	<u>\$ 17,584</u>	<u>\$ 35,614</u>	<u>\$ 53,198</u>

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2004 and 2003, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled \$1,448,664 and \$1,309,000, respectively. As of June 30, 2004 and 2003, there were 645 and 529 retirees currently receiving these benefits, respectively. As of June 30, 2004 and 2003, there were an additional 698 and 740 active employees eligible to receive these benefits in the future, respectively.

8. LEASES PAYABLE

- a. *Operating* – Future annual minimum lease payments on operating leases for years subsequent to June 30, 2004 are as follows:

Fiscal Year Ended June 30,	
2005	\$ 8,033
2006	6,962
2007	2,864
2008	2,536
2009	2,437
2010-2031	<u>43,987</u>
Total	<u><u>\$ 66,819</u></u>

Total rental expense for the years ended June 30, 2004 and 2003 was \$9.9 million and \$6.2 million, respectively. The University leases 6 floors of a seven floor office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University has no non-cancelable leases.

- b. *Capital* – The University leases certain property, plant and equipment under capital leases. Leased assets totaled \$23.7 million and \$16.3 million at June 30, 2004 and 2003, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

Fiscal Year Ending June 30,	
2005	\$ 3,976
2006	3,818
2007	3,357
2008	3,019
2009	1,582
2010-2014	<u>194</u>
Minimum lease payments	15,946
Less amount representing interest	<u>(1,302)</u>
Present value of minimum lease payments	14,644
Current Portion	<u>3,475</u>
Noncurrent Portion	<u><u>\$ 11,169</u></u>

9. BONDS PAYABLE

Bonds payable consisted of the following at June 30 (dollars in thousands):

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>2004 Principal Amount Outstanding</u>	<u>2003 Principal Amount Outstanding</u>
Dormitory Refunding Revenue		\$ 555		
Bonds 1997, Series A, due through 2017	3.95-5.30%	to 1,070	\$ 10,105	\$ 10,705
Dormitory Revenue		1,480		
Bonds 1997, Series B, due through 2022	5.00%	to 2,035	10,735	10,735
Athletic Facilities Refunding Revenue		135		
Bonds 1997, Series A, due through 2016	4.00-5.20%	to 255	2,305	2,455
Athletic Facilities Revenue		265		
Bonds 1997, Series B, due through 2027	5.00%	to 455	4,250	4,250
Student Union Refunding		180		
Bonds 1997, Series A, due through 2011	3.95-4.95%	to 280	1,725	1,930
Student Union Revenue		220		
Bonds 1997, Series B, due through 2027	4.20-5.00%	to 2,970	<u>37,310</u>	<u>37,550</u>
Bonds Payable			66,430	67,625
Unamortized Bond Discount			<u>(1,466)</u>	<u>(1,535)</u>
Bonds Payable Less Unamortized Discount			64,964	66,090
Current Portion			1,391	1,126
Noncurrent Portion			<u>\$ 63,573</u>	<u>\$ 64,964</u>

The 1997 Dormitory Series A Bonds were issued to advance refund the University's Dormitory Revenue Bonds (West Virginia University Project), 1992 Series A, dated May 1, 1992, and to pay a portion of the costs of issuance of the 1997 Series A Bonds. The 1997 Dormitory Series B Bonds were issued to finance improvements to certain dormitories at West Virginia University and to reimburse the University for certain prior capital expenses made for such purpose, and to pay a portion of the costs of issuance of the Bonds. The University plans to refinance these bonds during fiscal year 2005 (see Notes 17 and 18).

The 1997 Athletic Facilities Series A Bonds were issued to advance refund the 1985 Series A Annual Tender Revenue Bonds, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series A Bonds. The 1997 Athletic Facilities Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of an indoor football practice facility at West Virginia University and to reimburse the University for certain prior capital expenditures made for such purpose, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series B Bonds.

The 1997 Student Union Series A Bonds were used to advance refund the 1986 Student Union Fee Revenue Bonds. The 1997 Student Union Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of a new student union and related capital improvements, and to pay a portion of the costs of issuance and interest on the 1997 Series A Bonds.

Each of the above bond issues is specific to the University, although some of the bonds were also issued in the name of the State or the State's former Boards, previously responsible for the governance of the State's higher education system. As debt service is required on these bond issues, the University remits the funds to either the Commission (as successor to the former Boards) or the State's Municipal Bond Commission for payment to the trustee of the bond issue and the bond holders. The mandatory debt service transfers are recorded as the funds are so remitted. The Commission and the Municipal Bond Commission may hold certain cash and cash equivalents (see Note 3) for debt service or other bond issue purposes on behalf of the University.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2005	\$ 1,460	\$ 3,298	\$ 4,758
2006	1,525	3,229	4,754
2007	1,595	3,160	4,755
2008	1,670	3,086	4,756
2009	1,845	3,008	4,853
2010-2014	11,535	13,563	25,098
2015-2019	17,740	10,079	27,819
2020-2024	19,270	5,122	24,392
2025-2027	9,790	995	10,785
Bonds Payable	<u>66,430</u>	<u>\$ 45,540</u>	<u>\$ 111,970</u>
Unamortized Bond Discount	<u>(1,466)</u>		
Bonds Payable Less Unamortized Discount	64,964		
Current Portion	1,391		
Noncurrent Portion	<u>\$ 63,573</u>		

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the University 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 either the former Board of Regents, the former University System of West Virginia, the former State College System of West Virginia or the former Interim Governing Board (collectively, the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. Certain tuition and registration fees (referred to as system 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. The bonds remain as a capital obligation of the Commission; however, effective June 30, 2002, an amount of principal related to each institution was reported as debt service assessment payable to the Commission by each institution and as a receivable by the Commission.

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1997, in accordance with the provisions of Senate Bill 591, WVUIT is required to make an annual payment of \$373,089 per year through 2012 to the Policy Commission for purposes of the State College System's debt service. The college system debt owed to the Commission as of June 30, 2004 and 2003 was \$2.2 million and \$2.4 million, respectively.

11. RETIREMENT PLANS

Substantially all eligible employees of the University participate in either the West Virginia State Teachers Retirement System (STRS) or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable election 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, 14 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's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries in both 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salaries in both 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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 of salary out of the last 15) multiplied by the number of years of service.

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

Contributions to the STRS for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2004	\$ 3,000	\$ 1,000	\$ 4,000
2003	3,000	1,000	4,000
2002	3,000	1,000	4,000

The TIAA-CREF and Great-West are defined-contribution benefit plans in which benefits are based upon amounts contributed plus investment earnings. Each employee who elects to participate in these plans is required to make a contribution equal to 6% of their total annual compensation. The University simultaneously matches the employees' 6% contribution. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2004	\$ 15,000	\$ 15,000	\$ 30,000
2003	15,000	15,000	30,000
2002	14,000	14,000	28,000

The University's total payroll for fiscal years 2004 and 2003 was \$296.4 million and \$289.0 million, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$15.7 million and \$253.0 million in fiscal year 2004 and \$16.6 million and \$252.3 million in fiscal year 2003, respectively.

12. NONMONETARY TRANSACTIONS

During fiscal year 2003, the University entered into a land swap agreement with Monongalia Health System, Incorporated (MHS) that involved a transfer of a 13.36 acre portion of the University's Old Poultry Farm to MHS in exchange for a \$2 million payment and a 13.36 acre parcel of MHS land. The Monongalia County Development Authority facilitated the property transfer. Accounting for the land exchange was based on the recorded amount of the University's property.

13. COMMITMENTS

- a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. The University's total payments for steam purchased under the agreement were \$9.1 million and \$8.1 million in fiscal years 2004 and 2003, respectively. The University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.
- b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately \$25.4 million at June 30, 2004.
- c. *Loan Guarantees* - At June 30, 2004, the West Virginia University Research Corporation was contingently liable for guarantee of indebtedness of Mannette Steel Drums, Ltd. in the amount of \$170,000. In the opinion of management, any future requirement to satisfy this guarantee will not have a material negative impact on the Corporation's financial statements.

14. AFFILIATED ORGANIZATIONS (Unaudited)

The University has affiliations with separately incorporated organizations including West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated; University Health Associates; Potomac State College Alumni Association; Tech Alumni Association; West Virginia University at Parkersburg Foundation, Incorporated; and Tech Foundation, Incorporated. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB Statement No. 39. Accordingly, the financial statements of all such organizations are not included in the accompanying combined financial statements.

The National Aeronautics and Space Administration Independent Verification and Validation facility was established in Fairmont, West Virginia in 1993 in partnership with the University. Under a cooperative agreement with the University, verification and validation research programs are conducted at the facility. The facility is operated and maintained by the University's Facility and Services Division.

Related Party Transactions

- a. *University Health Associates* - University Health Associates (UHA) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia University School of Medicine (WVUSOM) and West Virginia University School of Dentistry (WVUSOD). The membership of UHA consists of physicians who are faculty members of the WVUSOM and WVUSOD. UHA coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by UHA's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other clinical practice management services.

The University is reimbursed by UHA for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses UHA for costs associated with the services it provides to the University. During fiscal year 2004, the State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from UHA.

Total funds disbursed to UHA and total funds collected from UHA totaled \$1.5 million and \$19.6 million in fiscal year 2004 and \$2.1 million and \$6.7 million in fiscal year 2003, respectively. There was \$3.1 million and \$83,000 due from UHA at June 30, 2004 and 2003, respectively, for facility rental fees, utility cost reimbursement, and Medicaid appropriation funding. There were no amounts due to UHA at June 30, 2004 and 2003.

- b. *West Virginia University Hospitals, Incorporated* - West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the University's Health Sciences Center (HSC). The Hospital's tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal year 2004 and 2003, \$33.3 million and \$11.6 million, respectively, was received from WVUH for residents' support, radiation safety support, reimbursement for medical malpractice insurance for the residents, reimbursement for steam costs, and Medicaid appropriation funding. Accounts receivable at June 30, 2004 and 2003 include \$1.6 million and \$4.2 million, respectively, due from WVUH for such items and rental

fees. During fiscal year 2004 and 2003, \$137,300 and \$139,700, respectively, was paid to WVUH for nursing services in conducting clinical trials, facilities support services, autopsy services, and family practice residents' salaries under the Community Residency Support Program. Accounts payable at June 30, 2004 and 2003 include \$665,800 and \$1.1 million, respectively, due to WVUH for such items.

15. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED (Unaudited)

The West Virginia University Foundation, Incorporated (the "Foundation") is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose "to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . ." Oversight of the Foundation is the responsibility of an independently elected Board of Directors. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. The Foundation does not meet the criteria for determination as a component unit of the University as described in GASB Statement No. 39. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University's endowments are under the control and management of the Foundation.

The Foundation's assets totaled \$672.0 million and \$599.3 million at June 30, 2004 and 2003, respectively, with net assets of \$391.4 million (\$378.8 million temporarily and permanently restricted) and \$344.0 million (\$328.6 million temporarily and permanently restricted), respectively. The restricted net assets include amounts restricted by donors for specific projects or departments of the University and its affiliated organizations. The net assets related to endowments (permanently restricted) totaled \$326.1 million and \$277.8 million at June 30, 2004 and 2003, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$57.5 million and \$27.6 million in fiscal years 2004 and 2003, respectively, with endowment revenue comprising \$25.4 million and \$9.5 million of such totals, respectively.

Total funds expended by the Foundation in support of University activities totaled \$41.5 million and \$39.7 million in fiscal years 2004 and 2003, respectively. This support and the related expenditures are primarily recorded in the University's combined financial statements.

16. CONTINGENCIES

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

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 management believes

disallowances, if any, will not have a material financial impact on the University's financial position.

The University owns various buildings that 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.

17. SUBSEQUENT EVENTS

During August 2004, the Commission issued the 2004 Series B Revenue Bonds (Higher Education Facilities) in the amount of \$167,260,000. The University is to receive approximately \$57 million of the proceeds to finance capital projects. Proceeds of the 2004 B Bonds will be applied to provide funds to (1) finance capital improvements at institutions of higher education located throughout the State, (2) advance refund the 1996 University System Bonds, and (3) finance the costs associated with the issuance of the 2004 B Bonds.

On September 28, 2004, the Board approved a resolution authorizing the issuance of West Virginia University revenue bonds in the amount of approximately \$225 million. The bonds will include tax-exempt insured fixed rate bonds and taxable insured variable rate weekly auction rate certificates, with a level debt service. The purpose of the bonds is to finance various authorized projects to construct, renovate and upgrade academic and auxiliary facilities on the University campuses, to refund outstanding 1997 Series A and B revenue bonds (see Notes 9 and 18) and related expenses, and to finance the costs associated with the bond issuance. The last maturity date of the bonds is October 1, 2035.

18. SEGMENT INFORMATION

Under the auspices of the State and former Boards governing the State's higher education system, the University issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment. The University plans to refinance these bonds during fiscal year 2005 (see Notes 9 and 17).

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

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

In October 1997, the Board sold \$13,710,000 of Dormitory Refunding Revenue Bonds, 1997 Series A and \$10,735,000 of Dormitory Revenue Bond, 1997 Series B (collectively the "Bonds"). The Bonds were issued under the authority contained in Chapter 18 of the State Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used to (1) advance refund the Prior Bonds and (2) to pay a portion of costs of issuance of the Bonds. The proceeds of the 1997 Series B Bonds are being used to (1) finance a portion of the costs

of construction of improvement to certain dormitories at the University and reimburse the University for certain prior capital expenses made for such purpose and (2) pay a portion of costs of issuance of the Bonds.

The Board must fix and establish rents, charges, and fees which shall at all times be adequate to produce revenue from the dormitories sufficient to pay operating expenses and to make the prescribed payment into the funds and accounts created under the Bond Indenture; such schedule of rents, charges, and fees shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when combined with other monies legally available.

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

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

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

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

In December 1997, the Board sold \$3,000,000 of Refunding Revenue Bonds, 1997 Student Union Series A and \$38,000,000 of Revenue Bonds, 197 Student Union Series B (collectively the "Bonds"). The Bonds were part of a single issue with \$3,250,000 of Refunding Revenue Bonds, 1997 Athletic Facilities Series A and with \$4,250,000 of Revenue Bonds, 1997 Athletic Facilities Series B. The Bonds were issued under the authority contained in Chapter 18, of the State Code of West Virginia, 1931. The proceeds of the 1997 Series A Bonds were used, together with other funds, to refund the Prior Bonds. The proceeds of the 1997 Series B Bonds are being used (1) to pay a portion of the cost of acquisition, construction and equipping of a new student union and related capital improvements at the University; (2) to pay interest on the 1997 Series B Bonds through May 1, 2001; and (3) to pay a portion of the costs of issuance of 1997 Series B Bonds.

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

Condensed financial information for each of the University's segments follow:

(Dollars in Thousands)

	DORMITORY REVENUE		ATHLETIC FACILITIES		STUDENT UNION	
	BONDS 1997, SERIES A & B		BONDS 1997, SERIES A & B		BONDS 1997, SERIES A & B	
	As of/Year Ended		As of/Year Ended		As of/Year Ended	
	2004	2003	2004	2003	2004	2003
CONDENSED STATEMENTS OF NET ASSETS (DEFICIT)						
Assets:						
Current Assets	\$ 8,191	\$ 7,870	\$ 824	\$ 648	\$ 2,969	\$ 2,271
Noncurrent and Capital Assets	20,061	20,533	8,624	8,864	33,019	33,824
Total Assets	<u>28,252</u>	<u>28,403</u>	<u>9,448</u>	<u>9,512</u>	<u>35,988</u>	<u>36,095</u>
Liabilities:						
Current Liabilities	3,653	3,211	827	754	1,713	1,259
Long-Term Liabilities	20,205	20,859	6,395	6,561	38,370	39,079
Total Liabilities	<u>23,858</u>	<u>24,070</u>	<u>7,222</u>	<u>7,315</u>	<u>40,083</u>	<u>40,338</u>
Net Assets:						
Invested in Capital Assets, net of related debt	4,394	4,331	2,226	2,197	(4,095)	(4,243)
Restricted	-	2	-	-	-	-
Total Net Assets (Deficit)	<u>\$ 4,394</u>	<u>\$ 4,333</u>	<u>\$ 2,226</u>	<u>\$ 2,197</u>	<u>\$ (4,095)</u>	<u>\$ (4,243)</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT)						
Operating Revenues	\$ 29,849	\$ 24,575	\$ 3,620	\$ 2,948	\$ 13,142	\$ 12,412
Operating Expenses	<u>(28,808)</u>	<u>(25,066)</u>	<u>(3,265)</u>	<u>(3,065)</u>	<u>(11,074)</u>	<u>(11,062)</u>
Net Operating Income (Loss)	1,041	(491)	355	(117)	2,068	1,350
Nonoperating Revenues/Expenses:						
Investment Income	86	153	8	22	36	133
Interest Expense	<u>(1,066)</u>	<u>(1,326)</u>	<u>(334)</u>	<u>(340)</u>	<u>(1,956)</u>	<u>(2,103)</u>
Increase (Decrease) in Net Assets	61	(1,664)	29	(435)	148	(620)
Net Assets (Deficit) - Beginning of Year	4,333	5,997	2,197	2,632	(4,243)	(3,623)
Net Assets (Deficit) - End of Year	<u>\$ 4,394</u>	<u>\$ 4,333</u>	<u>\$ 2,226</u>	<u>\$ 2,197</u>	<u>\$ (4,095)</u>	<u>\$ (4,243)</u>
CONDENSED STATEMENTS OF CASH FLOWS						
Net Cash Provided by Operating Activities	\$ 1,809	\$ 4,434	\$ 539	\$ 838	\$ 3,098	\$ 4,286
Net Cash Flows Used in						
Capital and Related Financing Activities	(1,666)	(5,104)	(483)	(827)	(2,400)	(5,989)
Net Cash Flows Provided by						
Investing Activities	86	154	8	22	36	132
Increase (Decrease) in Cash	229	(516)	64	33	734	(1,571)
Cash - Beginning of Year	7,178	7,694	648	615	2,124	3,695
Cash - End of Year	<u>\$ 7,407</u>	<u>\$ 7,178</u>	<u>\$ 712</u>	<u>\$ 648</u>	<u>\$ 2,858</u>	<u>\$ 2,124</u>
Reconciliation of cash						
Cash classified as current assets	\$ 7,407	\$ 7,178	\$ 712	\$ 648	\$ 2,858	\$ 2,091
Cash classified as noncurrent assets	-	-	-	-	-	33
	<u>\$ 7,407</u>	<u>\$ 7,178</u>	<u>\$ 712</u>	<u>\$ 648</u>	<u>\$ 2,858</u>	<u>\$ 2,124</u>

19. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

The University's operating expenses by functional and natural classification are as follows:

Functional Classification	Year Ended June 30, 2004 Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 112,079	\$ 35,454	\$ -	\$ 232	\$ 13,839	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 161,604
Research	46,795	16,940	-	180	21,318	-	-	-	-	-	85,233
Public Service	33,245	8,500	-	40	11,436	-	-	-	-	-	53,221
Academic Support	18,550	4,846	-	62	4,904	-	-	-	-	-	28,362
Student Services	12,725	3,292	-	45	4,211	-	-	-	-	-	20,273
Operation and Maintenance of Plant	16,023	4,719	-	15,578	13,292	-	-	-	-	-	49,612
General Institutional Support	30,468	8,320	-	24	15,245	-	-	-	-	190	54,247
Student Financial Aid	-	-	19,441	-	-	-	-	-	-	-	19,441
Auxiliary Enterprises	26,489	7,060	-	5,065	30,520	-	-	-	-	-	69,134
Depreciation	-	-	-	-	-	45,755	-	-	-	-	45,755
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,194	-	-	2,194
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	367	-	367
Loan Cancellations and Write Offs	-	-	-	-	-	-	658	-	-	-	658
Total Expenses	\$ 296,374	\$ 89,131	\$ 19,441	\$ 21,226	\$ 114,765	\$ 45,755	\$ 658	\$ 2,194	\$ 367	\$ 190	\$ 590,101

Functional Classification	Year Ended June 30, 2003 Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 109,520	\$ 32,896	\$ -	\$ 215	\$ 13,621	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 156,252
Research	41,777	14,879	-	394	24,391	-	-	-	-	-	81,441
Public Service	33,611	9,565	-	268	12,758	-	-	-	-	-	56,202
Academic Support	19,670	5,954	-	67	5,233	-	-	-	-	-	30,924
Student Services	13,804	4,501	-	35	4,520	-	-	-	-	-	22,860
Operation and Maintenance of Plant	15,956	5,995	-	12,905	18,731	-	-	-	-	-	53,587
General Institutional Support	30,780	8,199	-	2,394	15,468	-	-	-	-	3,506	60,347
Student Financial Aid	-	-	18,135	-	-	-	-	-	-	-	18,135
Auxiliary Enterprises	23,900	7,840	-	4,837	27,008	-	-	-	-	-	63,585
Depreciation	-	-	-	-	-	45,936	-	-	-	-	45,936
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,194	-	-	2,194
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	386	-	386
Loan Cancellations and Write Offs	-	-	-	-	-	-	767	-	-	-	767
Total Expenses	\$ 289,018	\$ 89,829	\$ 18,135	\$ 21,115	\$ 121,730	\$ 45,936	\$ 767	\$ 2,194	\$ 386	\$ 3,506	\$ 592,616

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the West Virginia University Board of Governors:

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The additional information listed in the table of contents on pages 48-55 is presented for the purpose of additional analysis and is not a required part of the basic combined financial statements. This additional information is the responsibility of the University's management. Such information has been subjected to the auditing procedures applied in our audit of the basic combined statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic combined financial statements taken as a whole.

October 12, 2004

WEST VIRGINIA UNIVERSITY - PARKERSBURG

STATEMENT OF NET ASSETS AS OF JUNE 30, 2004

(Unaudited; Dollars in Thousands)

ASSETS

Current Assets:

Cash and cash equivalents	\$	4,347
Accounts receivable, net of allowances for doubtful accounts of \$12		891
Inventories		310
Prepaid expenses		6
Total current assets		<u>5,554</u>

Noncurrent Assets:

Capital assets, net		<u>8,127</u>
Total noncurrent assets		<u>8,127</u>

TOTAL ASSETS

\$ 13,681

LIABILITIES

Current Liabilities:

Accounts payable	\$	499
Accrued liabilities		51
Accrued payroll		476
Deferred revenue		336
Compensated absences, current portion		413
Debt service assessment payable to the Commission, current portion		110
Leases payable, current portion		46
Total current liabilities		<u>1,931</u>

Noncurrent Liabilities:

Compensated absences		1,270
Debt service assessment payable to the Commission		923
Leases payable		148
Other noncurrent liabilities		55
Total noncurrent liabilities		<u>2,396</u>

TOTAL LIABILITIES

\$ 4,327

NET ASSETS

Invested in capital assets, net of related debt	\$	6,909
Restricted for:		
Expendable:		
Scholarships and fellowships		-
Sponsored programs		958
Loans		2
Other		25
Total expendable		<u>985</u>
Unrestricted		<u>1,460</u>
TOTAL NET ASSETS	\$	<u>9,354</u>

See notes to additional information.

WEST VIRGINIA UNIVERSITY - PARKERSBURG

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2004

(Unaudited; Dollars in Thousands)

OPERATING REVENUES	
Student tuition and fees, net of scholarship allowances of \$2,091	\$ 3,159
Federal grants and contracts	4,542
State grants and contracts	755
Nongovernmental grants and contracts	126
Sales and services of educational departments	19
Auxiliary enterprises, net of scholarship allowances of \$19	29
Operating revenue from Main Campus	27
Other operating revenues (including revenue from outsourced enterprise of \$25)	509
Total operating revenues	<u>9,166</u>
OPERATING EXPENSES	
Salaries and wages	8,496
Benefits	2,176
Scholarships and fellowships	2,936
Utilities	577
Supplies and other services	1,918
Depreciation	666
Assessments by the Commission for operations	65
Other operating expenses	2
Total operating expenses	<u>16,836</u>
OPERATING LOSS	<u>(7,670)</u>
NONOPERATING REVENUES (EXPENSES)	
State appropriations	8,130
Investment income	41
Interest on capital asset-related debt	(14)
Assessments by the Commission for debt service	3
Other nonoperating expenses - net	(2)
Net nonoperating revenues	<u>8,158</u>
INCREASE IN NET ASSETS	488
NET ASSETS--BEGINNING OF YEAR	<u>8,866</u>
NET ASSETS--END OF YEAR	<u>\$ 9,354</u>

See notes to additional information.

WEST VIRGINIA UNIVERSITY - PARKERSBURG

FUNCTIONAL CLASSIFICATION OF EXPENSES
 YEAR ENDED JUNE 30, 2004
 (Unaudited; Dollars in Thousands)

Functional Classification	Natural Classification										Total
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Assessments by the Commission	Operating Expenses	Other	Total	
Instruction	\$ 5,229	\$ 1,316	\$ -	\$ -	\$ 1,015	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,560
Public Service	38	1	-	-	8	-	-	-	-	-	47
Academic Support	438	25	-	-	188	-	-	-	-	-	651
Student Services	701	179	-	-	332	-	-	-	-	-	1,212
Operation and Maintenance of Plant	566	220	-	577	330	-	-	-	-	-	1,693
General Institutional Support	1,442	429	-	-	45	-	-	-	-	2	1,918
Student Financial Aid	-	-	2,936	-	-	-	-	-	-	-	2,936
Auxiliary Enterprises	82	6	-	-	-	-	-	-	-	-	88
Depreciation	-	-	-	-	-	666	-	-	-	-	666
Assessments by Commission for Operations	-	-	-	-	-	-	65	-	-	-	65
Total Expenses	\$ 8,496	\$ 2,176	\$ 2,936	\$ 577	\$ 1,918	\$ 666	\$ 65	\$ -	\$ -	\$ 2	\$ 16,836

See notes to additional information.

**WEST VIRGINIA UNIVERSITY AT PARKERSBURG
NOTES TO ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2004
(Unaudited; Dollars in Thousands)**

Community and Technical College Information - West Virginia University at Parkersburg is designated to be a community and technical college under the provisions of S.B. 448. It neither shares a campus location nor is embedded in another four year institution. The supplementary schedules for the year ended June 30, 2004 for West Virginia University at Parkersburg ("Parkersburg") have been excerpted from the combined audited financial statements of West Virginia University and related footnotes.

Revenues and Expenses - All revenues generated by West Virginia University at Parkersburg are recorded and maintained separately by the institution. State appropriations allocated by the West Virginia Legislature and State grant funds awarded to West Virginia University at Parkersburg are maintained in accounts specifically identified as such by the Treasurer. Fee revenues, including Tuition, Registration, Higher Education Resource Fee (HERF), Faculty Improvement Fee, Operations, and specific course and lab fees are maintained in accounts specifically identified as such. Revenues are used to meet instructional and operational costs as well as debt service on bonds, capital projects, and assessments by the Commission. Similarly all expenses required for the operation of West Virginia University at Parkersburg are separately recorded by Parkersburg.

THE COMMUNITY AND TECHNICAL COLLEGE AT WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

SCHEDULE OF REVENUES AND EXPENSES

YEAR ENDED JUNE 30, 2004

(Unaudited; Dollars in Thousands)

OPERATING REVENUES

Student tuition and fees	\$	1,570
Federal grants and contracts		25
State grants and contracts		460
Nongovernmental grants and contracts		13
Sales and services of educational departments		49
Other operating revenues		1
Total operating revenues		<u>2,118</u>

OPERATING EXPENSES

Salaries and wages		2,923
Benefits		1,118
Scholarships and fellowships		221
Utilities		179
Supplies and other services		774
Depreciation		50
Assessments by the commission for operations		28
Total operating expenses		<u>5,293</u>

OPERATING LOSS

(3,175)

NONOPERATING REVENUES (EXPENSES)

State appropriations		3,232
Investment income		13
Interest on capital asset-related debt		(2)
Other nonoperating income (expense)		(2)
Net nonoperating revenues		<u>3,241</u>

INCREASE IN NET ASSETS

\$ 66

See notes to additional information.

THE COMMUNITY AND TECHNICAL COLLEGE AT WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY

FUNCTIONAL CLASSIFICATION OF EXPENSES

YEAR ENDED JUNE 30, 2004

(Unaudited; Dollars in Thousands)

Functional Classification	Natural Classification							Total
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Assessments by the Commission	
Instruction	\$ 1,664	\$ 696	\$ -	\$ -	\$ 284	\$ -	\$ -	\$ 2,644
Public Service	176	44	-	-	90	-	-	310
Academic Support	328	143	-	-	91	-	-	562
Student Services	192	54	-	-	24	-	-	270
Operations and Maintenance of Plant	199	87	-	179	86	-	-	551
General Institutional Support	316	83	-	-	196	-	-	595
Student Financial Aid	-	-	221	-	-	-	-	221
Auxiliary Enterprises	48	11	-	-	3	-	-	62
Depreciation	-	-	-	-	-	50	-	50
Assessments by Commission for Operations	-	-	-	-	-	-	28	28
Total Expenses	\$ 2,923	\$ 1,118	\$ 221	\$ 179	\$ 774	\$ 50	\$ 28	\$ 5,293

**THE COMMUNITY AND TECHNICAL COLLEGE AT
WEST VIRGINIA UNIVERSITY INSTITUTE OF TECHNOLOGY
NOTES TO ADDITIONAL INFORMATION
YEAR ENDED JUNE 30, 2004
(Unaudited; Dollars in Thousands)**

Community and Technical College Information - The supplementary schedules for the year ended June 30, 2004 for the Community and Technical College at West Virginia University Institute of Technology have been excerpted from the combined audited financial statements of West Virginia University and related footnotes.

Assets and Liabilities – The following is a summary of selected assets and liabilities which are attributed to the community and technical college component of West Virginia University Institute of Technology as of June 30, 2004:

Cash and Cash Equivalents – Unrestricted	<u>\$ 807</u>
Accounts Payable	<u>\$ 87</u>

Revenues - State appropriations allocated by the West Virginia Legislature and State grant funds awarded to the Community and Technical College at West Virginia University Institute of Technology (the CTC) are maintained in accounts specifically identified as such by the Treasurer. Fee income (Tuition, Registration, Higher Education Resource Fee (HERF), Faculty Improvement Fee, Operations, College Fee and specific course and lab fees) is assessed based on the student’s classification and/or course enrollment. With the exception of Tuition and Registration, fee revenues associated with the CTC are maintained by the CTC in accounts specifically identified as such. Revenues are used to meet the instructional and operational costs of the CTC as well as debt service on bonds, capital projects and assessments by the Commission. Some educational and general fees (Activity, Library and Technology), auxiliary fees (Athletic and Student Union), as well as Tuition and Registration charged to the CTC students are deposited into and expended from the four year component. The total amount of these fees for FY 2004 was \$467,054. The Tuition and Registration are used in part to pay the system wide debt which is allocated only to the four year component.

Expenses - Expenses related to CTC students and operations are recorded in both functional and natural classifications of the CTC component.

Salary and benefit charges for the employees paid from State appropriations are charged directly to the appropriate account based upon an agreed upon rate (percentage of full-time equivalent (FTE), head count, enrollment or budget) for each department and/or area.

HERF and operations fee expenses are paid from the baccalaureate accounts. These accounts are then reimbursed (generally on a quarterly basis) from the CTC HERF and other student fee accounts based upon an agreed upon rate (percentage of FTE, head count, enrollment or budget) for each department and/or area.

Debt service payments are made from the Tuition and Registration accounts; however, the amount charged to each component is determined based upon percentage of FTE. The CTC HERF assessment is based on FTE and is charged directly to the CTC HERF account.

Student Financial Aid – The revenues and expenses for the financial aid programs are recorded in the four year component. Of the total amount disbursed, \$646,684 is applicable to the CTC.

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

To the West Virginia University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2004, and have issued our report thereon dated October 12, 2004. 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.

Compliance

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

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we will report to the management of the University in a separate letter dated October 12, 2004.

This report is intended solely for the information and use of the West Virginia University Board of Governors, managements of the 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 the specified parties.

October 12, 2004