

***West Virginia Higher  
Education Fund  
(A Component Unit of the State  
of West Virginia)***

*Combined Financial Statements for the Years  
Ended June 30, 2005 and 2004, Additional  
Information for the Year Ended June 30, 2005,  
and Independent Auditors' Reports*

# WEST VIRGINIA HIGHER EDUCATION FUND

## (A Component Unit of the State of West Virginia)

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education Policy Commission:

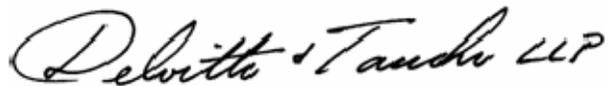
We have audited the accompanying combined statements of net assets of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2005 and 2004, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Concord University, Glenville State College, Southern West Virginia Community and Technical College, West Virginia Northern Community and Technical College, and West Virginia School of Osteopathic Medicine for the year ended June 30, 2005, which statements reflect total assets, total net assets, and total revenues constituting approximately 9%, 13%, and 11%, respectively, of the Fund. We did not audit the financial statements of Bluefield State College, Glenville State College, Southern West Virginia Community and Technical College, or West Virginia Northern Community and Technical College for the year ended June 30, 2004, which statements reflect total assets, total net assets, and total revenues constituting approximately 5%, 7%, and 7%, respectively, of the Fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund for the years ended June 30, 2005 and 2004, is based solely on the reports of such other auditors. We also did not audit the discretely presented component units' financial statements. The component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors.

We, and the auditors of Bluefield State College, Concord University, Glenville State College, Southern West Virginia Community and Technical College, West Virginia Northern Community College, and West Virginia School of Osteopathic Medicine, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The discretely presented component units financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2005 and 2004, and the changes in net assets and cash flows where applicable for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 3 to 14 is not a required part of the combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquires 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 November 21, 2005, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

November 21, 2005

# **West Virginia Higher Education Fund**

## **Management's Discussion and Analysis**

### **Fiscal Year 2005**

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

The West Virginia Higher Education Fund (the "Fund") is comprised of sixteen public colleges and universities and two administrative units. The Fund is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the West Virginia Higher Education Policy Commission (the "Commission") and the West Virginia Council for Community and Technical College Education (the "Council") are responsible for the development and implementation of a higher education policy agenda.

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of college and university financial statements that were adopted for presentation in Fiscal Year 2002 by the Fund. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of the organization. This is the fourth fiscal year for this format.

As of July 1, 2003, West Virginia Higher Education Institutions adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is an amendment to GASB Statement No. 14. As a result, the audited financial statements of certain institutions' Foundations are discretely presented as a discrete component unit in the Fund's financial statements for the fiscal years ended June 30, 2005 and 2004. The Foundations are private nonprofit organizations that report under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2005 and 2004 and is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and, the Combined Statement of Cash Flows.

#### **Combined Statement of Net Assets**

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Fund and is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Fund. The Combined Statement of Net Assets presents end-of-year financial information on Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Fund.

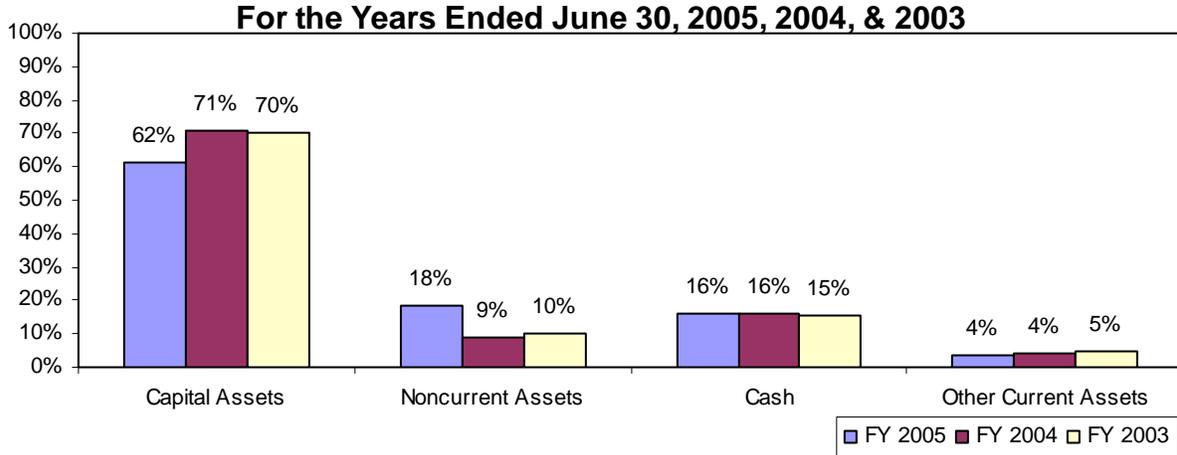
Net assets are divided into three major categories as follows:

- (1) Invested in Capital Assets, Net of Related Debt, which provides the Fund's equity in property, plant and equipment owned by the Fund.
- (2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.
- (3) Unrestricted net assets are available for expenditure and can be used for any lawful purpose of the Fund.

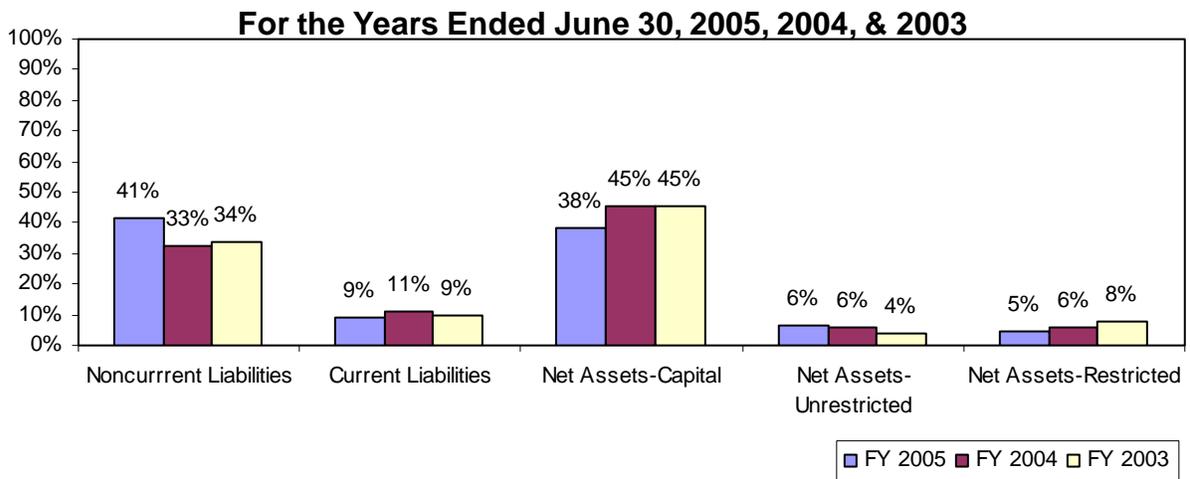
**Combined Net Assets**  
(In thousands of dollars)

	<b>June 30</b>		<b>June 30</b>		<b>June 30</b>		<b>Change From</b>
	<b>2005</b>		<b>2004</b>		<b>2003</b>		<b>2004 to 2005</b>
<b>Assets</b>							
Current Assets	\$ 415,661	\$	338,220	\$	315,838	\$	77,441
Capital Assets, net	1,280,066		1,166,191		1,104,793		113,875
Other Noncurrent Assets	<u>382,213</u>		<u>144,044</u>		<u>155,459</u>		<u>238,169</u>
Total Assets	<u>\$ 2,077,940</u>	\$	<u>1,648,455</u>	\$	<u>1,576,090</u>	\$	<u>429,485</u>
<b>Liabilities</b>							
Current Liabilities	\$ 186,720	\$	177,118	\$	148,420	\$	9,602
Noncurrent Liabilities	<u>858,884</u>		<u>539,586</u>		<u>534,477</u>		<u>319,298</u>
Total Liabilities	<u>1,045,604</u>		<u>716,704</u>		<u>682,897</u>		<u>328,900</u>
<b>Net Assets</b>							
Invested in Capital Assets, net	790,595		744,446		711,814		46,149
Restricted-expendable	95,339		90,645		118,930		4,694
Restricted-nonexpendable	4,785		4,001		3,047		784
Unrestricted	<u>141,617</u>		<u>92,659</u>		<u>59,402</u>		<u>48,958</u>
Total Net Assets	<u>1,032,336</u>		<u>931,751</u>		<u>893,193</u>		<u>100,585</u>
Total Liabilities and Net Assets	<u>\$ 2,077,940</u>	\$	<u>1,648,455</u>	\$	<u>1,576,090</u>	\$	<u>429,485</u>

## Asset Composition



## Liabilities & Net Assets



Major items of note in the Combined Statement of Net Assets include:

- Total current assets of \$415.7 million exceeded total current liabilities of \$186.7 million as of June 30, 2005 for net working capital of \$229.0 million as compared to net working capital of \$161.1 million as of June 30, 2004. Current assets increased by \$77.5 million over the prior year, while current liabilities increased by \$9.6 million.
  - The major components of current assets include cash and cash equivalents of \$338.0 and \$268.7 million and net accounts receivable of \$50.5 and \$52.6 million as of June 30, 2005 and 2004, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer and the West Virginia Investment Management Board.
  - The major components of current liabilities include \$44.3 and \$44.7 million in accounts payable, \$29.9 and \$29.3 million in accrued compensated absences, \$38.8 and \$33.9 million of deferred revenue, and \$28.6 and \$23.9 million of other accrued liabilities as of June 30, 2005 and 2004, respectively.
  - The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations, anticipation of upcoming projects including current construction projects, increases in grant activities, and the general growth of the higher education institutions.
- Noncurrent assets total \$1,662.3 and \$1,310.2 million and noncurrent liabilities total \$858.9 and \$539.6 million as of June 30, 2005 and 2004, respectively. Noncurrent assets increased by \$352.1 million over the prior year while noncurrent liabilities increased by \$319.3 million.
  - The primary noncurrent asset is \$1,280.1 and \$1,166.2 million of net capital assets as of June 30, 2005 and 2004, respectively. Also included as noncurrent assets are cash and cash equivalents primarily for capital purposes of \$188.4 and \$79.3 million and investments for capital purposes totaling \$132.5 and \$12.2 million as of June 30, 2005 and 2004, respectively. Net loans to students total \$46.0 and \$44.4 million as of June 30, 2005 and 2004, respectively.
  - Major components of noncurrent liabilities include long-term bonds payable totaling \$715.7 and \$394.2 million, accruals for compensated absences of \$63.9 and \$64.0 million, advances from federal sponsors of \$42.5 and \$42.5 million, and capital leases of \$19.0 and \$23.4 million as of June 30, 2005 and 2004, respectively.
  - Changes from the prior year in noncurrent assets and liabilities reflect new capital projects financed by revenue bonds at West Virginia University, Shepherd University and a system bond issue by the Commission discussed in more detail in a later section.
- The net assets of the Fund total \$1,032.3 and \$931.8 million as of June 30, 2005 and 2004, respectively, an increase of \$100.5 and \$38.6 million from each previous year end.
  - Net assets invested in capital assets total \$790.6 and \$744.4 million as of June 30, 2005 and 2004 respectively.

- Restricted net assets total \$95.3 and \$90.6 million and include \$34.8 and \$40.7 million for capital projects and \$23.2 and \$22.8 million for loan programs as of June 30, 2005 and 2004, respectively.
- Unrestricted net assets total \$141.6, \$92.7 and \$59.4 million as of June 30, 2005, 2004, and 2003, respectively, and represent net assets available to the Fund for any lawful purpose of the Fund. The primary reason for the amount of the increase in unrestricted net assets in FY 2004 was that House Bill No. 101 reduced the items that were restricted by State Code. A majority of the \$40.7 million increase in FY 2005 was primarily attributable to improved operations.
- The increase in Net Assets is more fully explained in the following section.

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

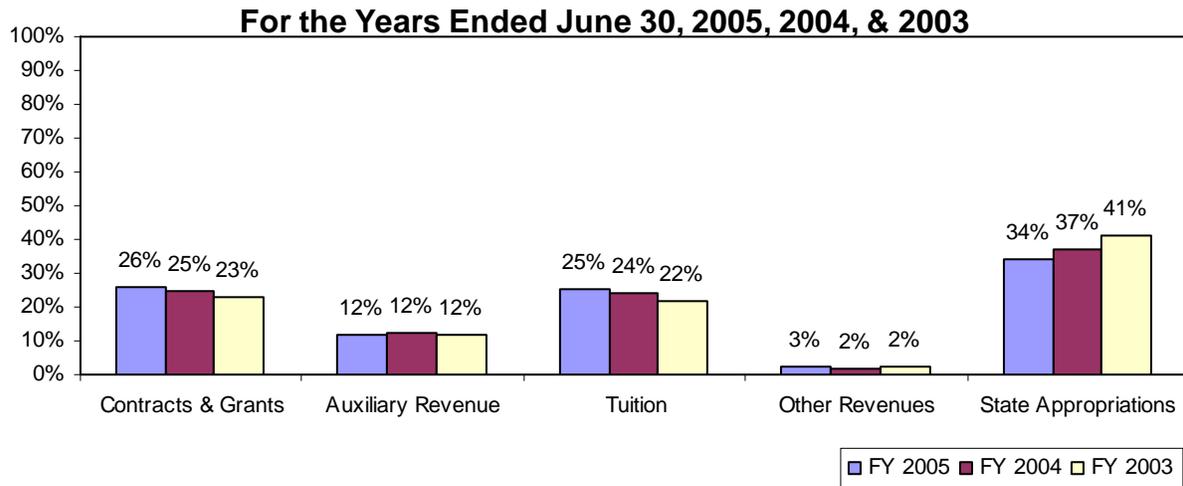
Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the expenses of the Fund, operating and nonoperating, and any other revenues, expenses, gains or losses of the Fund.

Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Fund. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Fund without the Legislature directly receiving commensurate goods and services for those revenues.

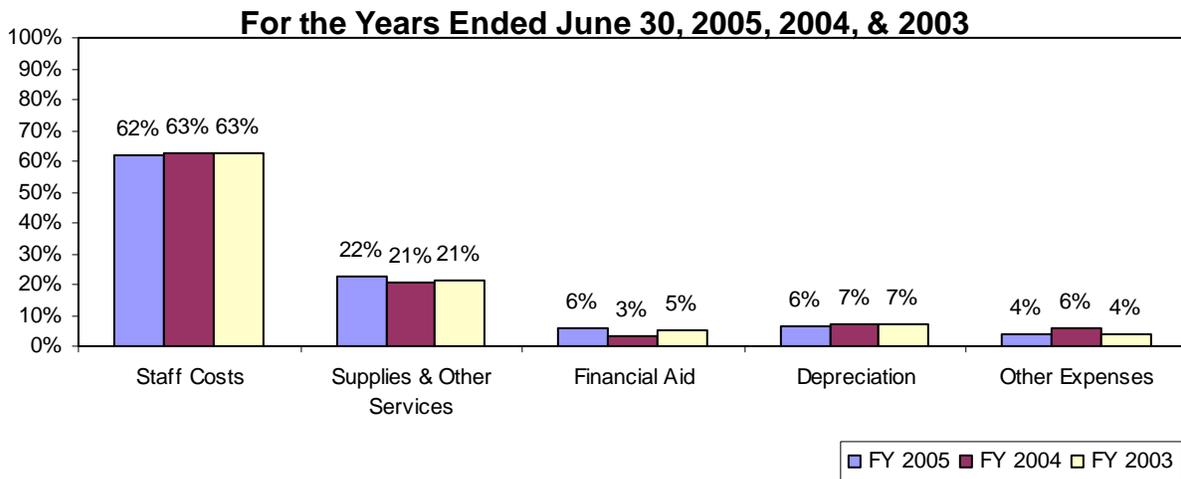
**Combined Revenues, Expenses, and Changes in Net Assets  
(In thousands of dollars)**

	<b>FY 2005</b>	<b>FY 2004</b>	<b>FY 2003</b>	<b>Change From 2004 to 2005</b>
Operating Revenues	\$ 781,740	\$ 710,560	\$ 636,425	\$ 71,180
Operating Expenses	<u>1,114,207</u>	<u>1,062,275</u>	<u>1,053,106</u>	<u>51,932</u>
Operating Loss	(332,467)	(351,715)	(416,681)	19,248
Net Nonoperating Revenues	<u>388,428</u>	<u>378,407</u>	<u>417,062</u>	<u>10,021</u>
Income Before Other Revenues, Expenses, Gains or Losses	55,961	26,692	381	29,269
Capital Grants and Gifts-Net	<u>44,624</u>	<u>11,866</u>	<u>25,950</u>	<u>32,758</u>
Increase in Net Assets	100,585	38,558	26,331	62,027
Net Assets-Beginning of Year	<u>931,751</u>	<u>893,193</u>	<u>866,862</u>	<u>38,558</u>
Net Assets-End of Year	\$ <u>1,032,336</u>	\$ <u>931,751</u>	\$ <u>893,193</u>	\$ <u>100,585</u>

**Total Revenues**



## Total Expenses



Major items of note in the Combined Statement of Revenue, Expenses and Changes in Net Assets include:

- Operating Revenues of the Fund totaled \$781.7 and \$710.6 million, an increase of \$71.1 and \$74.1 million from each previous year.
  - Student tuition and fees revenues totaled \$298.4 million in FY 2005, an increase of \$36.3 million or 13.9% in FY 2005 compared to a 13.4% increase in FY 2004. Tuition is reported net of scholarship allowances totaling \$73.8 and \$66.8 million for the years ended June 30, 2005 and 2004, respectively. The increase in FY 2005 tuition reflects the combined impact of a 1.93% increase in annualized full-time student enrollment, an 8.65% increase in four-year tuition and fee rates, and a 0.53% increase in community and technical college rates.
  - Federal grant and contracts totaled \$204.2 and \$191.8 million, an increase of \$13.4 and \$5.7 million from each previous year. This increase reflects increased funding for sponsored research, Pell grants, and other miscellaneous federal programs.
  - Auxiliary enterprises generated revenues of \$138.8 and \$133.9 million, net of \$12.7 and \$8.3 million of scholarship allowances for the years ended June 30, 2005 and 2004, respectively. FY 2005 net auxiliary revenues increased by \$4.9 million or 3.6% compared to a 10.3% increase in FY 2004, reflecting respective growth in student levels, expansion of auxiliary services offered to students, as well as continued efforts to generate an adequate level of auxiliary revenues to offset the expenses necessary to provide the auxiliary services to students.
  - State grants and contracts totaled \$50.4 and \$40.2 million, an increase of \$10.2 million from FY 2004 and an increase of \$10.7 million from FY 2003. Private grants and contracts totaled \$42.9 and \$38.2 million for the years ended June 30, 2005 and 2004 respectively, an increase of \$4.7 million from FY 2004, and an increase of \$10.3 million from FY 2003. These changes represent normal fluctuations in grant activities.

- Operating expenses totaled \$1,114.2 and \$1,062.3 million for the years ended June 30, 2005 and 2004, respectively, an increase of \$51.9 million and \$8.4 from each previous year. The FY 2004 increase was less than the FY 2005 increase as a result of directives to reduce expenditures in FY 2004.
  - Staff costs including salaries and benefits totaled \$691.5 and \$667.2 million, an increase of \$24.3 and \$6.4 million for the years ended June 30, 2005 and 2004, respectively, or 3.6% from FY 2004. This increase is attributed to salary increases and an additional year of service of annual increment. Benefit costs only rose by \$4.8 million in FY 2005, primarily due to cost increases in current year medical plan premiums and the related costs associated with accruals for compensated absences offset by reduction in staff. Salary costs increased \$19.4 million in FY 2005 or 3.8% mainly attributed to the salary increases which only increased 1.2% in the prior year.
  - Supplies and other services totaled \$249.6 and \$221.7 million, an increase of \$27.9 million from FY 2004, compared to a decrease of \$0.8 million from FY 2003.
  - Scholarships and fellowships totaled \$62.3 and \$61.7 million, an increase of \$0.6 million or 0.7% from FY 2004 compared to an increase of \$5.7 million from FY 2003.
  - Depreciation on capital assets totaled \$70.1 million, a decrease of \$4.0 million from FY 2004 compared to a \$2.1 million increase from FY 2003.
  - As reported on a functional expenditure basis, expenditures for Educational and General Expenses were \$852.5 and \$799.7 million in FY 2005 and FY 2004, respectively, an increase of \$52.8 million over FY 2004 and a 4.5% over FY 2004, and now constitute 38.4% of total educational and general expenses. Research expenditures grew by 13.5% over FY 2004 due to expanded sponsored research projects. Plant operations increased by 4.2% over FY 2004.

**Functional Expenditure Comparisons**  
(In thousands of dollars)

	FY05	% of	FY04	% of	FY03	% of
	Total	E&G Total	Total	E&G Total	Total	E&G Total
Instruction	\$ 327,676	38.4%	\$ 313,473	39.2%	\$ 305,981	37.9%
Research	116,867	13.7%	102,992	12.9%	94,707	11.7%
Public Service	77,958	9.2%	78,152	9.8%	81,341	10.1%
Academic Support	63,277	7.4%	61,685	7.7%	64,274	8.0%
Student Services	52,896	6.2%	48,897	6.1%	52,900	6.6%
Plant Operations	85,111	10.0%	81,673	10.2%	86,134	10.7%
Institutional Support	<u>128,689</u>	<u>15.1%</u>	<u>112,803</u>	<u>14.1%</u>	<u>121,255</u>	<u>15.0%</u>
<b>Total E&amp; G Expenses</b>	<b>852,474</b>	<b><u>100.0%</u></b>	<b>799,675</b>	<b><u>100.0%</u></b>	<b>806,592</b>	<b><u>100.0%</u></b>
Financial Aid	61,440		62,430		56,081	
Auxiliary Enterprises	128,945		125,122		116,060	
Depreciation	70,105		74,098		71,976	
Other	<u>1,243</u>		<u>950</u>		<u>2,397</u>	
<b>Total Operating Expenses</b>	<b>\$ <u>1,114,207</u></b>		<b>\$ <u>1,062,275</u></b>		<b>\$ <u>1,053,106</u></b>	

- The result from operations was a net operating loss of \$332.5 and \$351.7 million for the years ended June 30, 2005 and 2004, respectively, but excludes State appropriations of \$403.2 and \$402.5 million for the years ended June 30, 2005 and 2004, respectively, which are recorded as non-operating revenue. The net operating loss decreased by \$19.2 million in FY 2005, primarily from the increase in operating revenues of \$71.2 million.
- Net non-operating revenue totaled \$388.4 and \$378.4 million for the years ended June 30, 2005 and 2004, respectively, an increase of \$10 million and \$38.7 million or a 2.6 % and 9.3% from each previous year.
  - State general revenue and lottery appropriations totaled \$403.2 and \$402.5 million for the years ended June 30, 2005 and 2004, respectively, which is basically flat state appropriations from FY 2004 and 2003.
  - Interest incurred on indebtedness totaled \$27.2 and \$21.2 million, an increase of \$6.0 million from FY 2004 due to the sale of revenue bonds at West Virginia University, Shepherd University and system bonds by the West Virginia Higher Education Policy Commission during FY 2005.
  - Interest earned on investments totaled \$14.6 and \$3.8 million for the years ended June 30, 2005 and 2004, respectively, an increase of \$10.8 million from the prior year reflecting an increased level of invested funds due to sale of bonds mentioned above and improved investment return.
  - Student financial aid payments to other institutions totaled \$10.6 and \$14.1 million for the years ended June 30, 2005 and 2004, respectively, a decrease of \$3.5 million from FY 2004.

- Other revenues consist of capital grants and gifts totaling \$44.6 and \$29.4 million for the years ended June 30, 2005 and 2004, respectively, an increase of \$15.2 million from FY 2004, compared to an increase of \$3.4 million from FY 2003.
- The activity for FY 2005 resulted in an increase of net assets totaling \$100.6 million, as compared to the \$38.6 million increase in net assets during FY 2004, which was reduced by \$17.5 million in funds returned (unappropriated) to the State.

### Combined Statement of Cash Flows

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

#### Combined Cash Flows (In thousands of dollars)

	FY 2005	FY 2004	FY 2003	Change From 2004 to 2005
Cash Provided (Used) By:				
Operating Activities	\$ (256,486)	\$ (269,616)	\$ (327,500)	\$ 13,130
Noncapital Financing Activities	414,290	391,495	430,260	22,795
Capital and Related Financing Activities	180,021	(97,669)	(105,838)	277,690
Investing Activities	(268,449)	3,464	22,272	(271,913)
Increase in Cash and Cash Equivalents	69,376	27,674	19,194	41,702
Cash and Cash Equivalents, beginning of year	268,655	240,981	221,787	27,674
Cash and Cash Equivalents, end of year	\$ 338,031	\$ 268,655	\$ 240,981	\$ 69,376

Major items of note in the Combined Statement of Cash Flows include:

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$256.5 and \$269.6 million for the years ended June 30, 2005 and 2004, respectively, primarily due to the reporting of State appropriations as a noncapital financing activity. Primary sources of cash from Operating Activities during FY 2005 and 2004, respectively, were Student tuition and fees of \$305.0 and \$275.5; Contracts and grants of \$303.8 and \$282.4; and Auxiliary enterprise charges of \$139.1 and \$135.4. Primary uses of cash for FY 2005 and 2004, respectively, included Payments to and on behalf of employees of \$689.9 and \$665.1 and Payments to suppliers of \$253.8 and \$229.1.

- Net cash provided from noncapital financing activities for FY 2005 and 2004, respectively, totaled \$413.3 million and \$391.5 million, of which \$394.7 million and \$400.7 million was from State General Revenue and Lottery appropriations.
- Net cash provided by capital and related financing activities for FY 2005 totaled \$180.0 million primarily from Bond issuances of \$352.3 million offset by capital expenditures and debt payments. This was an increase of \$277.7 million from the prior year when net cash used in capital and related financing activities totaled a deficit \$97.7 million.
- Net cash used in investing activities for FY 2005 was \$268.4 million and primarily resulted from an increase in investments due to new bond issuances to fund new construction projects. This was a decrease from the prior year when net cash provided from investing activities totaled \$3.5 million.
- Net cash for FY 2005 increased by \$69.4 million compared to increase in net cash for FY 2004 of \$27.7 million. This increase basically correlates to the increase in net assets for FY 2005.

### **Capital Asset and Long-Term Debt Activity**

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Purchases of capital assets totaled \$184.0 million in FY 2005, as compared to \$118.8 million in FY 2004. Institutional projects at all the institutions are under way due to institutional bond issues in FY 2003, 2004 and 2005 and a system bond issue in FY 2005. For FY 2005, expenditures at West Virginia University, Marshall University and Fairmont State University accounted for \$153.2 million of the \$184.0 million total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. Major projects at Fairmont State University include student housing facilities, parking facilities, campus infrastructure and utilities improvements, dormitory facilities and a new student activity center. The remaining expenditures reflect on-going capital projects at the other state colleges, universities and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of \$189.0 million as of June 30, 2005. An additional System Bond was issued in FY 2005 for \$167.3 million with a balance at June 30, 2005 of \$161.6 million to finance a variety of campus capital projects. This new issue will be funded from excess lottery revenue. Individual institutional bonds outstanding total \$384.2 million as of June 30, 2005. New institutional revenue bonds totaling \$220.0 million were issued by West Virginia University, \$81.3 million to refund existing 1997 Series A & B issues that will realize a savings of \$8.4 million over the next 19 years and \$138.7 million to finance new capital projects. Shepherd University issued \$22.9 million during fiscal year 2005 to finance new capital projects. The majority of these new issues are unexpended at June 30, 2005. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

## **Other Factors Impacting the Financial Position and Results of Operations of the Fund**

The mission of the West Virginia Higher Fund is to contribute to the long-term growth and diversification of West Virginia's economy as outlined in It All Adds Up: Compact for the Future of West Virginia (the "Compact"). The Compact focuses on goals in the following six major areas: Preparation, Participation, Affordability, Competitive Work Force, Economic Development, and Accountability.

The achievement of the goals for the higher education system as described in the Compact are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is \$1,032.3 million, including \$133.4 million in unrestricted net assets. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 34% of operating and nonoperating revenues of the Fund in FY 2005 is from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State of West Virginia budget constraints in fiscal year 2005 required most state agencies to reduce general revenue funding by 9%, however some of this cut was restored to higher education, and including the increase in financial aid appropriations, total state appropriations were flat compared to fiscal year 2004. For fiscal year 2006, State appropriations for higher education were primarily reduced by 2.5% for the Higher Education Policy Commission institutions with no reduction for the Council for Community and Technical College institutions. Financial aid received increased funding for Promise, Higher Education Grant and HEAPS Scholarship Program. For fiscal year 2007 the Governor's Office instructed that budget requests are to be based on FY 2006 levels and that there would not be any budget reductions.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the state. Increased attendance by non-resident students is another factor in the future financial stability of the Fund. Although faced with difficult demographic trends, enrollment increases have been encouraging in recent periods, with over a 1.9% increase in Fall 2005 full-time equivalent students versus Fall 2004. Net student tuition and fees provide approximately 25% of the total revenues of the Fund.

One of the key goals of the higher education system is to improve the economic environment of the State of West Virginia. The full impact of the current economic environment and the resulting impact on the future economic environment by various factors including the performance of the higher education system cannot be predicted with any certainty. The current financial condition of the Fund will be beneficial in meeting the challenges that lie ahead.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2005 AND 2004**  
**(Dollars in thousands)**

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	<b>2005</b>	<b>2004</b>
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 338,031	\$ 268,655
Appropriations due from Primary Government	10,091	3,159
Accounts receivable—net	50,490	52,612
Loans receivable—current portion	6,292	7,279
Other current assets	5,638	2,018
Inventories	<u>5,119</u>	<u>4,497</u>
Total current assets	<u>415,661</u>	<u>338,220</u>
Noncurrent assets:		
Cash and cash equivalents	29,287	79,279
Investments	291,678	12,155
Loans receivable, net of allowance of \$9,896 and \$9,882	45,990	44,446
Other assets	15,258	8,164
Capital assets—net	<u>1,280,066</u>	<u>1,166,191</u>
Total noncurrent assets	<u>1,662,279</u>	<u>1,310,235</u>
<b>TOTAL</b>	<u><b>\$ 2,077,940</b></u>	<u><b>\$ 1,648,455</b></u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2005 AND 2004**  
**(Dollars in thousands)**

	<b>2005</b>	<b>2004</b>
<b>LIABILITIES:</b>		
Current liabilities:		
Accounts payable	\$ 44,263	\$ 44,707
Unappropriated capital grants due to State of West Virginia		17,506
Due to State of West Virginia	64	57
Accrued liabilities	28,648	23,853
Deferred revenue	38,840	33,856
Deposits	15,245	4,634
Severance payable—current portion	1,021	1,190
Compensated absences—current portion	29,888	29,285
Notes payable—current portion	243	175
Capital lease obligations—current portion	5,560	5,551
Interest payable	4,284	2,113
Bonds payable—current portion	<u>18,664</u>	<u>14,191</u>
Total current liabilities	<u>186,720</u>	<u>177,118</u>
Noncurrent liabilities:		
Advances from federal sponsors	42,491	42,472
Severance payable	1,796	2,169
Compensated absences	63,856	63,966
Notes payable	3,289	3,505
Capital lease obligations	19,007	23,376
Deferred interest payable	12,741	9,879
Bonds payable	<u>715,704</u>	<u>394,219</u>
Total noncurrent liabilities	<u>858,884</u>	<u>539,586</u>
Total liabilities	<u>1,045,604</u>	<u>716,704</u>
<b>NET ASSETS:</b>		
Invested in capital assets—net of related debt	<u>790,595</u>	<u>744,446</u>
Restricted for:		
Expendable:		
Scholarships	9,292	6,969
Sponsored projects	19,219	11,148
Loans	23,222	22,739
Capital projects	34,834	40,735
Debt service	6,569	7,486
Other	<u>2,203</u>	<u>1,568</u>
Total restricted expendable	95,339	90,645
Nonexpendable	4,785	4,001
Unrestricted	<u>141,617</u>	<u>92,659</u>
Total net assets	<u>1,032,336</u>	<u>931,751</u>
<b>TOTAL</b>	<u><u>\$ 2,077,940</u></u>	<u><u>\$ 1,648,455</u></u>

See notes to combined financial statements

(Concluded)

# WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

## COMPONENT UNITS—STATEMENTS OF NET ASSETS

AS OF JUNE 30, 2005

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State College Foundation, Inc.	The Glennville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation Inc.	The West Virginia State University Foundation, Inc.
<b>ASSETS:</b>										
Cash and cash equivalents	\$ 430,985	\$ 1,919,258	\$ 136,169	\$ 144,323	\$ 3,009,990	\$ 714,876	\$ 8,950	\$ 76,975	\$ 132,584	\$ 304,695
Investments	7,387,499	17,475,416	8,728,530	4,849,188	76,363,508	19,397,994	8,088,586	1,167,467	38,932	2,766,085
Pledges and contributions receivable	1,873	1,211,475	450,389	603,379	5,056,683	2,989	483,848	53,721		10,578
Interest and dividends receivable	27,227	87,558	26,121		3,583	97,051				
Notes receivable					669,489					
Other assets	6,856	17,745	47,055	72,274	896,926	5,162	19,401	186,393	10,145	7,000
Beneficial interests					728,605		2,194,877			226,399
Property, plant, and equipment—net		27,750		135,919	1,116,447	167,122	12,045		1,934,023	1,106,236
<b>TOTAL</b>	<b><u>\$7,854,440</u></b>	<b><u>\$20,739,202</u></b>	<b><u>\$9,388,264</u></b>	<b><u>\$5,805,083</u></b>	<b><u>\$87,845,231</u></b>	<b><u>\$20,385,194</u></b>	<b><u>\$10,807,707</u></b>	<b><u>\$1,484,556</u></b>	<b><u>\$2,115,684</u></b>	<b><u>\$4,420,993</u></b>
<b>LIABILITIES:</b>										
Accounts payable	\$ -	\$ 202,322	\$ 5,500	\$ -	\$ 188,694	\$ 3,985	\$ 65,701	\$ -	\$ 15,666	\$ 14,466
Other accrued liabilities	170,442		72,051			323				
Amounts held on behalf of others	44,926	1,214,221				2,855,586		102,723		
Annuity obligations		244,623	89,275		381,477	118,157	67,455			23,773
Note payable					689,050		8,684			
<b>Total liabilities</b>	<b><u>215,368</u></b>	<b><u>1,661,166</u></b>	<b><u>166,826</u></b>	<b><u>-</u></b>	<b><u>1,259,221</u></b>	<b><u>2,978,051</u></b>	<b><u>141,840</u></b>	<b><u>-</u></b>	<b><u>118,389</u></b>	<b><u>38,239</u></b>
<b>NET ASSETS:</b>										
Unrestricted	1,088,731	725,714	1,604,944	399,038	15,249,237	402,485	460,039	1,399,962	1,886,751	210,702
Temporarily restricted	6,206,261	4,863,662	2,174,531	1,170,677	27,089,912	690,654	3,723,597		110,544	1,203,341
Permanently restricted	344,080	13,488,660	5,441,963	4,235,368	44,246,861	16,314,004	6,482,231	84,594		2,968,711
<b>Total net assets</b>	<b><u>7,639,072</u></b>	<b><u>19,078,036</u></b>	<b><u>9,221,438</u></b>	<b><u>5,805,083</u></b>	<b><u>86,586,010</u></b>	<b><u>17,407,143</u></b>	<b><u>10,665,867</u></b>	<b><u>1,484,556</u></b>	<b><u>1,997,295</u></b>	<b><u>4,382,754</u></b>
<b>TOTAL</b>	<b><u>\$7,854,440</u></b>	<b><u>\$20,739,202</u></b>	<b><u>\$9,388,264</u></b>	<b><u>\$5,805,083</u></b>	<b><u>\$87,845,231</u></b>	<b><u>\$20,385,194</u></b>	<b><u>\$10,807,707</u></b>	<b><u>\$1,484,556</u></b>	<b><u>\$2,115,684</u></b>	<b><u>\$4,420,993</u></b>

See notes to combined financial statements.

# WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

## COMPONENT UNITS—STATEMENTS OF NET ASSETS

AS OF JUNE 30, 2004

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
<b>ASSETS:</b>										
Cash and cash equivalents	\$ 662,971	\$ 1,791,306	\$ 101,671	\$ 171,131	\$ 4,572,337	\$ 1,080,771	\$ 38,885	\$ 57,316	\$ 70,400	\$ 203,573
Investments	6,856,078	15,287,462	8,769,419	4,576,586	65,046,693	16,448,935	6,867,241	1,050,291	58,447	2,526,773
Pledges and contributions receivable	31,916	940,385	381,441	87,077	6,581,493	25,994	441,467	30,520		7,000
Interest and dividends receivable	34,950	86,585	24,492		3,583	103,887				
Notes receivable					1,404,567					
Other assets	11,004	8,607	12,916	74,652	1,148,107	4,356	33,763	215,063	16,422	22,638
Beneficial interests					954,307		2,154,475			220,745
Property, plant, and equipment—net		3,516		136,133	1,356,104	1,614,944	15,334		1,995,998	1,140,138
<b>TOTAL</b>	<b><u>\$7,596,919</u></b>	<b><u>\$18,117,861</u></b>	<b><u>\$9,289,939</u></b>	<b><u>\$5,045,579</u></b>	<b><u>\$81,067,191</u></b>	<b><u>\$19,278,887</u></b>	<b><u>\$9,551,165</u></b>	<b><u>\$1,353,190</u></b>	<b><u>\$2,141,267</u></b>	<b><u>\$4,120,867</u></b>
<b>LIABILITIES:</b>										
Accounts payable	\$ -	\$ 6,473	\$ 15,000	\$ -	\$ 308,150	\$ 187	\$ 54,221	\$ -	\$ 19,164	\$ 2,604
Other accrued liabilities			10,602			4,153		2,840		69,340
Amounts held on behalf of others	32,124	828,556				2,909,169			52,512	
Annuity obligations		206,415	92,214		381,477	137,562	59,829			28,904
Note payable					850,083		13,872			
<b>Total liabilities</b>	<b><u>32,124</u></b>	<b><u>1,041,444</u></b>	<b><u>117,816</u></b>	<b><u>-</u></b>	<b><u>1,539,710</u></b>	<b><u>3,051,071</u></b>	<b><u>127,922</u></b>	<b><u>2,840</u></b>	<b><u>71,676</u></b>	<b><u>100,848</u></b>
<b>NET ASSETS:</b>										
Unrestricted	1,154,061	639,375	1,964,824	392,725	15,439,265	130,742	277,987	1,265,756	1,961,875	207,008
Temporarily restricted	6,155,025	3,096,241	6,823,608	1,150,802	21,542,711	617,235	3,034,845		107,716	1,094,397
Permanently restricted	255,709	13,340,801	383,691	3,502,052	42,545,505	15,479,839	6,110,411	84,594		2,718,614
<b>Total net assets</b>	<b><u>7,564,795</u></b>	<b><u>17,076,417</u></b>	<b><u>9,172,123</u></b>	<b><u>5,045,579</u></b>	<b><u>79,527,481</u></b>	<b><u>16,227,816</u></b>	<b><u>9,423,243</u></b>	<b><u>1,350,350</u></b>	<b><u>2,069,591</u></b>	<b><u>4,020,019</u></b>
<b>TOTAL</b>	<b><u>\$7,596,919</u></b>	<b><u>\$18,117,861</u></b>	<b><u>\$9,289,939</u></b>	<b><u>\$5,045,579</u></b>	<b><u>\$81,067,191</u></b>	<b><u>\$19,278,887</u></b>	<b><u>\$9,551,165</u></b>	<b><u>\$1,353,190</u></b>	<b><u>\$2,141,267</u></b>	<b><u>\$4,120,867</u></b>

See notes to combined financial statements.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2005 AND 2004  
 (Dollars in thousands)**

	<b>2005</b>	<b>2004</b>
<b>OPERATING REVENUES:</b>		
Student tuition and fees, net of scholarship allowance of \$73,765 and \$66,841	\$ 298,426	\$ 262,066
Federal land grants	7,857	7,218
Local land grants	942	661
Contracts and grants:		
Federal	204,240	191,778
State	50,408	40,209
Local	1,151	1,211
Private	42,913	38,202
Interest on student loans receivable	936	1,042
Sales and services of educational activities	14,446	12,092
Auxiliary enterprise revenue, net of scholarship allowance of \$12,672 and \$8,328	138,750	133,941
Other operating revenue	<u>21,671</u>	<u>22,140</u>
 Total operating revenues	 <u>781,740</u>	 <u>710,560</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	537,659	518,246
Benefits	153,815	148,956
Supplies and other services	249,645	221,694
Utilities	39,214	36,250
Student financial aid—scholarships and fellowships	62,277	61,741
Depreciation	70,105	74,098
Loan cancellations and write-offs	838	930
Other operating expenses	<u>654</u>	<u>360</u>
 Total operating expenses	 <u>1,114,207</u>	 <u>1,062,275</u>
 <b>OPERATING LOSS</b>	 <u>(332,467)</u>	 <u>(351,715)</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS  
 FOR THE YEARS ENDED JUNE 30, 2005 AND 2004  
 (Dollars in thousands)**

	<b>2005</b>	<b>2004</b>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 403,231	\$ 402,507
Gifts	12,105	8,850
Investment income	14,568	3,837
Interest on indebtedness	(27,228)	(21,153)
Student financial aid payments to other institutions	(10,626)	(14,116)
Other nonoperating expenses—net	<u>(3,622)</u>	<u>(1,518)</u>
Net nonoperating revenues	<u>388,428</u>	<u>378,407</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	55,961	26,692
CAPITAL GRANTS AND GIFTS	44,624	29,372
UNAPPROPRIATED CAPITAL GRANTS	<u>          </u>	<u>(17,506)</u>
INCREASE IN NET ASSETS	100,585	38,558
NET ASSETS—Beginning of year	<u>931,751</u>	<u>893,193</u>
NET ASSETS—End of year	<u>\$ 1,032,336</u>	<u>\$ 931,751</u>

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

## COMPONENT UNITS—STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State College Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation	The West Virginia State University Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:										
Unrestricted:										
Gifts, contributions, and other	\$ 109,331	\$ 331,449	\$ 300,066	\$ 171,998	\$ 630,149	\$ 48,368	\$ 167,688	\$ 4,648	\$ 526,851	\$ 197,632
Investment income	28,424	25,683	(178,675)	55,265	4,704,681	444,854	194,430	53,868	4,069	2,245
Temporarily restricted:										
Gifts, contributions, and other	100,179	1,004,829	517,420	503,683	7,516,099	492,541	1,481,083	200,620	2,913	539,790
Investment income	325,941	651,355	320,115	262,425	2,380,948	410,156	382,066			27
Permanently restricted:										
Gifts, contributions, and other	12,066	781,132	211,728	695,959	1,456,811	150,476	187,651			103,618
Investment income		404,929	56,173	57,238	16,785	714,972	93,323			258,585
Total revenues, gains, and other support	<u>575,941</u>	<u>3,199,377</u>	<u>1,226,827</u>	<u>1,746,568</u>	<u>16,705,473</u>	<u>2,261,367</u>	<u>2,506,241</u>	<u>259,136</u>	<u>533,833</u>	<u>1,101,897</u>
EXPENSES:										
Scholarships and rewards	282,376	492,415	815,598	748,547	1,210,466	656,900	330,081	115,136		
College support	199,461	361,912	238,179	22,531	6,917,477	113,484	724,765			497,165
Management and general	19,827	343,431	123,735	215,986	1,519,001	311,656	208,771	9,794	606,129	241,997
Total expenses	<u>501,664</u>	<u>1,197,758</u>	<u>1,177,512</u>	<u>987,064</u>	<u>9,646,944</u>	<u>1,082,040</u>	<u>1,263,617</u>	<u>124,930</u>	<u>606,129</u>	<u>739,162</u>
CHANGE IN NET ASSETS	74,277	2,001,619	49,315	759,504	7,058,529	1,179,327	1,242,624	134,206	(72,296)	362,735
NET ASSETS—Beginning of year	<u>7,564,795</u>	<u>17,076,417</u>	<u>9,172,123</u>	<u>5,045,579</u>	<u>79,527,481</u>	<u>16,227,816</u>	<u>9,423,243</u>	<u>1,350,350</u>	<u>2,069,591</u>	<u>4,020,019</u>
NET ASSETS—End of year	<u>\$7,639,072</u>	<u>\$19,078,036</u>	<u>\$9,221,438</u>	<u>\$5,805,083</u>	<u>\$86,586,010</u>	<u>\$17,407,143</u>	<u>\$10,665,867</u>	<u>\$1,484,556</u>	<u>\$1,997,295</u>	<u>\$4,382,754</u>

See notes to combined financial statements.

# WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

## COMPONENT UNITS—STATEMENTS OF ACTIVITIES

YEAR ENDED JUNE 30, 2004

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State College Foundation, Inc.	The Glennville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic College Foundation, Inc.	The West Virginia State University Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:										
Unrestricted:										
Gifts, contributions, and other	\$ 21,256	\$ 340,159	\$ 303,794	\$ 205,918	\$ 738,553	\$ 75,466	\$ 148,477	\$ 2,756	\$ 637,410	\$ 164,746
Investment income	58,558	14,737	672,638	69,819	4,540,514	308,398	122,508	94,055	3,317	6,566
Temporarily restricted:										
Gifts, contributions, and other	209,694	990,518	501,548	548,652	5,954,188	323,924	923,299	181,050	64,215	378,053
Investment income	438,081	684,474	242,312	333,148	1,847,578	172,572	507,420			
Permanently restricted:										
Gifts, contributions, and other	500	204,377	486,549	90,550	1,457,464	2,041,866	1,024,207			204,067
Investment income		859,823	32,413	21,906	310,717	26,889	89,108			128,879
Total revenues, gains, and other support	<u>728,089</u>	<u>3,094,088</u>	<u>2,239,254</u>	<u>1,269,993</u>	<u>14,849,014</u>	<u>2,949,115</u>	<u>2,815,019</u>	<u>277,861</u>	<u>704,942</u>	<u>882,311</u>
EXPENSES:										
Scholarships and rewards	207,580	451,568	805,594	608,377	1,094,794	692,581	212,022	141,247	826	1,249
College support	35,535	195,676	130,968	34,069	4,199,291	101,403	459,598		1,011	381,630
Management and general	13,195	445,709	141,487	268,272	1,490,803	262,202	341,236	5,632	709,800	227,310
Total expenses	<u>256,310</u>	<u>1,092,953</u>	<u>1,078,049</u>	<u>910,718</u>	<u>6,784,888</u>	<u>1,056,186</u>	<u>1,012,856</u>	<u>146,879</u>	<u>711,637</u>	<u>610,189</u>
CHANGE IN NET ASSETS	471,779	2,001,135	1,161,205	359,275	8,064,126	1,892,929	1,802,163	130,982	(6,695)	272,122
NET ASSETS—Beginning of year	<u>7,093,016</u>	<u>15,075,282</u>	<u>8,010,918</u>	<u>4,686,304</u>	<u>71,463,355</u>	<u>14,334,887</u>	<u>7,621,080</u>	<u>1,219,368</u>	<u>2,076,286</u>	<u>3,747,897</u>
NET ASSETS—End of year	<u>\$7,564,795</u>	<u>\$17,076,417</u>	<u>\$9,172,123</u>	<u>\$5,045,579</u>	<u>\$79,527,481</u>	<u>\$16,227,816</u>	<u>\$9,423,243</u>	<u>\$1,350,350</u>	<u>\$2,069,591</u>	<u>\$4,020,019</u>

See notes to combined financial statements.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**  
**(Dollars in thousands)**

	<b>2005</b>	<b>2004</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 305,006	\$ 275,518
Federal and local appropriations	8,800	7,879
Contracts and grants	303,845	282,441
Payments to and on behalf of employees	(689,855)	(665,113)
Payments to suppliers	(253,790)	(229,078)
Payments to utilities	(39,511)	(35,988)
Payments for scholarships and fellowships	(70,097)	(73,621)
Loans issued to students	(7,978)	(7,890)
Collection of loans to students	6,639	6,049
Sales and service of educational activities	15,276	13,641
Interest earned on loans to students	642	704
Auxiliary enterprise charges	139,047	135,391
Other receipts—net	<u>25,490</u>	<u>20,451</u>
Net cash used in operating activities	<u>(256,486)</u>	<u>(269,616)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	394,660	400,711
Student financial aid payments to other institutions	(3,057)	(17,119)
Gift receipts	12,235	8,160
Direct and Stafford lending receipts	236,706	211,796
Direct and Stafford lending payments	(236,567)	(211,545)
Other nonoperating payments (receipts)—net	<u>10,313</u>	<u>(508)</u>
Net cash provided by noncapital financing activities	<u>414,290</u>	<u>391,495</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Capital appropriations (unappropriations)	(17,506)	10,000
Proceeds from bond issuances	420,839	100,379
Payment for bond issuance costs	(8,510)	(3,976)
Proceeds from capital asset disposals	57	267
Decrease (increase) in noncurrent cash and cash equivalents	52,417	20,908
Capital grants and gifts received	44,674	18,789
Purchases of capital assets	(183,976)	(118,826)
Principal paid on notes, bonds, and leases	(101,871)	(106,157)
Interest paid on notes, bonds, and leases	(23,503)	(19,053)
Payments into debt reserves	<u>(2,600)</u>	<u>          </u>
Net cash provided by (used in) capital financing activities	<u>180,021</u>	<u>(97,669)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Receipts from sales of investments	19,925	712
Purchase of investments	(297,052)	(113)
Investment income	<u>8,678</u>	<u>2,865</u>
Net cash provided by (used in) investing activities	<u>(268,449)</u>	<u>3,464</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>69,376</b>	<b>27,674</b>
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<b><u>268,655</u></b>	<b><u>240,981</u></b>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<b><u>\$ 338,031</u></b>	<b><u>\$ 268,655</u></b>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2005 AND 2004**  
**(Dollars in thousands)**

	<b>2005</b>	<b>2004</b>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(332,467)	\$(351,715)
Adjustments to reconcile operating loss to net cash used in operating activities—		
Depreciation expense	70,105	74,098
Changes in assets and liabilities:		
Receivables—net	7,692	1,929
Loans receivable—net	(378)	(1,142)
Prepaid expenses	(401)	(1,540)
Inventories	(622)	183
Accounts payable	(3,341)	6,947
Accrued liabilities	(1,781)	911
Compensated absences	494	448
Severance payable	(542)	(724)
Deferred revenue	3,602	256
Deposits	331	524
Advances from Federal Sponsors	149	372
Other	<u>673</u>	<u>(163)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(256,486)</u>	<u>\$(269,616)</u>
SIGNIFICANT NONCASH TRANSACTIONS:		
Assets purchased on capital leases	<u>\$ 1,526</u>	<u>\$ 10,372</u>
Construction in progress additions included in accounts payable and accrued liabilities	<u>\$ 7,689</u>	<u>\$ 6,921</u>
Donated capital assets	<u>\$ 6,538</u>	<u>\$ 6,219</u>
See notes to combined financial statements.		(Concluded)

# WEST VIRGINIA HIGHER EDUCATION FUND (A Component Unit of the State of West Virginia)

## NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

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### 1. ORGANIZATION

The West Virginia Higher Education Fund (the “Fund”) is comprised of the following:

- Bluefield State College
- Concord University
- Eastern West Virginia Community and Technical College
- Fairmont State University
- Glenville State College
- Marshall University (including Marshall University Graduate College)
- Shepherd University
- Southern West Virginia Community and Technical College
- West Liberty State College
- West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing)
- West Virginia Northern Community College
- West Virginia State University
- West Virginia School of Osteopathic Medicine
- West Virginia University (including Potomac State College, West Virginia University Institute of Technology and West Virginia University at Parkersburg)

The Fund is a discretely presented component unit of the State of West Virginia (the “State”).

Each college and university (the “Institutions”) in the Fund is governed by its own Governing Board, which is responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. The West Virginia Higher Education Policy Commission (the “Policy Commission”), in accordance with Senate Bill No. 653, is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. The Policy Commission is comprised of 10 persons appointed by the Governor with the advice and consent of the Senate. Senate Bill No. 448 gives the West Virginia Council for Community and Technical College Education (the “Council”) the responsibility of developing, overseeing and advancing the State’s public policy agenda as it relates to community and technical college education. The Council is comprised of 12 persons appointed by the Governor with the advice and consent of the Senate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

and No. 35 provides a comprehensive, entity-wide perspective of the Fund's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

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

**Reporting Entity**—The accompanying combined financial statements present all entities under the authority of the Fund under GASB Statement No. 14 *The Financial Reporting Entity* including:

Bluefield State College Research and Development Corporation  
Concord College Research and Development Corporation  
Glenville State College Research Corporation  
Glenville State College Housing Corporation  
Marshall University Research and Development Corporation  
West Virginia State University Research and Development Corporation  
West Virginia University Research and Development Corporation

These entities are included in the combined financial statements as blended component units of the Fund.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund are not part of the Fund's reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundations and other affiliates under GASB Statement No. 14.

As of July 1, 2003, the Fund adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the component units' financial statements are discretely presented here with the Fund's financial statements for the years ended June 30, 2005 and 2004. The component units are the separate private nonprofit organization of each applicable institution that are required to be reported under GASB No. 39, these discretely presented component unit organizations report under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The component units consist of foundations which meet the criteria for inclusion under GASB No. 39.

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

- *Invested in capital assets—net of related debt*—This represents the Fund’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets—net of related debt.
- *Restricted net assets—expendable*—This includes resources in which the Fund is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.
- The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.
- *Restricted net assets—nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

***Basis of Accounting***—For financial reporting purposes, the Fund is considered a special-purpose government engaged only in business-type activities. Accordingly, the Fund’s financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). The State Treasurer’s office is permitted by West Virginia Code § 12-1-12A to invest up to \$125 million in overnight repurchase agreements. These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the IMB, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

**Investments**—GASB Statement No. 31 requires the Fund to record certain investment balances at fair value. As provided in the statement, the Fund's investments maintained by the IMB and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Other investments are presented at fair value, based upon quoted market values.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligation); equities; corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; investment agreements with certain financial institutions; repurchase agreements; state and local government securities ("SLGS"); and other investments. Other investments consist primarily of single-family mortgage loans and collateralized mortgage obligations. SLGS are direct obligations of the U.S. Government, issued to state and local government entities to provide those governments with required cash flows at yields which do not exceed IRS arbitrage limits.

**Allowance for Doubtful Accounts**—It is the Fund's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Fund on such balances, and such other factors which, in the Fund's judgment, require consideration in estimating doubtful accounts.

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

**Noncurrent Cash and Cash Equivalents**—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets and (3) held for permanently restricted net assets, is classified as a noncurrent asset in the statement of net assets.

**Capital Assets**—Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was approximately \$4,900,000 for the year ended June 30, 2005. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment.

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

**Compensated Absences**—The Fund 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 Fund'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 percent of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

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

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the Fund has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the Fund for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

**Risk Management**—The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to the Fund and its employees. Such coverage may be provided to the Fund by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the Fund or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Fund is currently charged by BRIM and the ultimate cost of that insurance based on the Fund's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Fund and the Fund's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

**Classification of Revenues**—The Fund has classified its 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, (4) federal appropriations for land grant institutions, and (5) sales and services of educational activities.

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

***Use of Restricted Net Assets***—The Fund has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Fund attempts to utilize restricted net assets first when practicable. Certain Institutions have adopted a policy to utilize restricted net assets first.

***Federal Financial Assistance Programs***—The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans directly to students, through the institution within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Fund’s combined statements of net assets. In 2005 and 2004, the Fund received and disbursed, or awarded, approximately \$239 million and \$217 million, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The Fund also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2005 and 2004, the Fund received and disbursed approximately \$78 million and \$75 million, respectively, under these federal student aid programs.

***Scholarship Allowances***—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the Fund, and the amount that is paid by students and/or third parties making payments on the student’s behalf.

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

***Government Grants and Contracts***—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Fund recognizes revenue associated with

direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

***Income Taxes***—The Fund is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

***Cash Flows***—Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the combined statement of cash flows.

***Use of Estimates***—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

***Risk and Uncertainties***—Investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

***Recent Statements Issued by the Governmental Accounting Standards Board***—The GASB has 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 Fund to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset. The Fund 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 Fund has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

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

The GASB has also issued Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, GASB Statement No. 47 should be implemented simultaneously with GASB Statement No. 45. This statement provides recognition and measurement guidance related to benefits provided to employees that are terminated. The Fund has not yet determined the effect, if any, that adoption of GASB Statement No. 47 may have on its financial statements.

**Reclassifications**—Certain items in the 2004 financial statements have been reclassified to conform to the current year’s classification.

### 3. CASH AND CASH EQUIVALENTS

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

	<b>2005</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer:			
Fund	\$ 286,756	\$ 6,115	\$ 292,871
Municipal Bond Commission	374	2,643	3,017
Cash on deposit with Trustee	765	15,987	16,752
Cash in bank	44,186	1,316	45,502
Cash equivalents	5,125	3,226	8,351
Cash on hand	825		825
	<u>\$ 338,031</u>	<u>\$ 29,287</u>	<u>\$ 367,318</u>
	<b>2004</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
Cash on deposit with the State Treasurer:			
Fund	\$ 211,286	\$ 35,061	\$ 246,347
Municipal Bond Commission	1,551	2,264	3,815
Cash on deposit with Trustee	7,796	39,882	47,678
Cash in bank	46,787	1,471	48,258
Cash equivalents	1,114	601	1,715
Cash on hand	121		121
	<u>\$ 268,655</u>	<u>\$ 79,279</u>	<u>\$ 347,934</u>

Cash shown above as held by the Municipal Bond Commission or Trustee represents various project revenue, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other cash held by the State Treasurer includes \$14.2 million and \$30.2 million of restricted cash at June 30, 2005 and June 30, 2004, respectively.

The combined carrying amounts of cash in the bank at June 30, 2005 and 2004 was \$45.2 and \$48.0 million, as compared with the combined bank balance of \$64.4 and \$54.3 million, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State’s agent.

Cash on deposit with the State Treasurer as of June 30, 2005 is comprised of the following investment pools.

#### **Cash Liquidity**

**Credit Risk**—The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor’s

and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percentage of Assets
Commerical paper	P1	A-1	\$ 598,241,394	37.9 %
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Coporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,995,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	<u>4,241,278</u>	<u>0.3</u>
Total rated investments			<u>\$ 1,437,998,293</u>	<u>91.2 %</u>

Unrated securities include repurchase agreements of \$141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The Fund's ownership represents 12.33% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statues prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more that 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities ("WAM") for the various asset types in the Cash Liquidity pool.

Security Type	Carrying Value	WAM
Commerical paper	\$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Coporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	<u>4,241,278</u>	<u>1</u>
Total assets	<u>\$ 1,579,008,293</u>	<u>45</u>

**Foreign Currency Risk**—The Cash Liquidity pool has no securities that are subject to foreign currency risk.

### **Government Money Market**

**Credit Risk**—The IMB limits the exposure to credit risk in the Government Money Market pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody’s and AAA by Standard and Poor’s. Agency discount notes held by the pool are rated P1 by Moody’s and A-1 by Standard & Poor’s.

The Fund’s ownership represents 1.22% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statutes prohibit the Government Money Market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the Government Money Market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent’s money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the Government Money Market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (“WAM”) for the various asset types in the Government Money Market pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	\$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U.S. Treasury bills	24,903,836	48
Money market funds	<u>985,190</u>	<u>1</u>
Total assets	<u>\$ 154,819,532</u>	<u>38</u>

**Foreign Currency Risk**—The Government Money Market pool has no securities that are subject to foreign currency risk.

### **Enhanced Yield**

**Credit Risk**—The IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard and Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	\$ 81,631,581	30.0 %
Agency bonds	Aaa	AAA	69,203,277	25.5
U.S. Treasury notes	Aaa	AAA	66,466,539	24.5
Corporate asset backed securities	Aaa	AAA	<u>49,990,408</u>	<u>18.4</u>
Total rated investments			<u>\$ 267,291,805</u>	<u>98.4 %</u>

Unrated securities include repurchase agreements of \$4,362,262. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The Fund's ownership represent 19.26% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statues prohibit the Enhanced Yield pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the Enhanced Yield pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities ("WAM") for the various asset types in the Enhanced Yield pool.

Security Type	Fair Value	WAM (years)
Corporate notes	\$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U.S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	<u>4,362,262</u>	<u>0.0</u>
Total assets	<u>\$ 271,654,067</u>	<u>1.7</u>

**Foreign Currency Risk**—The Enhanced Yield pool has no securities that are subject to foreign currency risk.

**Cash on Deposit with Trustee**

Investment Type	Moody's Rating	Standard and Poor's Rating	Carrying Value
WesBanco Bank:			
U.S. Treasury money market fund	Aaa	AAAm	5,313
Commercial paper	Aaa	AAAm	1,088
JP Morgan Trust Company:			
U.S. Government money market fund (invested in U.S. Government Agencies, U.S. Treasuries and Repurchase Agreements)	Aaa	AAAm	1,128
U.S. Treasury securities money market fund	Aaa	AAAm-G	131
Money Market Fund (Credit Enhancers/Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)			
	Aaa	N/A	84
Money Market Fund	Aaa	N/A	71

These investments have no significant custodial risk or interest rate risk and they are not exposed to a concentration of credit risk nor any foreign currency risk.

The remaining amounts on deposit with Trustee are invested in funds, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities.

**4. INVESTMENTS**

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

	<u>2005</u> Noncurrent	<u>2004</u> Noncurrent
Guaranteed investment contracts	\$ 258,752	\$ -
Repurchase agreements	19,471	
U.S. Government securities	5,167	4,600
Mutual funds	3,528	1,141
High-grade corporate obligations	3,143	3,444
Equity securities	1,048	2,926
Other	569	44
	<u>\$ 291,678</u>	<u>\$ 12,155</u>

Approximately \$155,938,000 of the Guaranteed Investment Contract (“GIC”) investments are with FSA Capital Management Services LLC, a subsidiary of FSA Incorporated and has a rating of AAA by Standard and Poor’s and Aaa by Moody’s. This GIC has a fixed rate of interest of 2.83%.

A significant portion of the \$99,622,000 from the 2004 West Virginia University revenue refunding and improvement bond proceeds is invested in a Guaranteed Investment Contract with United Bank, Inc. under a master repurchase agreement with Citigroup Global Markets Inc. (the "Seller"). The BIC is guaranteed by the long-term senior unsecured debt rating of Citigroup Global Markets Holdings Inc. (the "Guarantor"). In the event such debt rating of the Guarantor falls below A+ by Standard & Poor's Rating Services or A1 by Moody's Investor Services, Inc., the Seller must either provide additional securities to satisfy the rating agencies' collateral requirements or terminate the agreement by repurchasing all securities and paying any price differentials.

The remaining GIC investments of approximately \$3,192,000 have a fixed rate of interest of 5.18%. No rating is available for this investment.

The \$19,471,000 of repurchase agreements invest in securities issued by the United States Government or the Government National Mortgage Association, and securities issued or guaranteed by Freddie Mac or Fannie Mae or other agency, corporation, or instrumentality of the United States and such other securities as MBIA Inc. and the trustee may agree to in writing.

The \$5,167,000 of investments in U.S. Government Agencies were rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's rating services.

Investments in the mutual funds have not been rated.

Approximately, \$1,247,000 of the investments in corporate bonds were rated A by Moody's Investors Service and BBB by Standard & Poor's rating services. The remainder of the investments in corporate bonds had an average rating of AA+.

More than 5% of the Fund's investments are in the Guaranteed Investment Contract as noted above. This investment represents approximately 88.7% of the Fund's total investments.

Other than listed above, these investments have no significant custodial credit risk or interest rate risk and they are not exposed to a concentration of credit risk or any foreign currency risk.

## 5. ACCOUNTS RECEIVABLE

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

	<b>2005</b>	<b>2004</b>
Students, net of allowance of \$8,088 and \$5,581	\$ 6,456	\$ 6,091
Grants and contracts, net of allowance of \$668 and \$1,053	36,057	34,444
Auxiliary services, net of allowance of \$799 and \$596	747	1,954
Due from West Virginia Hospitals, Inc.		2,469
Due from State and state agencies	1,850	1,311
Other, net of allowance of \$275 and \$373	<u>5,380</u>	<u>6,343</u>
	<u>\$ 50,490</u>	<u>\$ 52,612</u>

West Virginia Hospitals, Inc. receivables represent various administrative expenditures incurred by West Virginia University on behalf of West Virginia Hospitals, Inc. for which reimbursement has not yet been received.

## 6. CAPITAL ASSETS

The following is a summary of capital assets transactions for the Fund for the years ended June 30 (dollars in thousands):

	2005			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 39,835	\$ 5,453	\$ (292)	\$ 44,996
Construction in progress	145,242	116,415	(70,334)	191,323
Other	132			132
Total capital assets not being depreciated	<u>\$ 185,209</u>	<u>\$ 121,868</u>	<u>\$ (70,626)</u>	<u>\$ 236,451</u>
Other capital assets:				
Land improvements	\$ 19,629	\$ 806	\$ (200)	\$ 20,235
Infrastructure	236,051	11,667	40	247,758
Buildings	1,158,047	84,877	476	1,243,400
Equipment	263,742	33,997	(34,274)	263,465
Software	43,087	4,136	(38)	47,185
Library books	107,604	6,858	(614)	113,848
Total other capital assets	<u>1,828,160</u>	<u>142,341</u>	<u>(34,610)</u>	<u>1,935,891</u>
Less accumulated depreciation for:				
Land improvements	8,148	1,224	(4)	9,368
Infrastructure	180,573	9,478	22	190,073
Buildings	370,068	24,513	(2,408)	392,173
Equipment	168,834	24,932	(22,001)	171,765
Software	34,908	3,845	16	38,769
Library books	84,647	6,110	(629)	90,128
Total accumulated depreciation	<u>847,178</u>	<u>70,102</u>	<u>(25,004)</u>	<u>892,276</u>
Other capital assets—net	<u>\$ 980,982</u>	<u>\$ 72,239</u>	<u>\$ (9,606)</u>	<u>\$ 1,043,615</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 185,209	\$ 121,868	\$ (70,626)	\$ 236,451
Other capital assets	<u>1,828,160</u>	<u>142,341</u>	<u>(34,610)</u>	<u>1,935,891</u>
Total cost of capital assets	2,013,369	264,209	(105,236)	2,172,342
Less accumulated depreciation	<u>847,178</u>	<u>70,102</u>	<u>(25,004)</u>	<u>892,276</u>
Capital assets—net	<u>\$ 1,166,191</u>	<u>\$ 194,107</u>	<u>\$ (80,232)</u>	<u>\$ 1,280,066</u>

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 38,396	\$ 1,439	\$ -	\$ 39,835
Construction in progress	74,887	97,821	(27,466)	145,242
Other	<u>132</u>			<u>132</u>
Total capital assets not being depreciated	<u>\$ 113,415</u>	<u>\$ 99,260</u>	<u>\$ (27,466)</u>	<u>\$ 185,209</u>
Other capital assets:				
Land improvements	\$ 18,396	\$ 1,274	\$ (41)	\$ 19,629
Infrastructure	231,177	4,924	(50)	236,051
Buildings	1,133,528	25,460	(941)	1,158,047
Equipment	250,051	27,058	(13,367)	263,742
Software	41,164	1,983	(60)	43,087
Library books	<u>102,161</u>	<u>6,344</u>	<u>(901)</u>	<u>107,604</u>
Total other capital assets	<u>1,776,477</u>	<u>67,043</u>	<u>(15,360)</u>	<u>1,828,160</u>
Less accumulated depreciation for:				
Land improvements	7,088	1,060		8,148
Infrastructure	170,916	9,536	121	180,573
Buildings	346,882	23,665	(479)	370,068
Equipment	154,027	25,916	(11,009)	168,834
Software	26,915	8,019	(26)	34,908
Library books	<u>79,271</u>	<u>5,902</u>	<u>(526)</u>	<u>84,647</u>
Total accumulated depreciation	<u>785,099</u>	<u>74,098</u>	<u>(12,019)</u>	<u>847,178</u>
Other capital assets—net	<u>\$ 991,378</u>	<u>\$ (7,055)</u>	<u>\$ (3,341)</u>	<u>\$ 980,982</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 113,415	\$ 99,260	\$ (27,466)	\$ 185,209
Other capital assets	<u>1,776,477</u>	<u>67,043</u>	<u>(15,360)</u>	<u>1,828,160</u>
Total cost of capital assets	1,889,892	166,303	(42,826)	2,013,369
Less accumulated depreciation	<u>785,099</u>	<u>74,098</u>	<u>(12,019)</u>	<u>847,178</u>
Capital assets—net	<u>\$ 1,104,793</u>	<u>\$ 92,205</u>	<u>\$ (30,807)</u>	<u>\$ 1,166,191</u>

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

The Fund has construction commitments as of June 30, 2005 of approximately (dollars in thousands):

West Virginia University	\$ 36,000
Concord College	10,000
West Virginia School of Oestopathic Medicine	7,600
Fairmont State University	4,200
Marshall University	<u>900</u>
	<u>\$ 58,700</u>

## 7. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Fund for the years ended June 30 (dollars in thousands):

	<b>2005</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds, capital leases and notes payable:					
Notes payable	\$ 3,680	\$	\$ (148)	\$ 3,532	\$ 243
Capital leases payable	28,927	1,526	(5,886)	24,567	5,560
Revenue bonds payable	<u>408,410</u>	<u>420,740</u>	<u>(94,782)</u>	<u>734,368</u>	18,664
Total bonds, capital leases and notes payable	441,017	422,266	(100,816)	762,467	
Other noncurrent liabilities:					
Advances from Federal Sponsors	42,481	783	(773)	42,491	
Severance payable	3,359	489	(1,031)	2,817	1,021
Accrued compensated absences	93,251	3,299	(2,806)	93,744	29,888
Deferred interest payable	<u>9,879</u>	<u>2,862</u>	<u>          </u>	<u>12,741</u>	
Total long-term liabilities	<u>\$589,987</u>	<u>\$429,699</u>	<u>\$ (105,426)</u>	<u>\$914,260</u>	
	<b>2004</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds, capital leases and notes payable:					
Notes payable	\$ 3,324	\$ 439	\$ (83)	\$ 3,680	\$ 175
Capital leases payable	25,991	10,372	(7,436)	28,927	5,551
Revenue bonds payable	<u>405,954</u>	<u>100,367</u>	<u>(97,911)</u>	<u>408,410</u>	14,191
Total bonds, capital leases and notes payable	435,269	111,178	(105,430)	441,017	
Other noncurrent liabilities:					
Advances from Federal Sponsors	41,743	1,042	(304)	42,481	
Severance payable	4,840		(1,481)	3,359	1,190
Accrued compensated absences	93,399		(148)	93,251	29,285
Deferred interest payable	<u>7,184</u>	<u>2,695</u>	<u>          </u>	<u>9,879</u>	
Total long-term liabilities	<u>\$582,435</u>	<u>\$114,915</u>	<u>\$ (107,363)</u>	<u>\$589,987</u>	

## 8. COMPENSATED ABSENCES

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

	2005	2004
Health or life insurance benefits	\$ 63,066	\$ 63,000
Accrued vacation leave	<u>30,678</u>	<u>30,251</u>
	<u>\$ 93,744</u>	<u>\$ 93,251</u>

For the years ended June 30, 2005 and 2004, the amounts paid by the Fund for extended health or life insurance benefits totaled approximately \$2.8 million and \$2.5 million, respectively. As of June 30, 2005 and 2004, there were approximately 1,300 and 1,200 retirees, respectively, currently receiving these benefits.

## 9. LEASE OBLIGATIONS

*Capital*—The Fund leases certain property, plant and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2005 (dollars in thousands):

Year Ending June 30	Total
2006	\$ 6,487
2007	5,635
2008	4,998
2009	3,127
2010	1,243
2011–2015	4,425
2016–2020	2,111
2021–2025	921
2026–2030	<u>6</u>
Future minimum lease payments	28,953
Less interest	<u>(4,386)</u>
Total	<u>\$ 24,567</u>

*The following are related-party capital leases:*

Marshall University (“Marshall”) has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the “MUGC Foundation”) for the Marshall University Graduate College’s administration facility (the “Facility”). The fair value of the Facility was estimated by independent appraisal during the year ended June 30, 1995 at \$5,000,000 (building \$4,300,000, land \$700,000), and the 21-year lease term commenced with the Marshall University Graduate College’s occupancy of the Facility in June 1995. Ownership of the Facility transfers to Marshall at the end of the lease term.

In December 1996, Marshall entered into a lease agreement with the MUGC Foundation for an academic center to be used by the Marshall Graduate College. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective

September 1, 1997, the MUGC Foundation leased the academic center to Marshall for 20 years. Upon expiration of the lease term, Marshall will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase.

**Operating**—The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2005 are as follows (dollars in thousands):

<b>Year Ending June 30</b>	
2006	\$ 11,279
2007	6,341
2008	4,505
2009	4,179
2010	2,815
2011–2015	11,455
2016–2020	9,880
2021–2025	9,880
2026–2030	9,880
2031–2035	<u>2,230</u>
 Total	 <u>\$ 72,444</u>

Total rent expense for these operating leases for the years ended June 30, 2005 and 2004 was approximately \$12.6 million and \$12.9 million, respectively.

*The following is a related-party operating lease:*

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving 30 days written notice.

**Direct Financing**—Marshall has a direct financing lease arrangement for a portion of an educational facility being leased under a capital lease, with title delivered to Marshall at completion of the lease. The facility sub-lease expires in 25 years. At the end of the sub-lease, the sublessee shall have the option to purchase its leased premises for the sum of one dollar. The following lists the components of the net investment in direct financing lease as of June 30 (dollars in thousands):

	<b>2005</b>	<b>2004</b>
Total minimum lease payments to be received	\$ 1,442	\$ 1,517
Less unearned income	<u>(541)</u>	<u>(590)</u>
Net investment in direct financing and sales-type leases	<u>\$ 901</u>	<u>\$ 927</u>

## 10. NOTES PAYABLE

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3.5 million to be used to renovate dormitories. As of June 30, 2005 and 2004, West Virginia State University had \$3,084,959 and \$3,120,991 outstanding, respectively. The renovations have been completed and the

interest rate has been finalized at approximately 6.3 percent. Accordingly, current monthly principal and interest payments of approximately \$21,000 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State University's dormitories and receives a monthly service fee. West Virginia State University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

The Fund also has other notes of approximately \$447,000 and \$580,000 outstanding at June 30, 2005 and 2004, respectively.

Principal maturities for the years ending after June 30, 2005, are as follows (dollars in thousands):

2006	\$ 243
2007	392
2008	87
2009	92
2010	97
2011–2015	576
2016–2020	765
2021–2025	1,019
2026	<u>261</u>
Total	<u>\$ 3,532</u>

## 11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund have the following outstanding bonds payable at June 30 (dollars in thousands):

	Maximum Interest Rate	Annual Installments	2005 Principal Outstanding	2004 Principal Outstanding
West Virginia University Dormitory Refunding Revenue Bonds 1997, Series A, due through 2017	5.30 %	\$555-\$1,070	\$ -	\$ 10,105
West Virginia University Dormitory Revenue Bonds 1997, Series B, due through 2022	5.00 %	\$1,480-\$2,035		10,735
West Virginia University Athletic Facilities Refunding Revenue Bonds 1997, Series A, due through 2016	5.20 %	\$135-\$255		2,305
West Virginia University Athletic Facilities Revenue Bonds 1997, Series B, due through 2027	5.00 %	\$265-\$455		4,250
West Virginia University Student Union Refunding Bonds 1997, Series A, due through 2011	4.95 %	\$180-\$280		1,725
West Virginia University Student Union Revenue Bonds 1997, Series B, due through 2027	5.00 %	\$220-\$2,970		37,310
West Virginia University Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement Bonds 2004, Series A, due through 2035	variable	\$975-\$4,200	25,900	
West Virginia University Revenue Refunding Bonds 2004, Series B, due through 2021	5.00 %	\$0-\$6,685	55,430	
West Virginia University Revenue Improvement Bonds 2004, Series C, due through 2035	5.00 %	\$0-\$13,420	138,710	
Marshall University University Center Revenue Bonds 1969, due through 2009	6.00 %	\$185-\$215	800	975
Marshall University University Facilities Revenue Bonds 2001, due through 2031	5.30 %	\$930-\$3,035	45,715	46,610
Glenville State University Student Housing Bonds, Series 2000A, due 2030	6.20 %	\$85-\$1,280	4,765	4,845
Fairmont State University University Facilities Revenue Bonds 2002, Series A, due through 2032	5.38 %	\$340-\$1,145	17,485	17,830
Fairmont State University Infrastructure Revenue Bonds 2002, Series B, due through 2032	5.00 %	\$180-\$565	8,845	9,030
Fairmont State University University Facilities Revenue Bonds 2003, Series A, due through 2032	5.25 %	\$280-\$860	13,320	13,320
Fairmont State University Student Activity Revenue Bonds 2003, Series B, due through 2032	5.25 %	\$485-\$1,475	22,925	22,925
Shepherd University Student Fee Revenue Bonds, due through 2033	5.13 %	\$105-\$370	5,885	5,990
Shepherd University Infrastructure Revenue Bonds, Series 2004B, due through 2024	4.50 %	\$125-\$240	3,250	
Shepherd University Residence Facilities Revenue Bonds, due through 2035	5.00 %	\$435-\$1,450	22,925	
WV State University Student Union Revenue Bonds 2002, Series A, due through 2022	6.20 %	\$7-\$37	4,871	5,200
West Liberty State University Dormitory Revenue Bonds 2003, Series A, due through 2028	6.13 %	\$190-\$650	8,495	8,685
West Liberty State University University Union Revenue Bonds 2003, Series B, due through 2018	5.63 %	\$65-\$120	1,145	1,145
West Liberty State University Capital Improvement Revenue Bonds 2003, Series C, due through 2028	5.50 %	\$85-\$285	3,720	3,805
Less: Unamortized bond discount			384,186	206,790
Loss on Bond Defeasance			(419)	(1,904)
Add: Unamortized bond premium			(6,269)	
			6,548	489
			<u>\$384,046</u>	<u>\$205,375</u>

Prior to fiscal 2003, each of the above bond issues was specific to an individual institution within the Fund, although the bonds were also issued in the names of the Fund's former governing boards, previously responsible for the governance of the State's higher education system. The bonds issued after fiscal 2002 were issued by the Institution's Governing Board only.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2005 is as follows (dollars in thousands):

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 6,630	\$ 18,278	\$ 24,908
2007	6,875	18,005	24,880
2008	7,595	17,735	25,330
2009	7,925	17,433	25,358
2010	8,045	17,111	25,156
2011–2015	45,215	89,918	135,133
2016–2020	55,930	69,531	125,461
2021–2025	69,721	54,119	123,840
2026–2030	85,610	34,564	120,174
2031–2035	<u>90,640</u>	<u>12,972</u>	<u>103,612</u>
	<u>\$ 384,186</u>	<u>\$ 349,666</u>	<u>\$ 733,852</u>

## **12. SYSTEM BONDS PAYABLE**

The Fund receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Fund's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Fund 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 within the Fund. Financing for these facilities was provided through revenue bonds issued by various former governing boards which are now administered by the Policy Commission.

The Policy Commission has the authority to assess each institution of the Fund for payment of debt service on these system bonds. The tuition and registration fees of the Institutions are generally pledged as collateral for the Fund's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain a capital obligation of the Fund.

The Series 2003 A University Facility Bonds and the Series 2003 A College Facility Bonds were issued in August 2003 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. These bonds were issued to provide monies which, together with other monies available to the respective boards, were used to (i) refund and defease all outstanding University System of West Virginia Board of Trustees, Series 1992 Bonds and (ii) to provide for the payment of costs of issuing the 2003 Series A Revenue Refunding Bonds. The total cash flow savings for the remaining life of the bonds was approximately \$8 million. The economic gain of the refinancing was approximately \$6.8 million.

The Series 2004 Series B Higher Education Facilities Bonds were issued in August 2004 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. These bonds were issued to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges. In addition the 2004 Series B Bonds provided funding for a refinancing of a portion of the Series 1996 Bonds outstanding principal amount of \$9,365,000. The amount refinanced was \$9,615,000 and with the reduced interest rates will provide a total cash savings of \$738,550. The economic gain of the refinancing was approximately \$574,486.

The Commission has the following outstanding bonds payable at June 30 (dollars in thousands):

	<b>Maximum Interest Rate</b>	<b>Annual Installments</b>	<b>2005 Principal Outstanding</b>	<b>2004 Principal Outstanding</b>
Series 1996 University System Bonds, due through 2016	5.75 %	\$630-\$1,185	\$ 690	\$ 10,715
Series 1997 University System Bonds, due through 2027	5.25 %	\$255-\$795	10,875	11,145
Series 1998 University System Bonds, due through 2028	5.25 %	\$1,065-\$3,625	49,910	51,020
Series 2000A University System Bonds, due through 2031	6.26 %	\$1,019-\$3,264	36,591	36,591
Series 2000B University System Bonds, due through 2025	5.96 %	\$210-\$625	8,255	8,475
Series 2003A University Facilities Bonds, due through 2012	5.00 %	\$5,740-\$7,875	48,095	53,835
Series 1997 College System Bonds, due through 2027	5.25 %	\$200-\$625	8,545	8,755
Series 2003A College Facilities Bonds, due through 2012	5.00 %	\$2,325-\$2,690	16,200	18,525
Series 2004B Higher Education Facilities Bonds, due through 2034	6.00 %	\$2,680-\$9,520	<u>161,550</u>	<u>          </u>
			340,711	199,061
Add: Bond Premium			<u>9,611</u>	<u>3,974</u>
			<u>\$350,322</u>	<u>\$203,035</u>

A summary of the annual aggregate principal payments for years subsequent to June 30, 2005 is as follows (dollars in thousands):

<b>Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2006	\$ 13,625	\$ 14,871	\$ 28,496
2007	14,165	14,287	28,452
2008	14,630	13,792	28,422
2009	15,285	13,103	28,388
2010	15,930	12,419	28,349
2011 - 2015	64,066	63,050	127,116
2016 - 2020	52,361	62,903	115,264
2021 - 2025	59,282	54,801	114,083
2026 - 2030	54,898	43,524	98,422
2031 - 2034	<u>36,469</u>	<u>10,320</u>	<u>46,789</u>
Total	<u>\$ 340,711</u>	<u>\$ 303,070</u>	<u>\$ 643,781</u>

### 13. UNRESTRICTED NET ASSETS

The Fund's unrestricted net assets at June 30 include certain designated net assets as follows:

	<b>2005</b>	<b>2004</b>
Designated for auxiliaries	\$ 9,673	\$ 10,630
Designated for repair and replacement of property	11,009	5,286
Designated for new technology center	1,001	
Designated for affiliate organizations	449	
Undesignated	<u>119,485</u>	<u>76,743</u>
Total unrestricted net assets	<u>\$ 141,617</u>	<u>\$ 92,659</u>

### 14. RETIREMENT PLANS

Substantially all full-time employees of the Fund participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association—College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option of switch to the new Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan and the Educators Money 401(a) plan by Fund employees has not been significant to date.

The STRS is a cost sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The Fund accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for both years ended June 30, 2005 and 2004. Required employee contributions are at the rate of 6 percent of total annual salary for both years ended June 30, 2005 and 2004. Participants in the STRS may retire

with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2 percent of final average salary (the highest five years salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2005, 2004, and 2003 were \$8,205,000, \$8,465,000, and \$8,782,000, respectively, which consisted of approximately \$6,063,000, \$6,185,000, and \$6,413,000, from the Fund in 2005, 2004, and 2003, respectively, and approximately \$2,142,000, \$2,280,000, and \$2,369,000 from the covered employees in 2005, 2004, and 2003, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the institutions within the Fund. 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.

The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6 percent of total annual compensation. The Fund matches the employees' 6 percent contribution. Contributions are immediately and fully vested.

Total contributions to the TIAA-CREF for the years ended June 30, 2005, 2004, and 2003 were approximately \$54,400,000, \$51,400,000, and \$51,000,000, respectively, which consisted of approximately \$25,200,000, \$25,700,000, and \$25,500,000, from the Fund and from the covered employees in 2005, 2004, and 2003, respectively.

The Fund's total payroll for the years ended June 30, 2005 and 2004 was approximately \$536,500,000 and \$509,000,000, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were approximately \$35,700,000 and \$445,200,000, and \$36,800,000 and \$417,900,000, for the years ended June 30, 2005 and 2004, respectively.

## **15. FOUNDATIONS**

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose “. . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations . . .” Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore discretely presented with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled approximately

\$408,000,000 (unaudited) and \$393,000,000, at June 30, 2005 and 2004, respectively. The Eastern West Virginia Community and Technical College and the Southern West Virginia Community and Technical College foundations are not included because they were not significant to their institutions.

Complete financial statements for any discretely presented component unit foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301. See also Note 17.

## **16. AFFILIATED ORGANIZATIONS**

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under GASB No. 14. They are not included in the Fund's accompanying financial statements under GASB No. 39 as discretely presented component units because they are 1) not significant or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the Fund).

## **17. CONTINGENCIES AND COMMITMENTS**

### *Contingencies*

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

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. Management believes disallowances, if any, would not have a significant financial impact on the Fund's financial position.

The Fund and Institutions within the Fund own various buildings that are known to contain asbestos. The Fund is not required by Federal, State or Local Law to remove the asbestos from the buildings. The Fund is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund 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.

### *Commitments*

West Virginia 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, West Virginia 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. West Virginia University's total payments for steam purchased under the agreement were approximately \$9,700,000 and \$9,100,000 in 2005 and 2004, respectively. West Virginia 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.

## 18. SUBSEQUENT EVENT

On September 7, 2005, the Board of Directors of the West Virginia University Research Corporation (the "Corporation") approved a borrowing plan by the Corporation of up to \$24.4 million to finance certain improvements at West Virginia University's Health Sciences Center ("HSC"). The West Virginia Housing Development Fund ("WVHDA"), the West Virginia Economic Development Authority ("WVEDA") and the West Virginia Infrastructure and Jobs Development Council ("IJDC") have accepted the Corporation's application for construction loans and have issued commitment letters to the Corporation. The West Virginia University Board of Governors has approved the Corporation entering into such transaction. The Corporation is required to execute and deliver construction loan and pledge agreements to the lenders.

## 19. COMPONENT UNITS' DISCLOSURES

The following are the significant notes for the financial statements of the discretely presented component unit foundations:

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**—The foundations are nonprofit organization incorporated in the State of West Virginia. The primary purpose of the foundations is to provide assistance and support for the students, facilities and programs of their respective institution.

**Basis of Presentation**—Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117 the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Basis of Accounting**—The financial statements of the foundations are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

According, net assets of the foundations and changes therein are classified and reported as follows:

**Unrestricted Net Assets**—Net assets that are not subject to donor-imposed stipulations.

**Temporarily Restricted Net Assets**—Net assets subject to donor-imposed stipulations that will be met either by actions of the foundations and/or the passage of time.

**Permanently Restricted Net Assets**—Net assets subject to donor-imposed stipulations that they be maintained permanently by the foundations. Generally, the donors of these assets permit the foundations to use all or part of the income earned related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the foundations on behalf of an Institution and/or departments of the Institution are reported as Custodial liabilities. The foundations are responsible for the management and administration of these funds.

***Investments***—The foundations account for their investments in accordance with generally accepted accounting principles (“GAAP”). Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

***Property and Equipment***—Purchased assets are recorded at cost. Donated assets are recorded at their fair value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the assets.

***Gift Annuities***—The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

***Contributions***—Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

## **B. PLEDGES RECEIVABLE**

Pledges receivable represent amounts due to the foundations for legally enforceable pledges.

## C. INVESTMENTS

The foundations' investment securities at June 30 are composed of the following:

	<b>2005</b>									
	<b>Bluefield State College Foundation, Inc.</b>	<b>The Concord University Foundation, Inc.</b>	<b>Fairmont State Foundation, Inc.</b>	<b>The Glenville State College Foundation, Inc.</b>	<b>The Marshall University Foundation, Inc.</b>	<b>The Shepherd University Foundation, Inc.</b>	<b>West Liberty State College Foundation, Inc.</b>	<b>The West Virginia Northern Community College Foundation, Inc.</b>	<b>The West Virginia School of Osteopathic Medicine Foundation, Inc.</b>	<b>The West Virginia State University Foundation, Inc.</b>
Cash and temporary investments	\$ -	\$ -	\$ 297,827	\$ -	\$ -	\$ 1,852,376	\$ 1,266,727	\$ 256,451	\$ -	\$ 28,019
U.S. Government securities	2,157,262	2,596,757				10,275,875	547,490	320,149		53,680
Corporate and municipal bonds and notes	507,528	1,436,103	1,749,673		22,079,416	739,135	191,140	527,441		278,962
Mutual funds	99,512	5,053,776	1,340,422	4,747,702			1,442,358	24,462		983,322
Equity investments	4,263,528	7,748,976	4,884,853	100,486	37,520,896	6,530,608	4,640,871			945,102
Other	<u>359,669</u>	<u>639,804</u>	<u>455,755</u>	<u>1,000</u>	<u>16,763,196</u>			<u>38,964</u>	<u>38,932</u>	
	<u>\$ 7,387,499</u>	<u>\$ 17,475,416</u>	<u>\$ 8,728,530</u>	<u>\$ 4,849,188</u>	<u>\$ 76,363,508</u>	<u>\$ 19,397,994</u>	<u>\$ 8,088,586</u>	<u>\$ 1,167,467</u>	<u>\$ 38,932</u>	<u>\$ 2,289,085</u>
	<b>2004</b>									
	<b>Bluefield State College Foundation, Inc.</b>	<b>The Concord University Foundation, Inc.</b>	<b>Fairmont State Foundation, Inc.</b>	<b>The Glenville State College Foundation, Inc.</b>	<b>The Marshall University Foundation, Inc.</b>	<b>The Shepherd University Foundation, Inc.</b>	<b>West Liberty State College Foundation, Inc.</b>	<b>The West Virginia Northern Community College Foundation, Inc.</b>	<b>The West Virginia School of Osteopathic Medicine Foundation, Inc.</b>	<b>The West Virginia State University Foundation, Inc.</b>
Cash and temporary investments	\$ -	\$ -	\$ 420,841	\$ -	\$ -	\$ 1,456,088	\$ 1,081,201	\$ 371,361	\$ -	\$ 174,155
U.S. Government securities	2,509,223	2,616,138				10,699,243	195,312	240,452		871,441
Corporate and municipal bonds and notes	602,659	1,359,098	2,412,790		23,105,261	785,897	181,440	53,645		583,118
Mutual funds	97,709	2,708,459	246,353	94,848			1,479,076			39,441
Equity investments	3,201,492	7,923,273	5,247,948	4,480,738	35,673,715	3,507,707	3,930,212	384,833		858,618
Other	<u>444,995</u>	<u>680,494</u>	<u>441,487</u>	<u>1,000</u>	<u>6,267,717</u>				<u>58,447</u>	
	<u>\$ 6,856,078</u>	<u>\$ 15,287,462</u>	<u>\$ 8,769,419</u>	<u>\$ 4,576,586</u>	<u>\$ 65,046,693</u>	<u>\$ 16,448,935</u>	<u>\$ 6,867,241</u>	<u>\$ 1,050,291</u>	<u>\$ 58,447</u>	<u>\$ 2,526,773</u>

D. The foundations' property, plant, and equipment at June 30, consists of the following:

	<b>2005</b>						
	<b>The Concord University Foundation, Inc.</b>	<b>The Glenville State College Foundation, Inc.</b>	<b>The Marshall University Foundation, Inc.</b>	<b>The Shepherd University Foundation, Inc.</b>	<b>West Liberty State Foundation, Inc.</b>	<b>The West Virginia School of Osteopathic Medicine Foundation, Inc.</b>	<b>The West Virginia State University Foundation, Inc.</b>
Land	\$ -	\$ 131,914	\$ 220,000	\$ 40,000	\$ -	\$ 19,500	\$ 166,000
Building			1,034,275	160,202		2,285,211	1,276,425
Equipment	39,565	4,005	286,961	9,672	19,446	48,448	43,643
Accumulated Depreciation	<u>(11,815)</u>	<u>          </u>	<u>(424,789)</u>	<u>(42,752)</u>	<u>(7,401)</u>	<u>(419,136)</u>	<u>(379,832)</u>
Net Book Value	<u>\$ 27,750</u>	<u>\$ 135,919</u>	<u>\$ 1,116,447</u>	<u>\$ 167,122</u>	<u>\$ 12,045</u>	<u>\$1,934,023</u>	<u>\$1,106,236</u>
	<b>2004</b>						
	<b>The Concord University Foundation, Inc.</b>	<b>The Glenville State College Foundation, Inc.</b>	<b>The Marshall University Foundation, Inc.</b>	<b>The Shepherd University Foundation, Inc.</b>	<b>West Liberty State Foundation, Inc.</b>	<b>The West Virginia School of Osteopathic Medicine Foundation, Inc.</b>	<b>The West Virginia State University Foundation, Inc.</b>
Land	\$ -	\$ 131,914	\$ 442,149	\$ 1,487,167	\$ -	\$ 19,500	\$ 166,000
Building			1,034,275	160,202		2,285,211	1,276,425
Equipment	6,688	4,219	264,072	5,199	19,446	48,448	42,068
Accumulated Depreciation	<u>(3,172)</u>	<u>          </u>	<u>(384,392)</u>	<u>(37,624)</u>	<u>(4,112)</u>	<u>(357,161)</u>	<u>(344,355)</u>
Net Book Value	<u>\$ 3,516</u>	<u>\$ 136,133</u>	<u>\$ 1,356,104</u>	<u>\$ 1,614,944</u>	<u>\$ 15,334</u>	<u>\$1,995,998</u>	<u>\$1,140,138</u>

## 20. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund 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.

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

**West Virginia University Board of Governors  
Auction Rate Certificates, Federally Taxable University Revenue Refunding and  
Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B;  
and the University Revenue Improvement Bonds 2004 Series C  
(Collectively the "2004 Bonds")**

On November 1, 2004, the West Virginia University Board of Governors (the "Board") issued \$25,900,000 of the 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bond 1997 Series A, and the \$3,250,500 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at West Virginia University, including reimbursement to West Virginia for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds, and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

On November 1, 2004 the Board also issued 2004 Series B and C Bonds in the amounts of \$55,430,000 and \$138,710,000, respectively. The 2004 Series B Bonds are being used (1) to advance refund the \$4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the \$10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the \$3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the \$38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds.

The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at West Virginia University, including capitalized interest and reimbursement to West Virginia University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the cost of issuance.

The 2004 Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and the funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rent fees, charges and other income received by or accrued to West Virginia University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other moneys legally available to be used for such purposes.

**State of West Virginia, West Virginia Board of Education, Marshall University Center Revenue  
Bonds of 1969**

In January 1969, the Board of Education sold \$3,600,000 of Revenue Bonds, Marshall University Center Revenue Bonds of 1969 (the "1969 Bonds"). The 1969 Bonds were issued under the authority contained in Chapters 18 and 25 of the West Virginia State Code, as amended. The proceeds of the 1969 Bonds

were used for construction of a University Center (the “Center”) on the Huntington campus of Marshall University. The 1969 Bonds are secured by and payable from the revenues of the Center.

**State of West Virginia, Higher Education Interim Governing Board, Marshall University Facilities Revenue Bonds, 2001 Series A**

In June 2001, the Board sold \$46,610,000 of Revenue Bonds, Marshall University Facilities 2001 Series A (the “2001 Bonds”). The 2001 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2001 Bonds will be secured pursuant to a Trust Indenture (the “Indenture”) dated as of June 1, 2001, by and between the Interim Governing Board and Bank One, West Virginia, National Association, Charleston, West Virginia (the “Trustee”). The 2001 Bonds are secured by and payable from the revenues of the dormitories and parking facilities, and certain funds held under the Indenture. The proceeds of the 2001 Bonds are being used (1) to finance a portion of the costs of acquisition, construction and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

**The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds, Glenville State College Housing Corporation Project (the “Corporation”), Series 2000A**

In September 2001, the Corporation sold \$4,990,000 of Revenue Bonds, 2000 Housing Facilities Series A Bonds. The bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the bonds will be secured pursuant to a Trust Indenture dated as of September 27, 2001, by and between the Interim Governing Board and United National Bank, Charleston, WV. The bonds are secured by and payable from the revenues of the student housing facilities and certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to pay all or part of the cost of constructing two ten-story apartment buildings, each containing four units to be used as student housing and (2) to pay a portion of the cost of issuing the bonds.

**Fairmont State College Facilities Revenue Bonds 2002 and 2003, Series A**

On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the “2002A Bonds”) amounting to \$18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) to finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facilities, (3) to establish a debt service reserve fund for the 2002A Bonds, (4) to capitalize interest on the 2002A Bonds, and (5) to pay the cost of issuance of the 2002A Bonds and related costs.

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the “2003A Bonds”) amounting \$13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) to make a deposit to the debt service reserve fund for the 2003A Bonds, (3) to capitalize interest on the 2003A Bonds, and (4) to pay the costs of issuance of the 2003A Bonds and related costs.

**Fairmont State Infrastructure Revenue Bonds 2002, Series B**

On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the “2002B Bonds”) amounting to \$9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) to pay the costs of issuance of the 2002B bonds and related costs.

### **Fairmont State Student Activity Revenue Bonds 2003, Series B**

On March 1, 2003, Fairmont State issued student Activity Revenue Bonds (the “2003B Bonds”) amounting to \$22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) to capitalize interest on the 2003B Bonds during reasonable time after the construction of the Project and (3) to pay the costs of issuance of the 2003B Bonds and related costs.

### **State of West Virginia, Shepherd University, Student Fee Revenue Bonds, Series 2003**

In January 2003, \$5,990,000 of Shepherd University Student Fee Revenue Bonds, Series 2003 were sold. These bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) to establish a debt serve reserve fund, (3) to establish a capitalized interest fund to pay interest on these bonds due on December 1, 2003 and (4) to pay the costs of issuance of the bonds and related costs.

### **State of West Virginia, Shepherd University, Infrastructure Revenue Bonds, Series 2004**

In September 2004, \$3,405,000 of Shepherd University Infrastructure Revenue Bonds, Series 2004 were sold. These bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and these bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board of Directors of Shepherd University and WesBanco Bank, Inc. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of Shepherd University and other capital renovations and improvements to Shepherd University’s campus, and (2) to pay the costs of issuance of these bonds and related costs.

### **State of West Virginia, Shepherd University, Residence Facilities Revenue Bonds, Series 2005**

In May 2005, \$22,925,000 of Shepherd University Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2005 were sold. These bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and these bonds are secured pursuant to the Indenture and Security Agreement dated as of May 24, 2005, by and between the Board of Directors of Shepherd University and WesBanco Bank, Inc. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of a 300-bed apartment style residence complex on the West Campus of Shepherd University; (2) fund capitalized interest on the Series 2005 Bonds to January 1, 2007; (3) refund the Issuer’s \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction and equipping of certain renovations and improvements to Shaw Hall and Thacher Hall and other capital renovations and improvements to Shepherd University’s residence facilities pending issuance of the Series 2005 Bonds; and (4) to pay the costs of issuance of the Series 2005 bonds.

### **State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002 Series A**

On August 1, 2002, the West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The Bonds were issued to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the College Union,

(2) to establish a debt service reserve fund and (3) to pay the costs of issuance of the Bonds and related costs.

**Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B & C**

On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to \$8,870,000. The Bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College's (the "College") existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

On September 3, 2003, the West Liberty State College issued College Union Revenue Bonds 2003 Series C, amounting to \$1,145,000. The Bonds were issued (1) to finance certain capital improvements consisting of improvements to the College's existing student union building located on the campus of the College known as the "College Union," including improvements to existing offices and meeting areas, the upgrading of entry ways and facades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) to pay costs of issuance of the 2003 Series B Bonds and related costs.

On September 3, 2003, the West Liberty State College issued Capital Improvement Revenue Bonds 2003 Series C, amounting to \$3,890,000. The Bonds were issued (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College's Hall of Fine Arts, and to make certain improvements to roads, sidewalks and parking areas on the College's campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) to pay costs of issuance of the 2003 Series C Bonds and related costs.

Condensed financial information for the Fund's segments is as follows as of June 30, 2005 and 2004 (dollars in thousands):

	2005											
	WVU 2004 Auxiliaries	Marshall 1969 University Center	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A,B&C
<b>CONDENSED STATEMENT OF NET ASSETS:</b>												
Assets:												
Current assets	\$ 30,603	\$ 1,922	\$ 5,549	\$ 346	\$ 1,150	\$ 451	\$ 23,655	\$ 387	\$ 45	\$ 56	\$ 303	\$ 1,017
Noncurrent assets	335,861	4,119	50,536	5,854	34,719	11,261	2,617	5,597	3,931	22,402	6,204	13,807
<b>TOTAL ASSETS</b>	<b>\$ 366,464</b>	<b>\$ 6,041</b>	<b>\$ 56,085</b>	<b>\$ 6,200</b>	<b>\$ 35,869</b>	<b>\$ 11,712</b>	<b>\$ 26,272</b>	<b>\$ 5,984</b>	<b>\$ 3,976</b>	<b>\$ 22,458</b>	<b>\$ 6,507</b>	<b>\$ 14,824</b>
Liabilities:												
Current liabilities	\$ 11,938	\$ 270	\$ 2,802	\$ 9	\$ 825	\$ 890	\$ 950	\$ 159	\$ 473	\$ 577	\$ 227	\$ 814
Noncurrent liabilities	220,462	669	45,238	4,799	30,454	8,564	22,623	5,780	3,250	23,770	4,671	12,844
Total liabilities	232,400	939	48,040	4,808	31,279	9,454	23,573	5,939	3,723	24,347	4,898	13,658
Net assets:												
Invested in capital assets—net of related debt	12,651	2,929	4,529	1,055	1,448	611	(3,394)	(800)	214	(1,850)	867	(969)
Restricted	99,626	648	112	182	3,142	1,647	6,093	482	4	(39)	465	1,112
Unrestricted	21,787	1,525	3,404	155				363	35		277	1,023
Total net assets	134,064	5,102	8,045	1,392	4,590	2,258	2,699	45	253	(1,889)	1,609	1,166
<b>TOTAL NET ASSETS AND LIABILITIES</b>	<b>\$ 366,464</b>	<b>\$ 6,041</b>	<b>\$ 56,085</b>	<b>\$ 6,200</b>	<b>\$ 35,869</b>	<b>\$ 11,712</b>	<b>\$ 26,272</b>	<b>\$ 5,984</b>	<b>\$ 3,976</b>	<b>\$ 22,458</b>	<b>\$ 6,507</b>	<b>\$ 14,824</b>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:</b>												
Operating:												
Operating revenues and other fees	\$ 87,990	\$ 1,367	\$ 13,957	\$ 494	\$ 3,572	\$ 836	\$ 2,061	\$ 491	\$ 294	\$ -	\$ 896	\$ 1,237
Operating expenses	(72,194)	(1,062)	(11,182)	(247)	(1,935)	(1)	(1,582)	(145)	(105)		(570)	(7)
Net operating income	15,796	305	2,775	247	1,637	835	479	346	189	-	326	1,230
Nonoperating:												
Transfers (to) from Institution		(2)	(345)							(1,865)		
Nonoperating revenues	1,544	13	170	3	162	348	207		64	74	7	175
Nonoperating expenses	(4,574)	(49)	(2,332)	(298)	(1,066)	(6)	(426)	(323)		(98)	(236)	(777)
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>12,766</b>	<b>267</b>	<b>268</b>	<b>(48)</b>	<b>733</b>	<b>1,177</b>	<b>260</b>	<b>23</b>	<b>253</b>	<b>(1,889)</b>	<b>97</b>	<b>628</b>
<b>NET ASSETS—Beginning of year</b>	<b>121,298</b>	<b>4,835</b>	<b>7,777</b>	<b>1,440</b>	<b>3,857</b>	<b>1,081</b>	<b>2,439</b>	<b>22</b>			<b>1,512</b>	<b>538</b>
<b>NET ASSETS—End of year</b>	<b>\$ 134,064</b>	<b>\$ 5,102</b>	<b>\$ 8,045</b>	<b>\$ 1,392</b>	<b>\$ 4,590</b>	<b>\$ 2,258</b>	<b>\$ 2,699</b>	<b>\$ 45</b>	<b>\$ 253</b>	<b>\$ (1,889)</b>	<b>\$ 1,609</b>	<b>\$ 1,166</b>
<b>CONDENSED STATEMENT OF CASH FLOWS:</b>												
Net cash provided by (used in) operating activities	\$ 29,322	\$ 396	\$ 2,683	\$ 418	\$ 343	\$ 840	\$ 914	\$ 345	\$ 198	\$ -	\$ 326	\$ 1,230
Net cash provided by (used in) capital financing activities	77,079	(213)	(6,223)	(410)	(1,162)	(594)	(1,065)	(288)	173	19,397	(326)	(621)
Net cash provided by (used in) investing activities	(96,619)				(5,957)	(1,364)	(12,993)	45	(328)	(19,397)		
<b>INCREASE (DECREASE) IN CASH</b>	<b>9,782</b>	<b>183</b>	<b>(3,540)</b>	<b>8</b>	<b>(6,776)</b>	<b>(1,118)</b>	<b>(13,144)</b>	<b>102</b>	<b>43</b>	<b>-</b>	<b>-</b>	<b>609</b>
<b>CASH—Beginning of year</b>	<b>19,558</b>	<b>* 2,108</b>	<b>12,062</b>	<b>338</b>	<b>10,529</b>	<b>* 2,084</b>	<b>* 17,268</b>	<b>* 283</b>			<b>303</b>	<b>408</b>
<b>CASH—End of year</b>	<b>\$ 29,340</b>	<b>* \$ 2,291</b>	<b>\$ 8,522</b>	<b>\$ 346</b>	<b>\$ 3,753</b>	<b>* \$ 966</b>	<b>* \$ 4,124</b>	<b>* \$ 385</b>	<b>\$ 43</b>	<b>\$ -</b>	<b>\$ 303</b>	<b>\$ 1,017</b>

\* The cash of WVU and Fairmont includes current and noncurrent cash.

2004

	WVU 1997 Dormitory Series A&B	WVU 1997 Athletic Facilities Series A&B	WVU 1997 Student Union Series A&B	Marshall 1969 University Center	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Shepherd 2003 Student Fee	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A,B&C
<b>CONDENSED STATEMENT OF NET ASSETS:</b>												
Assets:												
Current assets	\$ 8,191	\$ 824	\$ 2,969	\$ 2,129	\$ 12,198	\$ 338	\$ 6,535	\$ 872	\$ 13,416	\$ 283	\$ 303	\$ 408
Noncurrent assets	<u>20,061</u>	<u>8,624</u>	<u>33,019</u>	<u>3,864</u>	<u>45,939</u>	<u>5,986</u>	<u>33,610</u>	<u>9,558</u>	<u>14,022</u>	<u>5,914</u>	<u>6,306</u>	<u>13,706</u>
TOTAL ASSETS	<u>\$ 28,252</u>	<u>\$ 9,448</u>	<u>\$ 35,988</u>	<u>\$ 5,993</u>	<u>\$ 58,137</u>	<u>\$ 6,324</u>	<u>\$ 40,145</u>	<u>\$ 10,430</u>	<u>\$ 27,438</u>	<u>\$ 6,197</u>	<u>\$ 6,609</u>	<u>\$ 14,114</u>
Liabilities:												
Current liabilities	\$ 3,653	\$ 827	\$ 1,713	\$ 289	\$ 3,675	\$ -	\$ 5,183	\$ 603	\$ 1,884	\$ 290	\$ 225	\$ 385
Noncurrent liabilities	<u>20,205</u>	<u>6,395</u>	<u>38,370</u>	<u>869</u>	<u>46,685</u>	<u>4,884</u>	<u>31,105</u>	<u>8,746</u>	<u>23,115</u>	<u>5,885</u>	<u>4,872</u>	<u>13,191</u>
Total liabilities	<u>23,858</u>	<u>7,222</u>	<u>40,083</u>	<u>1,158</u>	<u>50,360</u>	<u>4,884</u>	<u>36,288</u>	<u>9,349</u>	<u>24,999</u>	<u>6,175</u>	<u>5,097</u>	<u>13,576</u>
Net assets:												
Invested in capital assets—net of related debt	4,394	2,226	(4,095)	2,890	2,496	1,102	(2,684)	793	(3,001)	(723)	793	(878)
Restricted				631	177	6,541	288	5,440	462	442	1,118	
Unrestricted				<u>1,314</u>	<u>5,281</u>	<u>161</u>			<u>283</u>	<u>277</u>	<u>298</u>	
Total net assets	<u>4,394</u>	<u>2,226</u>	<u>(4,095)</u>	<u>4,835</u>	<u>7,777</u>	<u>1,440</u>	<u>3,857</u>	<u>1,081</u>	<u>2,439</u>	<u>22</u>	<u>1,512</u>	<u>538</u>
TOTAL NET ASSETS AND LIABILITIES	<u>\$ 28,252</u>	<u>\$ 9,448</u>	<u>\$ 35,988</u>	<u>\$ 5,993</u>	<u>\$ 58,137</u>	<u>\$ 6,324</u>	<u>\$ 40,145</u>	<u>\$ 10,430</u>	<u>\$ 27,438</u>	<u>\$ 6,197</u>	<u>\$ 6,609</u>	<u>\$ 14,114</u>
<b>CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:</b>												
Operating:												
Operating revenues	\$ 29,849	\$ 3,620	\$ 13,142	\$ 1,422	\$ 12,708	\$ 489	\$ 2,293	\$ 802	\$ 768	\$ 478	\$ 773	\$ 1,240
Operating expenses	<u>(28,808)</u>	<u>(3,265)</u>	<u>(11,074)</u>	<u>(996)</u>	<u>(10,259)</u>	<u>(188)</u>	<u>(1,267)</u>		<u>(615)</u>	<u>(103)</u>	<u>(394)</u>	<u>(43)</u>
Net operating income	1,041	355	2,068	426	2,449	301	1,026	802	153	375	379	1,283
Nonoperating:												
Transfers (to) from Institution				(32)	(8,239)		(41)					
Nonoperating revenues	86	8	36	7	265	1	414	66	431	43	9	13
Nonoperating expenses	<u>(1,066)</u>	<u>(334)</u>	<u>(1,956)</u>	<u>(59)</u>	<u>(2,432)</u>	<u>(302)</u>	<u>(912)</u>	<u>(217)</u>	<u>(844)</u>	<u>(285)</u>	<u>(240)</u>	<u>(672)</u>
INCREASE (DECREASE) IN NET ASSETS	61	29	148	342	(7,957)	-	487	651	(260)	133	148	624
NET ASSETS—Beginning of year	<u>4,333</u>	<u>2,197</u>	<u>(4,243)</u>	<u>4,493</u>	<u>15,734</u>	<u>1,440</u>	<u>3,370</u>	<u>430</u>	<u>2,699</u>	<u>(111)</u>	<u>1,364</u>	
NET ASSETS—End of year	<u>\$ 4,394</u>	<u>\$ 2,226</u>	<u>\$ (4,095)</u>	<u>\$ 4,835</u>	<u>\$ 7,777</u>	<u>\$ 1,440</u>	<u>\$ 3,857</u>	<u>\$ 1,081</u>	<u>\$ 2,439</u>	<u>\$ 22</u>	<u>\$ 1,512</u>	<u>\$ 624</u>
<b>CONDENSED STATEMENT OF CASH FLOWS:</b>												
Net cash provided by (used in) operating activities												
Net cash provided by (used in) capital financing activities	\$ 1,809	\$ 539	\$ 3,098	\$ 537	\$ 3,259	\$ 411	\$ 1,036	\$ 792	\$ 269	\$ 375	\$ 379	\$ 1,197
Net cash provided by (used in) investing activities	<u>(1,666)</u>	<u>(483)</u>	<u>(2,400)</u>	<u>(425)</u>	<u>(8,670)</u>	<u>(391)</u>	<u>(1,776)</u>	<u>(594)</u>	<u>(1,083)</u>	<u>(4,432)</u>	<u>(319)</u>	<u>(789)</u>
INCREASE (DECREASE) IN CASH	229	64	734	112	(5,411)	20	(14,170)	(4,747)	(7,239)	283	60	408
CASH—Beginning of year	<u>7,178</u>	<u>* 648</u>	<u>* 2,124</u>	<u>* 1,996</u>	<u>17,473</u>	<u>318</u>	<u>24,699</u>	<u>* 6,831</u>	<u>* 24,507</u>	<u>* 243</u>		
CASH—End of year	<u>\$ 7,407</u>	<u>* \$ 712</u>	<u>* \$ 2,858</u>	<u>* \$ 2,108</u>	<u>\$ 12,062</u>	<u>\$ 338</u>	<u>\$ 10,529</u>	<u>* \$ 2,084</u>	<u>* \$ 17,268</u>	<u>* \$ 283</u>	<u>\$ 303</u>	<u>\$ 408</u>

\* The cash of WVU and Fairmont includes current and noncurrent cash.

## 21. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2005 and 2004, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2005								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	\$230,119	\$ 62,061	\$ 34,854	\$ 363	\$ 279	\$ -	\$ -	\$ -	\$ 327,676
Research	57,646	22,195	36,209	779	38				116,867
Public service	43,533	10,759	23,313	257	96				77,958
Academic support	37,806	10,067	15,172	228	4				63,277
Student services	30,764	8,805	13,008	295	24				52,896
Operations and maintenance of plant	27,096	8,785	22,359	26,611	7			253	85,111
General institutional support	<u>66,041</u>	<u>18,657</u>	<u>43,528</u>	<u>358</u>	<u>105</u>				<u>128,689</u>
Total education and general	493,005	141,329	188,443	28,891	553	-	-	253	852,474
Student financial aid	57	4	3		61,376				61,440
Auxiliary enterprises	44,597	12,482	61,195	10,323	348				128,945
Depreciation						70,105			70,105
Waivers in support of other institutions								355	355
Loan cancellations and write-offs							382		382
Other			4				456	46	506
Total	<u>\$537,659</u>	<u>\$153,815</u>	<u>\$249,645</u>	<u>\$39,214</u>	<u>\$62,277</u>	<u>\$70,105</u>	<u>\$ 838</u>	<u>\$ 654</u>	<u>\$1,114,207</u>

**2004**

	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	<b>Loan Cancellations and Write-offs</b>	<b>Other</b>	<b>Total</b>
Instruction	\$ 219,643	\$ 62,913	\$ 30,288	\$ 509	\$ 120	\$ -	\$ -	\$ -	\$ 313,473
Research	53,896	19,120	29,464	480	26			6	102,992
Public service	46,597	11,692	19,533	304	43			(17)	78,152
Academic support	37,982	9,995	13,574	247				(113)	61,685
Student services	28,783	7,892	12,121	90				11	48,897
Operations and maintenance of plant	26,226	8,309	21,823	25,000	36			279	81,673
General institutional support	<u>62,516</u>	<u>17,390</u>	<u>32,424</u>	<u>312</u>	<u>10</u>			<u>151</u>	<u>112,803</u>
 Total education and general	 475,643	 137,311	 159,227	 26,942	 235	 -	 -	 317	 799,675
Student financial aid	59		73		62,275			23	62,430
Auxiliary enterprises	42,544	11,645	62,394	9,308	(769)				125,122
Depreciation						74,098			74,098
Waivers in support of other institutions								367	367
Loan cancellations and write-offs							930		930
Other								(347)	(347)
 Total	 <u>\$ 518,246</u>	 <u>\$ 148,956</u>	 <u>\$ 221,694</u>	 <u>\$ 36,250</u>	 <u>\$ 61,741</u>	 <u>\$ 74,098</u>	 <u>\$ 930</u>	 <u>\$ 360</u>	 <u>\$ 1,062,275</u>

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## **ADDITIONAL INFORMATION**

## INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

West Virginia Higher Education  
Policy Commission

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 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the West Virginia Higher Fund's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors (as to the amounts included for the aggregate Foundations), is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

*Deloitte & Touche LLP*

November 21, 2005

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING NET ASSETS INFORMATION**  
**AS OF JUNE 30, 2005**  
**(Dollars in thousands)**

	<b>Higher Education Fund</b>	<b>Aggregate Foundations</b>	<b>Total</b>
<b>ASSETS:</b>			
Current assets:			
Cash and cash equivalents	\$ 338,031	\$ 5,092	\$ 343,123
Short term investments		20,881	20,881
Appropriations due from Primary Government	10,091		10,091
Accounts receivable—net	50,490	4,509	54,999
Loans receivable—current portion	6,292	242	6,534
Other current assets	5,638	15	5,653
Inventories	<u>5,119</u>		<u>5,119</u>
 Total current assets	 <u>415,661</u>	 <u>30,739</u>	 <u>446,400</u>
Noncurrent assets:			
Cash and cash equivalents	29,287		29,287
Investments	291,678	125,507	417,185
Loans receivable, net of allowance of \$9,896	45,990	1,037	47,027
Other assets	15,258	8,651	23,909
Capital assets—net	<u>1,280,066</u>	<u>4,912</u>	<u>1,284,978</u>
 Total noncurrent assets	 <u>1,662,279</u>	 <u>140,107</u>	 <u>1,802,386</u>
 <b>TOTAL</b>	 <b><u>\$2,077,940</u></b>	 <b><u>\$170,846</u></b>	 <b><u>\$2,248,786</u></b>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING NET ASSETS INFORMATION**  
**AS OF JUNE 30, 2005**  
**(Dollars in thousands)**

	Higher Education Fund	Aggregate Foundations	Total
<b>LIABILITIES:</b>			
Current liabilities:			
Accounts payable	\$ 44,263	\$ 289	\$ 44,552
Due to State of West Virginia	64		64
Accrued liabilities	28,648	3,272	31,920
Deferred revenue	38,840		38,840
Deposits/custodial liabilities	15,245	1,214	16,459
Severance payable—current portion	1,021		1,021
Annuity obligations		959	959
Compensated absences—current portion	29,888		29,888
Notes payable—current portion	243	35	278
Capital lease obligations—current portion	5,560		5,560
Interest payable	4,284		4,284
Bonds payable—current portion	18,664		18,664
Total current liabilities	<u>186,720</u>	<u>5,769</u>	<u>192,489</u>
Noncurrent liabilities:			
Advances from federal sponsors	42,491		42,491
Severance payable	1,796		1,796
Compensated absences	63,856		63,856
Notes payable	3,289	662	3,951
Capital lease obligations	19,007		19,007
Deferred interest payable	12,741		12,741
Bonds payable	715,704		715,704
Total noncurrent liabilities	<u>858,884</u>	<u>662</u>	<u>859,546</u>
Total liabilities	<u>1,045,604</u>	<u>6,431</u>	<u>1,052,035</u>
<b>NET ASSETS:</b>			
Invested in capital assets—net of related debt	790,595	3,921	794,516
Restricted for:			
Expendable:			
Scholarships	9,292	9,508	18,800
Sponsored projects	19,219	23,461	42,680
Loans	23,222	264	23,486
Capital projects	34,834	4,453	39,287
Debt service	6,569		6,569
Other	2,203	13,929	16,132
Total restricted expendable	95,339	51,615	146,954
Nonexpendable	4,785	89,372	94,157
Unrestricted	141,617	19,507	161,124
Total net assets	<u>1,032,336</u>	<u>164,415</u>	<u>1,196,751</u>
<b>TOTAL</b>	<u>\$2,077,940</u>	<u>\$170,846</u>	<u>\$ 2,248,786</u>

See notes to combined financial statements

(Concluded)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2005  
 (Dollars in thousands)**

	Higher Education Fund	Aggregate Foundations	Total
OPERATING REVENUES:			
Student tuition and fees, net of scholarship allowance of \$73,765	\$ 298,426	\$ -	\$ 298,426
Gift and contributions		14,104	14,104
Federal land grants	7,857		7,857
Local appropriations	942		942
Contracts and grants:			
Federal	204,240		204,240
State	50,408		50,408
Local	1,151		1,151
Private	42,913		42,913
Interest on student loans receivable	936		936
Sales and services of educational activities	14,446	119	14,565
Auxiliary enterprise revenue, net of scholarship allowance of \$12,672	138,750		138,750
Other operating revenue	21,671	938	22,609
	<u>781,740</u>	<u>15,161</u>	<u>796,901</u>
Total operating revenues			
OPERATING EXPENSES:			
Salaries and wages	537,659	1,200	538,859
Benefits	153,815	99	153,914
Supplies and other services	249,645	751	250,396
Utilities	39,214	33	39,247
Student financial aid—scholarships and fellowships	62,277	4,278	66,555
Depreciation	70,105	148	70,253
Loan cancellations and write-offs	838	183	1,021
Other operating expenses	654	10,509	11,163
	<u>1,114,207</u>	<u>17,201</u>	<u>1,131,408</u>
Total operating expenses			
OPERATING LOSS	<u>(332,467)</u>	<u>(2,040)</u>	<u>(334,507)</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2005  
(Dollars in thousands)**

	<b>Higher Education Fund</b>	<b>Aggregate Foundations</b>	<b>Total</b>
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 403,231	\$ -	\$ 403,231
Gifts	12,105	425	12,530
Investment income	14,568	9,882	24,450
Interest on indebtedness	(27,228)		(27,228)
Student financial aid payments to other institutions	(10,626)		(10,626)
Other nonoperating expenses—net	<u>(3,622)</u>	<u>246</u>	<u>(3,376)</u>
Net nonoperating revenues	<u>388,428</u>	<u>10,553</u>	<u>398,981</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES			
	55,961	8,513	64,474
CAPITAL GRANTS AND GIFTS			
	<u>44,624</u>	<u>4,425</u>	<u>49,049</u>
INCREASE IN NET ASSETS			
	100,585	12,938	113,523
NET ASSETS—Beginning of year	<u>931,751</u>	<u>151,477</u>	<u>1,083,228</u>
NET ASSETS—End of year	<u>\$ 1,032,336</u>	<u>\$ 164,415</u>	<u>\$ 1,196,751</u>

See notes to combined financial statements.

(Concluded)

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

To the West Virginia Higher Education Policy Commission:

We have audited the accompanying combined financial statements of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2005, and have issued our report thereon dated November 21, 2005, which states reliance in other auditors for approximately 9%, 13%, and 11% of total assets, total net assets, and total revenues, respectively, and which states reliance on other auditors for the discretely presented component units. 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. The audit of the Fund's discretely presented component units were audited in accordance with auditing standards generally accepted in the United States of America but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

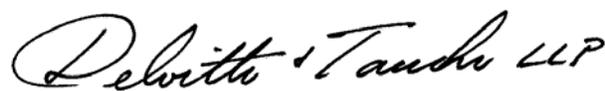
### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Fund'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 weaknesses is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### **Compliance and Other Matters**

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

The report is intended solely for the information and use of the management of the Fund, the State of West Virginia, the West Virginia Higher Education Policy Commission, the West Virginia Council for Community and Technical College Education, 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.



November 21, 2005