

***West Virginia
School of Osteopathic Medicine***

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
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INDEPENDENT AUDITORS' REPORT

Governing Board
West Virginia School of Osteopathic Medicine

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), a component unit of the West Virginia Higher Education Policy Commission and the State of West Virginia, as of June 30, 2005, and for the year then ended, which collectively comprise WVSOM's basic financial statements as listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of WVSOM. Our responsibility is to express an opinion on the respective financial statements based on our audit. We did not audit the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc. (a component unit of WVSOM) for the year ended June 30, 2005. Those statements were audited by other auditors whose report has been furnished to us, and our opinion for 2005, insofar as it relates to the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc., is based solely on the report of the other auditors. The financial statements of WVSOM and the Foundation as of June 30, 2004 were audited by other auditors whose reports dated February 10, 2005 and August 11, 2005 expressed an unqualified opinion on these statements.

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 financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc., which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other auditors, such financial statements present fairly, in all material respects, the respective financial position of the business-type activities and discretely presented component unit of WVSOM as of June 30, 2005, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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The Management's Discussion and Analysis on pages 5 to 12 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of WVSOM's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 9, 2005, on our consideration of WVSOM'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, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Smittle & Stalmaker, PLLC

September 9, 2005



West Virginia School of Osteopathic Medicine

400 North Lee Street
Lewisburg, West Virginia 24901

Management's Discussion and Analysis Fiscal Year 2005 Financial Statements

Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine ("WVSOM") is proud to present its financial statements for fiscal year 2005, with fiscal year 2004 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WVSOM's financial statements provides an overview of its financial activities for the year and is required supplemental information.

The Governmental Accounting Standards Board (GASB) issued directives effective for 2002 for presentation of college and university financial statements. The format places emphasis on the overall economic resources of WVSOM.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated are discretely presented with WVSOM's financial statements for the fiscal years ended June 30, 2005 and 2004.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WVSOM as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WVSOM. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

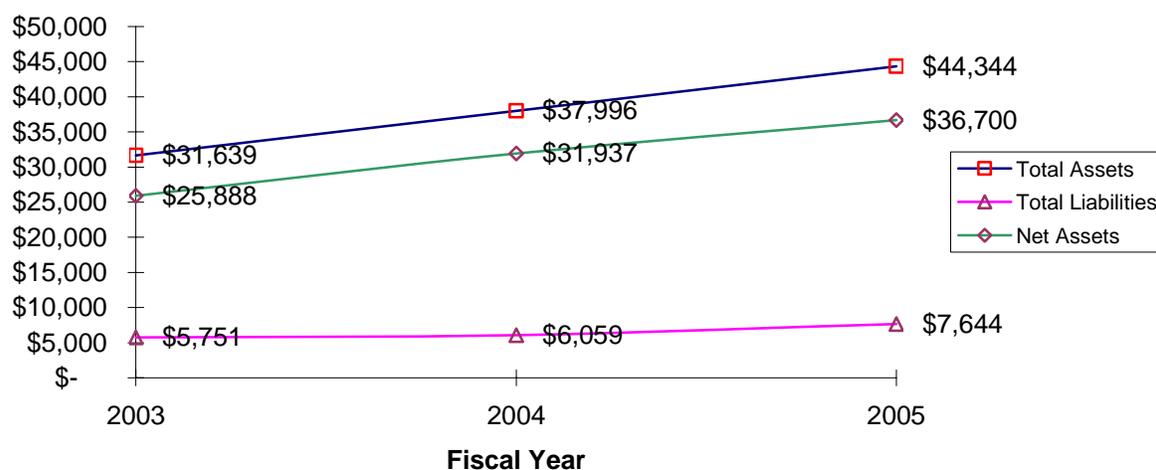
From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of WVSOM. They are also able to determine how much is owed to vendors, employees, and lending institutions.

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

Net assets are divided into three major categories. The first category, invested in capital assets, represents equity in the property, plant and equipment owned by WVSOM. The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets, the balances that had been restricted by the West Virginia Legislature (“Legislature”) were removed by State Code and moved to the unrestricted category in fiscal year 2004. These activities were fundamental to the normal ongoing operations of WVSOM and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WVSOM.

Net Assets
Years Ended June 30,
(In thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Assets:			
Current assets	\$ 13,565	\$ 13,290	\$ 11,150
Other non-current assets	4,613	3,954	3,451
Capital assets, net	<u>26,166</u>	<u>20,752</u>	<u>17,038</u>
Total assets	<u>44,344</u>	<u>37,996</u>	<u>31,639</u>
Liabilities			
Current liabilities	4,308	3,027	2,542
Non-current liabilities	<u>3,336</u>	<u>3,032</u>	<u>3,209</u>
Total liabilities	<u>7,644</u>	<u>6,059</u>	<u>5,751</u>
Net assets			
Invested in capital assets	26,166	20,752	17,038
Restricted - expendable	4,371	3,894	3,583
Restricted - nonexpendable	46	46	46
Balances restricted by State Code	-	-	3,773
Unrestricted	<u>6,117</u>	<u>7,245</u>	<u>1,448</u>
Total net assets	<u>\$ 36,700</u>	<u>\$ 31,937</u>	<u>\$ 25,888</u>



In fiscal years 2005 and 2004, the total assets of WVSOM increased by \$6.3 million and \$6.4 million, respectively. The changes described below represent the majority of this increase in 2005:

- Current assets increased by only \$275,000. Cash and cash equivalents increased by slightly more than \$530,000 because both resident and non-resident enrollment fees were increased seven and one half percent and there was an increase in class size (the third year of new students entering the Problem Based Learning program). There was also a decrease in our accounts receivable, net of approximately \$198,000 that comprises the majority of the difference.
- Noncurrent assets increased by approximately \$6.1 million primarily due to an aggressive capital building initiative that is discussed in greater detail in the Capital Asset and Debt Administration section of the MD&A.

In fiscal year 2005, total liabilities increased by \$1.6 million while in fiscal year 2004 they increased by only \$307,000. The changes described below represent the majority of the increase in 2005:

- Current liabilities for the year increased by \$1.3 million primarily due to the following: an increase in deferred revenue collections for enrollment fees which reflects the seven and one-half percent fee increase; an increase in new employees that, when they are hired, are placed on a half-month deferred payroll system; the increased amount for the annual increment due employees for years of service; and, an additional award payable in the student loan program.
- Noncurrent liabilities increased only \$305,000 because of a slight increase in our compensated absences.

The ratio of current assets to current liabilities for fiscal years 2005 and 2004 is 3.1:1 and 4.4:1 respectively. This change reflects the capital assets investment made by WVSOM in new construction projects. The ratio for fiscal year 2005, although less than the previous year, remains above the standard expectation.

For fiscal years 2005 and 2004, net assets increased approximately \$4.8 million and \$6 million respectively.

Statement of Revenues, Expenses and Changes in Net Assets

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

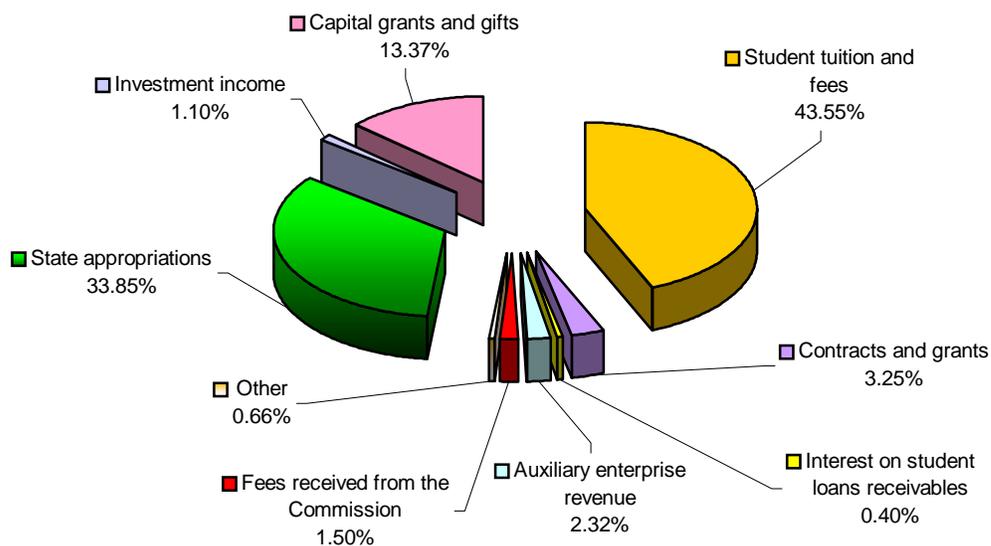
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WVSOM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

**Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,
(In thousands of dollars)**

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues	\$ 10,661	\$ 9,503	\$ 7,751
Operating expenses	<u>15,721</u>	<u>14,181</u>	<u>14,232</u>
Operating loss	(5,060)	(4,678)	(6,481)
Non-operating revenues	<u>7,084</u>	<u>7,056</u>	<u>8,110</u>
Income before other revenues, expenses, gains or losses	2,024	2,378	1,629
Other revenues, expenses, gains or losses	<u>2,739</u>	<u>3,671</u>	<u>511</u>
Increase in net assets	4,763	6,049	2,140
Net assets, beginning of year	<u>31,937</u>	<u>25,888</u>	<u>23,748</u>
Net assets, end of year	<u>\$ 36,700</u>	<u>\$ 31,937</u>	<u>\$ 25,888</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflects a positive year with an increase in the net assets at the end of the year. A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

**FY 2005 Total Revenues
Operating, Nonoperating, and Capital**



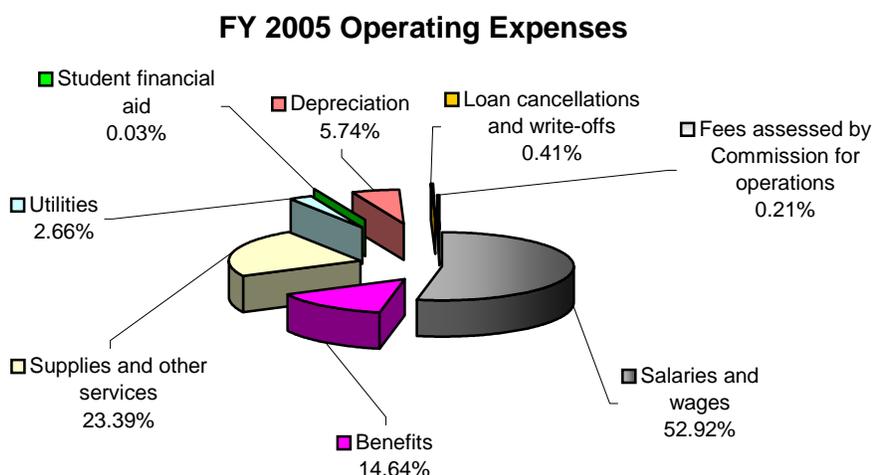
In fiscal year 2005, total operating revenues increased by approximately \$1.2 million, compared to an increase of \$1.8 million in fiscal year 2004. The following explain the increase in operating revenues in fiscal year 2005:

- Student tuition and fees (net of scholarship allowance) increased by \$1.4 million and made up 84% of WVSOM's operating revenues and, as the pie chart shows, 44% of total revenues. Tuition and fee revenues increased over the previous year because both resident and non-resident enrollment fees were increased by 7.5%. Fiscal year 2005 also marked the 2nd year of our Problem Based Learning program which gave WVSOM the opportunity to increase its entering class size by 24 students.
- Other operating revenues such as noncapital grants and contracts, auxiliary enterprises and other operating revenues had a net decrease of approximately \$226,000 primarily because there was a change in the accounting for our Medical Education Loan Program funds. These other operating revenue sources comprised 16% of WVSOM's operating revenues and 9% of total revenues.

In fiscal year 2005, non operating revenues increased by approximately \$28,000, compared to a decrease of approximately \$1 million in fiscal year 2004. The slight increase in fiscal year 2005 was primarily the result of the following: a decrease in State appropriations of \$298,000; an increase of \$161,000 in investment income, and a \$165,000 reduction in loss on disposal of capital assets. State appropriations accounted for 34% of total operating and nonoperating revenues and were used to support the operations of WVSOM. Investment income made up a relatively small piece of the nonoperating revenues and was slightly more than 1% of total operating and nonoperating revenues in fiscal year 2005. WVSOM participates in the investment pool managed by the State.

Capital grants, gifts, and projects decreased by approximately \$932,000 dollars in fiscal year 2005, while in fiscal year 2004, they increased by approximately \$3.2 million. The primary reason for the decrease was because the final phase of the Robert C. Byrd Clinic expansion project was completed and only \$2.1 million of Federal funding was received compared to the \$3.7 million received in fiscal year 2004. In addition, WVSOM received \$592,000 of bond proceeds in fiscal year 2005 from the West Virginia Higher Education Policy Commission for the start of our Center for Technology and Rural Medicine. Capital grants, gifts, and projects made up 13% of fiscal year 2005 total revenues.

In fiscal year 2005, net assets increased approximately \$4.8 million while in fiscal year 2004 the increase was slightly more than \$6.0 million.



Total operating expenses for fiscal year 2005 increased by approximately \$1.5 million, compared to a decrease of approximately \$51,000 in fiscal year 2004. The increase in fiscal year 2005 was primarily the result of the following actions:

- The salaries and wages and employee benefits categories increased by \$896,029 and made up approximately 68% of the operating expenses of WVSOM. A pool of money equal to 5% of the base salaries of all filled faculty, classified, and non-classified positions was made available to distribute to each group of employees. Faculty increases were distributed in accordance with the WVSOM faculty merit plan. Classified staff advanced 36% of the difference between where they were and where they should have been on the new Mercer Pay Schedule at their years of service and brought the Mercer Schedule up to the 89.8% funding level. Non-classified employees received across-the-board increases. The hiring process began to implement the planned increase in faculty and staff positions to support the increased class size beginning in the fall of 2006. Benefit costs also increased because of increased employer matching for Public Employees Insurance Agency premiums as well as other matching costs for social security, worker's compensation, etc., associated with raises granted.
- Supplies and other services increased by \$706,967 primarily because WVSOM changed its capitalization policy which increased the dollar amount being capitalized from \$1,000 to \$5,000. This item comprises 23% of the operating expenses of WVSOM.
- All other operating expenses make up 9% of the total as indicated on the pie chart. Utilities increased slightly, loan cancellations and write-offs decreased significantly, and fees assessed by the HEPC decreased due to a major policy change in the accounting for funds in the Medical Education Loan program.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, cash and cash equivalents increased by approximately \$.5 million in fiscal year 2005 and by approximately \$2.3 million in fiscal year 2004. This reduction was directly related to the increase of approximately \$2.2 million in net cash used in capital financing activities

Cash Flows
For the Years Ended June 30,
(In thousands of dollars)

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided by (used in):			
Operating activities	\$ (3,466)	\$ (4,074)	\$ (4,889)
Non capital financing activities	6,963	7,255	7,776
Capital financing activities	(3,173)	(986)	(2,117)
Investing activities	<u>206</u>	<u>67</u>	<u>317</u>
Increase in cash and cash equivalents	530	2,262	1,087
Cash and cash equivalents, beginning of year	<u>11,832</u>	<u>9,570</u>	<u>8,483</u>
Cash and cash equivalents, end of year	<u>\$ 12,362</u>	<u>\$ 11,832</u>	<u>\$ 9,570</u>

Capital Asset and Debt Administration

WVSOM had several renovation and new construction projects completed or started during fiscal year 2005 that were added to our capital assets. These projects were funded from a variety of sources including a Federal grant, WVSOM funds, and bond proceeds from the HEPC. No debt was incurred.



- Phase I of the Robert C. Byrd Clinic expansion began in fiscal year 2003 and was completed in fiscal year 2004. This expansion added a 16,435 sq. ft. geriatrics wing to the Clinic at a cost of approximately \$4 million. Phase II of the expansion project, which added 9,200 sq. ft. of space in the Clinic at a cost of \$2.7 million, was substantially completed in fiscal year 2005. Funding was provided by a Federal grant issued from the Department of Health and Human Services/Health Resources and Services Administration along with a small portion of institutional matching funds.
- In fiscal year 2005, the following projects were undertaken: our old Maintenance Building was demolished and in its place a new parking lot is being constructed; a new Maintenance/Storage/Receiving facility was completed; a new Admissions Center was substantially completed; a residence was purchased and renovated into space to house our Communications Center; construction of a new Center for Technology and Rural Medicine was started and includes two, two-hundred seat tiered classrooms; and, an addition to the Fredric W. Smith Science Building was started which is adding thirty additional gross anatomy stations. These projects are being completed to accommodate our approved increase in class size that is scheduled in the fall of 2006 for the academic year 2006-2007.
- As of June 30, 2005 and 2004, WVSOM has no capital debt.



Economic Outlook

Although the economic forecast for the State is looking more positive now than in the past, additional revenues are needed to be expended yearly for the Public Employees Insurance Agency, the State retirement funds' and the workers' compensation unfunded liabilities and the Medicaid program. It is also anticipated that because neighboring states are beginning new lottery games, there will be no growth or slow growth in Lottery revenues. With approximately 34% of institutional operations funded by State appropriations, WVSOM has been vulnerable to spending freezes and/or budget reductions in State appropriations due to the above factors. On the positive side, at the end of fiscal year 2005 there was a large surplus primarily because lottery revenues and severance tax revenues exceeded estimates by approximately \$400 million.

No State agencies were asked to submit State appropriation budget requests for fiscal year 2007 below the fiscal year 2006 base budget level. In fiscal year 2005, WVSOM was directed to submit a State appropriation budget request for fiscal year 2006 at 94.5% of the fiscal year 2005 base budget level in State funding but received virtually the same appropriation as the previous year with only a slight reduction. In fiscal year 2006, both resident and non-resident enrollment fees were increased by 7.5%; while in fiscal year 2007, we are projecting only a 7.0% increase for both resident and non-resident students.

In fiscal year 2005, WVSOM continued several new academic initiatives. The Problem Based Learning curriculum began its second year with 24 new students joining the 21 students that now make up the second year class. The Objective Structured Clinical Evaluation (OSCE) program continued for second and third year students as well as for interns and residents. In fiscal year 2005, as part of this learning and assessment program, WVSOM purchased a human patient simulator (HPS). The simulator is a computer driven, full sized mannequin that delivers the hands-on experience to students in true-to-life scenarios that can be changed to meet instructors' goals. The ultra sophisticated and highly versatile HPS blinks, speaks and breathes, has a heartbeat and pulse, and accurately mirrors human responses to such procedures as CPR, intravenous medication, intubations, ventilation, and catheterization. As funding becomes available, the construction of an OSCE building is planned with additional simulators.

With potential problems in State funding as noted above, there is an urgent need to address many issues including the following: the ever rising cost of tuition; improving the quality of medical education; continuing the development and implementation of a statewide campus for third and fourth year students as well as residents to keep them in the State to practice; and, having the ability to pay competitive, market level salaries in order to recruit and retain the kind of quality staff we demand. A strategic plan has been developed to address these issues and that plan will increase the class size by a minimum of 76 students per year making the entering class size 180 starting in fiscal year 2007 and continuing through fiscal year 2010. This increase will double enrollment when compared with enrollment in fiscal year 2004. The Center for Technology and Rural Medicine has two, 200-seat classrooms and is scheduled for completion so the increased class can enter in the fall of 2006. A committee of all institutional constituency groups was formed to assess the additional needs for the increased class size, i.e., staffing, operational costs, capital needs, etc. A department by department analysis was conducted and the additional needs were identified and costs were assigned. A financial plan was developed based on this analysis, projecting revenues and expenditures through FY 2010.

Although the economic forecast for the State of West Virginia appears to be improving, the emphasis has been on reducing the State's unfunded liabilities and reducing the sales tax and not necessarily on funding higher education. WVSOM's overall financial position continues to remain strong. We feel as if we are well positioned to continue to attract, recruit, and matriculate professional medical students. Increases in the number of applicants (currently running 35% ahead of the previous year), non-resident students, class size, and improvements in the physical plant, along with the continued favorable ranking of academic programs at the national level with peer schools indicate that WVSOM should be able to remain competitive for recruitment of new students. The April 18, 2005 issue of *U.S. News and World Report* ranking of best graduate schools of 2006 has WVSOM among the top medical schools (both M.D. and D.O.) nationwide with the following rankings: #9 in Rural Medicine; #21 in Family Medicine; and, #48 in Primary Care. This marks the seventh consecutive year that WVSOM has made the *U.S. News and World Report* rankings. Also, in December 2004 a study from the University of Nebraska Medical Center that collected data from all domestic and foreign medical schools (both M.D. and D.O.) for the period 1987-2000 showed that WVSOM was the top medical school in the world for the percentage of its graduates practicing medicine in rural areas.

WVSOM anticipates the 2006 fiscal year will be much like the last and we will continue to maintain a close watch over resources to maintain the School's ability to react to unknown internal and external issues.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF NET ASSETS
JUNE 30, 2005 AND 2004

ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 12,361,904	\$ 11,832,272
Appropriations due from Primary Government	60,722	90,696
Accounts receivable	640,863	839,283
Loans to students-current portion	305,318	353,708
Prepaid expenses	78,007	70,790
Inventories	<u>118,579</u>	<u>102,862</u>
Total current assets	<u>13,565,393</u>	<u>13,289,611</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	46,000	46,000
Loans to students-net of allowance of \$324,703 and \$313,169 in 2005 and 2004, respectively	4,566,852	3,908,305
Capital assets-net	<u>26,165,502</u>	<u>20,751,649</u>
Total noncurrent assets	<u>30,778,354</u>	<u>24,705,954</u>
TOTAL ASSETS	<u>44,343,747</u>	<u>37,995,565</u>
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	941,135	629,625
Accrued liabilities	214,022	184,501
Compensated absences-current portion	573,217	507,037
Deferred revenue	<u>2,579,514</u>	<u>1,705,752</u>
Total current liabilities	<u>4,307,888</u>	<u>3,026,915</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	1,944,143	1,914,712
Compensated absences	<u>1,392,154</u>	<u>1,117,082</u>
Total noncurrent liabilities	<u>3,336,297</u>	<u>3,031,794</u>
TOTAL LIABILITIES	<u>7,644,185</u>	<u>6,058,709</u>
NET ASSETS		
INVESTED IN CAPITAL ASSETS	<u>26,165,502</u>	<u>20,751,649</u>
RESTRICTED FOR:		
Expendable:		
Research	209,421	89,605
Loans	3,867,822	3,486,400
Capital projects	<u>293,675</u>	<u>318,423</u>
Total expendable	<u>4,370,918</u>	<u>3,894,428</u>
Nonexpendable	<u>46,000</u>	<u>46,000</u>
UNRESTRICTED	<u>6,117,142</u>	<u>7,244,779</u>
Total net assets	<u>\$ 36,699,562</u>	<u>\$ 31,936,856</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2005 AND 2004

	ASSETS	<u>2005</u>	<u>2004</u>
CURRENT ASSETS:			
Cash/checking		\$ 132,584	\$ 70,400
Short term loan receivable		5,065	6,430
Accounts receivable		1,506	6,058
Prepaid expenses		<u>3,574</u>	<u>3,934</u>
Total current assets		142,729	86,822
PROPERTY AND EQUIPMENT:			
Building and land		2,304,711	2,304,711
Automobile and equipment		48,448	48,448
Accumulated depreciation		<u>(419,136)</u>	<u>(357,161)</u>
Total property and equipment		1,934,023	1,995,998
OTHER ASSETS:			
Investments		<u>38,932</u>	<u>58,447</u>
Total other assets		<u>38,932</u>	<u>58,447</u>
TOTAL		<u>\$ 2,115,684</u>	<u>\$ 2,141,267</u>
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES:			
Accounts payable		\$ 15,666	\$ 19,164
Custodial funds		<u>102,723</u>	<u>52,512</u>
Total current liabilities		118,389	71,676
TOTAL		<u>118,389</u>	<u>71,676</u>
NET ASSETS:			
Temporarily restricted		110,544	107,716
Unrestricted		<u>1,886,751</u>	<u>1,961,875</u>
Total net assets		<u>1,997,295</u>	<u>2,069,591</u>
TOTAL		<u>\$ 2,115,684</u>	<u>\$ 2,141,267</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$437,562 and \$353,910 in 2005 and 2004, respectively	\$ 8,921,095	\$ 7,536,412
Contracts and grants:		
Federal	60,592	68,932
State	254,801	219,603
Private	349,838	458,000
Interest on student loans receivable	81,479	83,884
Auxiliary enterprise revenue	476,170	454,767
Fees received from the Commission	308,100	517,478
Miscellaneous-net	<u>209,393</u>	<u>164,031</u>
 Total operating revenues	 <u>10,661,468</u>	 <u>9,503,107</u>
OPERATING EXPENSES:		
Salaries and wages	8,319,657	7,862,140
Benefits	2,302,012	1,863,500
Supplies and other services	3,676,615	2,969,648
Utilities	418,092	407,961
Student financial aid-scholarships and fellowships	5,500	6,000
Depreciation	902,197	728,405
Loan cancellations and write-offs	64,889	108,071
Fees assessed by the Commission for operations	<u>32,555</u>	<u>234,902</u>
 Total operating expenses	 <u>15,721,517</u>	 <u>14,180,627</u>
 OPERATING LOSS	 <u>(5,060,049)</u>	 <u>(4,677,520)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	6,933,167	7,230,954
Investment income	225,783	65,168
Loss on disposal of capital assets	<u>(75,165)</u>	<u>(240,050)</u>
 Net nonoperating revenues	 <u>7,083,785</u>	 <u>7,056,072</u>
 INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	 2,023,736	 2,378,552
 CAPITAL GRANTS AND GIFTS	 2,146,539	 3,670,714
 CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	 <u>592,431</u>	 <u>-</u>
 INCREASE IN NET ASSETS	 4,762,706	 6,049,266
 NET ASSETS-Beginning of year	 <u>31,936,856</u>	 <u>25,887,590</u>
 NET ASSETS-End of year	 <u>\$ 36,699,562</u>	 <u>\$ 31,936,856</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Revenues:		
Alumni Membership dues	\$ -	\$ 6,026
Sales-bar	1,409	263
Room rental income	10,215	8,056
Educational events	119,437	125,178
Activities income	1,505	5,495
Fundraising income	1,191	57,781
Donation income	424,675	462,218
Investment income	3,850	3,117
Checking account interest income	219	200
Miscellaneous income	<u>3,877</u>	<u>9,227</u>
Total revenues	<u>566,378</u>	<u>677,561</u>
Operating Expenses:		
Security deposit reimbursement	700	100
Tuition assistance expenses	-	826
WVSOM business office/miscellaneous	-	1,011
Matching funds	9,810	9,213
Supplies expense	2,412	3,002
Beverage expense	3,426	958
Phone expense	589	593
Services-entertainment	480	3,140
Services-catering	1,355	20,360
Services-miscellaneous	1,823	3,676
Travel expenses	131	2,490
Car expense	1,583	3,551
Hospitality expense	2,962	4,432
Insurance expense	9,812	7,008
License fees expenses	3,234	1,361
Printing expense	-	1,321
Educational events	131,867	141,943
Credit card expense	1,547	1,485
Salary support expense	200,513	216,170
Fringe benefits	57,979	55,404
Membership fees	-	9,849
CME credit expense	804	1,466
Miscellaneous expense	1,954	22,587
Fundraising expense	520	17,063
Floral expense	-	457
President housing allowance	9,600	7,200
Donation expense	44,895	57,747
Utilities expense	27,105	30,729
Operational expense	29,053	27,100
Depreciation expense	<u>61,975</u>	<u>59,395</u>
Total expenses	<u>606,129</u>	<u>711,637</u>
INCREASE (DECREASE) IN UNRESTRICTED NET ASSETS	(39,751)	(34,076)
Changes in temporarily restricted net assets		
Contributions	2,913	64,215
Net assets released from restrictions	<u>(35,458)</u>	<u>(36,834)</u>
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	(32,545)	27,381
NET ASSETS-Beginning of year	<u>2,069,591</u>	<u>2,076,286</u>
NET ASSETS-End of year	<u>\$ 1,997,295</u>	<u>\$ 2,069,591</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 STATEMENTS OF CASH FLOWS
 YEARS ENDED JUNE 30, 2005 AND 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 9,610,145	\$ 7,903,502
Contracts and grants	1,010,996	614,885
Payments to and on behalf of employees	(10,233,912)	(9,736,393)
Payments to suppliers	(3,913,716)	(3,085,283)
Payments to utilities	(419,740)	(414,378)
Payments for scholarships and fellowships	(5,500)	(6,000)
Loans issued to students	(1,207,937)	(948,099)
Awards returned	-	(319,406)
Collection of loans to students	668,881	793,419
Auxiliary enterprise charges	472,216	437,792
Debt service assessed by Commission	275,545	357,324
Other receipts-net	<u>277,452</u>	<u>328,956</u>
Net cash used in operating activities	<u>(3,465,570)</u>	<u>(4,073,681)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	6,963,141	7,254,559
Federal Stafford loan program direct lending receipts	11,269,759	10,109,429
Federal Stafford loan program direct lending payments	<u>(11,269,759)</u>	<u>(10,109,429)</u>
Net cash provided by noncapital financing activities	<u>6,963,141</u>	<u>7,254,559</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	2,860,410	3,330,876
Purchases of capital assets	(6,034,350)	(4,436,827)
Sale of capital assets	-	<u>120,203</u>
Net cash used in capital financing activities	<u>(3,173,940)</u>	<u>(985,748)</u>
CASH FLOWS FROM INVESTING ACTIVITIES-		
Interest on investments	<u>206,001</u>	<u>67,278</u>
Cash provided by investing activities	<u>206,001</u>	<u>67,278</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	529,632	2,262,408
CASH AND CASH EQUIVALENTS-Beginning of year	<u>11,832,272</u>	<u>9,569,864</u>
CASH AND CASH EQUIVALENTS-End of year	<u>\$ 12,361,904</u>	<u>\$ 11,832,272</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (5,060,049)	\$ (4,677,520)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	902,197	728,405
Loan cancellations and write-offs	64,889	108,071
Changes in assets and liabilities:		
Accounts receivable	(62,941)	174,884
Loans to students	(610,157)	(154,680)
Prepaid expenses	(7,217)	(597)
Inventories	(15,717)	(33,970)
Accounts payable	49,459	(34,760)
Accrued liabilities	29,521	25,242
Compensated absences	341,252	(18,900)
Deferred revenue	873,762	101,910
Advances from federal sponsors	<u>29,431</u>	<u>(291,766)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (3,465,570)</u>	<u>\$ (4,073,681)</u>
NONCASH TRANSACTION-		
Loss on disposal of capital assets	<u>\$ 75,165</u>	<u>\$ 240,050</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 1. ORGANIZATION

The West Virginia School of Osteopathic Medicine (“WVSOM”) is governed by the West Virginia School of Osteopathic Medicine Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity - WVSOM is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. WVSOM is a separate entity which, along with all State institutions of higher education, the West Virginia Council of Community and Technical Colleges, and the Commission (which includes West Virginia Network for Educational Telecomputing), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements present all funds under the authority of WVSOM. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM's ability to significantly influence operations and accountability for fiscal matters of related entities. The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the Foundation), The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the Clinic), and the Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI) a consortium are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of the Foundation are presented here with WVSOM's financial statements for the fiscal years ended June 30, 2005 and 2004. The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organization*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 12, 13 and 15).

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

- *Invested In Capital Assets* - This represents WVSOM's total investment in capital assets.
- *Restricted Net Assets, Expendable* - These include resources for which WVSOM is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- *Restricted Net Assets, Nonexpendable* - These include 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 WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

Basis of Accounting - For financial reporting purposes, WVSOM is considered a special-purpose government engaged only in business-type activities. Accordingly, WVSOM'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, WVSOM considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code §12-1-12A, policies set by the IMB, and by 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 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 multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate 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>.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); 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.

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

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

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

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

Capital Assets - Capital assets include property, plant and equipment, and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 5 to 12 years for furniture and equipment. WVSOM's capitalization thresholds are \$15,000 for land and building improvement, \$5,000 for equipment, and \$150 for library books.

Deferred Revenue - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as tuition and fees. Financial aid and other deposits are separately classified as deposits.

Compensated Absences - WVSOM 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WVSOM's full-time employees, except nine-month faculty, 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 extends 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 extends health insurance for one year of single coverage and five years extends 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, WVSOM 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 WVSOM for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense and 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 WVSOM and its employees. Such coverage may be provided to WVSOM 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 WVSOM or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVSOM is currently charged by BRIM and the ultimate cost of that insurance based on WVSOM's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVSOM and WVSOM's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

Classification of Revenues - WVSOM 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, and (4) sales and services of educational activities.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Use of Restricted Net Assets - WVSOM 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, WVSOM attempts to utilize restricted net assets first, when practicable.

Federal Financial Assistance Programs - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program. The activity of this program is not recorded in the accompanying financial statements. WVSOM has awarded approximately \$11,200,000 and \$10,100,000 in 2005 and 2004, respectively, under the Federal Stafford Loan Program from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2005 and 2004, WVSOM received and disbursed approximately \$782,498 and \$961,834, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers ("NACUBO"). Certain aid such as loans, funds provided to students as awarded by third parties, and Stafford Loan Program 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 school 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. WVSOM recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - WVSOM is exempt from income taxes, except for unrelated business income, as a non-profit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses 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 Government Accounting Standards Board - The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement was adopted by WVSOM during the fiscal year ended June 30, 2005; however, the statement did not have a significant effect on the operation of WVSOM. The statement resulted in additional disclosure in WVSOM's financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

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 WVSOM 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. WVSOM 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. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 restrictions imposed on net asset use by enabling legislation. WVSOM has not yet determined the effect, if any, that the 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. This statement provides standards for the measurement, recognition and display of voluntary termination benefit expenditures, assets, and liabilities, including applicable note disclosures. WVSOM has not yet determined the effect, if any, that the adoption of GASB Statement No. 47 may have on its financial statements.

Reclassifications - Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 presentation. Such reclassifications did not impact the change in net assets.

NOTE 3. CASH AND CASH EQUIVALENTS

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

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 10,117,275	\$ 46,000	\$ 10,163,275
Cash in bank	2,220,317	-	2,220,317
Cash on hand	24,312	-	24,312
	<u>\$ 12,361,904</u>	<u>\$ 46,000</u>	<u>\$ 12,407,904</u>
	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	\$ 10,055,180	\$ 46,000	\$ 10,101,180
Cash in bank	1,776,070	-	1,776,070
Cash on hand	1,022	-	1,022
	<u>\$ 11,832,272</u>	<u>\$ 46,000</u>	<u>\$ 11,878,272</u>

Cash held by the State Treasurer includes \$1,218,725 in 2005 and \$902,816 in 2004 of restricted cash. House Bill 101 passed in March 2004 simplified the tuition and fees restriction. The amount shown in 2004 reflects this change.

The combined carrying amount of cash in bank at June 30, 2005 and 2004 was \$2,220,317 and \$1,776,070, respectively, as compared with the combined bank balance of \$2,253,673 and \$1,882,303, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances at June 30, 2005 and 2004 were covered by federal depository insurance or were collateralized by securities held by the State’s agent.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Cash on deposit with the State Treasurer is comprised of the following investment pools and are subject to the following IMB policies and limits:

Cash Liquidity Pool

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 credit ratings of the Cash Liquidity pool's investments.

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percentage of Assets</u>
Commercial paper	P1	A-1	\$ 598,241,394	37.9%
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4%
Corporate notes	Aaa	AAA	155,559,323	9.9%
Certificates of deposit	P1	A-1	152,998,937	9.7%
Agency bonds	Aaa	AAA	147,955,465	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>\$ 1,437,958,293</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.

WVSOM's ownership represents .50% of the net asset position of this pool.

Concentration of Credit Risk - West Virginia statutes 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 organization that represented more than 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 of the IMB is invested in the lending agent's money market fund.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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.

<u>Security Type</u>	<u>Carrying Value</u>	<u>WAM</u>
Commercial paper	\$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Corporate 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>	1
 Total assets	 <u>\$ 1,579,008,293</u>	 45

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 & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

WVSOM's ownership represents .05% 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 of the IMB 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.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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	985,190	1
 Total assets	 <u>\$ 154,819,532</u>	 38

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 & 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	49,990,408	18.4%
 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.

WVSOM's ownership represents .78% of the net asset position of this pool.

Concentration of Credit Risk - West Virginia statutes 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 of the IMB is invested in the lending agent's money market fund.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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>	0.0
 Total assets	 <u>\$ 271,654,067</u>	 1.7

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

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2005</u>	<u>2004</u>
Student tuition and fees-no allowance deemed necessary	\$ 192,362	\$ 7,650
Grants and contracts receivable	131,045	778,103
Due from the Commission	277,965	5,256
Due from other State agencies	3,769	22,720
Other accounts receivable	<u>35,722</u>	<u>25,554</u>
	<u>\$ 640,863</u>	<u>\$ 839,283</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5. CAPITAL ASSETS

The following is a summary of capital asset transactions of WVSOM for the years ended June 30:

	2005			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 538,834	\$ 18,625	\$ (1,626)	\$ 555,833
Construction in progress	<u>4,344,319</u>	<u>1,933,181</u>	<u>(4,344,319)</u>	<u>1,933,181</u>
Total capital assets not being depreciated	<u>\$ 4,883,153</u>	<u>\$ 1,951,806</u>	<u>\$ (4,345,945)</u>	<u>\$ 2,489,014</u>
Other capital assets:				
Land improvements	\$ 1,124,249	\$ 149,470	\$ (198,289)	\$ 1,075,430
Buildings	17,410,742	7,915,048	(80,000)	25,245,790
Equipment	3,970,241	815,183	(198,247)	4,587,177
Library books	<u>122,698</u>	<u>38,687</u>	<u>(16,892)</u>	<u>144,493</u>
Total other capital assets	<u>22,627,930</u>	<u>8,918,388</u>	<u>(493,428)</u>	<u>31,052,890</u>
Less accumulated depreciation for:				
Land improvements	(63,212)	(86,839)	-	(150,051)
Buildings	(3,821,924)	(460,217)	80,000	(4,202,141)
Equipment	(2,870,806)	(335,455)	198,247	(3,008,014)
Library books	<u>(3,492)</u>	<u>(19,686)</u>	<u>6,982</u>	<u>(16,196)</u>
Total accumulated depreciation	<u>(6,759,434)</u>	<u>(902,197)</u>	<u>285,229</u>	<u>(7,376,402)</u>
Other capital assets-net	<u>\$ 15,868,496</u>	<u>\$ 8,016,191</u>	<u>\$ (208,199)</u>	<u>\$ 23,676,488</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 4,883,153	\$ 1,951,806	\$ (4,345,945)	\$ 2,489,014
Other capital assets	<u>22,627,930</u>	<u>8,918,388</u>	<u>(493,428)</u>	<u>31,052,890</u>
Total cost of capital assets	27,511,083	10,870,194	(4,839,373)	33,541,904
Less accumulated depreciation	<u>(6,759,434)</u>	<u>(902,197)</u>	<u>285,229</u>	<u>(7,376,402)</u>
Capital assets-net	<u>\$ 20,751,649</u>	<u>\$ 9,967,997</u>	<u>\$ (4,554,144)</u>	<u>\$ 26,165,502</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 5. CAPITAL ASSETS (Continued)

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 488,806	\$ 50,028	\$ -	\$ 538,834
Construction in progress	<u>533,968</u>	<u>3,810,351</u>	<u>-</u>	<u>4,344,319</u>
Total capital assets not being depreciated	<u>\$ 1,022,774</u>	<u>\$ 3,860,379</u>	<u>\$ -</u>	<u>\$ 4,883,153</u>
Other capital assets:				
Land improvements	\$ 703,724	\$ 420,525	\$ -	\$ 1,124,249
Buildings	17,525,638	214,034	(328,930)	17,410,742
Equipment	4,240,620	209,472	(479,851)	3,970,241
Library books	<u>268,557</u>	<u>98,250</u>	<u>(244,109)</u>	<u>122,698</u>
Total other capital assets	<u>22,738,539</u>	<u>942,281</u>	<u>(1,052,890)</u>	<u>22,627,930</u>
Less accumulated depreciation for:				
Land improvements	(27,795)	(35,417)	-	(63,212)
Buildings	(3,552,612)	(369,316)	100,004	(3,821,924)
Equipment	(3,042,943)	(285,307)	457,444	(2,870,806)
Library books	<u>(100,316)</u>	<u>(38,365)</u>	<u>135,189</u>	<u>(3,492)</u>
Total accumulated depreciation	<u>(6,723,666)</u>	<u>(728,405)</u>	<u>692,637</u>	<u>(6,759,434)</u>
Other capital assets-net	<u>\$ 16,014,873</u>	<u>\$ 213,876</u>	<u>\$ (360,253)</u>	<u>\$ 15,868,496</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,022,774	\$ 3,860,379	\$ -	\$ 4,883,153
Other capital assets	<u>22,738,539</u>	<u>942,281</u>	<u>(1,052,890)</u>	<u>22,627,930</u>
Total cost of capital assets	23,761,313	4,802,660	(1,052,890)	27,511,083
Less accumulated depreciation	<u>(6,723,666)</u>	<u>(728,405)</u>	<u>692,637</u>	<u>(6,759,434)</u>
Capital assets-net	<u>\$ 17,037,647</u>	<u>\$ 4,074,255</u>	<u>\$ (360,253)</u>	<u>\$ 20,751,649</u>

WVSOM has approximately \$7,600,000 of construction commitments at June 30, 2005.

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of WVSOM for the years ended June 30:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 1,624,119	\$ 341,252	\$ -	\$ 1,965,371	\$ 573,217
Advances from federal sponsors	<u>1,914,712</u>	<u>29,431</u>	<u>-</u>	<u>1,944,143</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,538,831</u>	<u>\$ 370,683</u>	<u>\$ -</u>	<u>\$ 3,909,514</u>	<u>\$ 573,217</u>
	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 1,643,019	\$ -	\$ (18,900)	\$ 1,624,119	\$ 507,037
Advances from federal sponsors	<u>2,046,775</u>	<u>27,640</u>	<u>(159,703)</u>	<u>1,914,712</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,689,794</u>	<u>\$ 27,640</u>	<u>\$ (178,603)</u>	<u>\$ 3,538,831</u>	<u>\$ 507,037</u>

NOTE 7. COMPENSATED ABSENCES

The composition of the compensated absence liability at June 30 was as follows:

	<u>2005</u>	<u>2004</u>
Accrued health or life insurance benefits	\$ 1,205,121	\$ 958,372
Accrued vacation leave	<u>760,250</u>	<u>665,747</u>
	<u>\$ 1,965,371</u>	<u>\$ 1,624,119</u>

The cost of health and life insurance benefits paid by WVSOM is based on a combination of years of service and age. For the years ended June 30, 2005 and 2004, the amount paid by WVSOM for extended health or life insurance coverage retirement benefits totaled approximately \$50,637 and \$34,076, respectively. As of June 30, 2005 and 2004, there were 17 and 15 retirees, respectively, currently eligible for these benefits.

NOTE 8. LEASES

WVSOM leases various equipment under agreements reported as noncancelable operating leases. As of June 30, 2005, the future annual minimum lease payments are as follows:

2006	\$ 74,757
2007	45,762
2008	<u>11,080</u>
	<u>\$ 131,599</u>

The total rent expense for this equipment for the years ended June 30, 2005 and 2004 was \$74,123 and \$74,536, respectively.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVSOM receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the State College System of West Virginia and WVSOM System of West Virginia (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System (the "System") are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2005 and 2004.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State of West Virginia. WVSOM has been approved to receive \$4.0 million of these funds to complete the financing of the Academic Technology Center. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

NOTE 10. UNRESTRICTED NET ASSETS

WVSOM unrestricted net assets include certain designated net assets as follows:

	<u>2005</u>	<u>2004</u>
Designated for auxiliaries	\$ 333,121	\$ 290,599
Undesignated	<u>5,784,021</u>	<u>6,954,180</u>
Total unrestricted net assets	<u>\$ 6,117,142</u>	<u>\$ 7,244,779</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 11. RETIREMENT PLANS

Substantially, all full-time employees of WVSOM participate in either the West Virginia State Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by WVSOM employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2005, no employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. WVSOM accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for the years ended June 30, 2005 and 2004. Required employee contributions were at the rate of six percent of total annual salary for the years ended June 30, 2005 and 2004. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Annual pension benefits are based upon two 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 STRS for the year ended June 30, 2005 were \$54,735, which consisted of \$39,096 from WVSOM and \$15,638 from covered employees. Total contributions to STRS for the year ended June 30, 2004 were \$67,357, which consisted of \$48,112 from WVSOM and \$19,245 from covered employees. Total contributions to STRS for the year ended June 30, 2003 were \$66,436, which consisted of \$47,455 from WVSOM and \$18,981 from covered employees.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as WVSOM. 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, West Virginia 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. WVSOM matches the employees' six percent contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by WVSOM.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 11. RETIREMENT PLANS (Continued)

Total contributions to the TIAA-CREF for the years ended June 30, 2005, 2004, and 2003 were \$927,982, \$868,608, and \$833,562, respectively, which consisted of equal contributions from WVSOM and covered employees of \$463,991, \$434,304, and \$416,781, in 2005, 2004, and 2003, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2005 and 2004 was \$8,045,480 and \$7,580,858, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$260,644 and \$7,784,836 in 2005, and \$320,750 and \$7,260,108 in 2004, respectively.

NOTE 12. FOUNDATION

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although WVSOM does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of WVSOM by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, WVSOM, the Foundation is considered a component unit of WVSOM and therefore, is discretely presented in accordance with GASB Statement No. 39. Complete financial statements of the Foundation can be obtained by writing to 400 North Lee Street, Lewisburg, West Virginia 24901.

Gifts, grants, pledges and bequests to the Foundation totaled \$425,866 and \$584,214 for the years ended June 30, 2005 and 2004, respectively.

WVSOM provided direct financial support of \$338,814 and \$378,435 for the years ended June 30, 2005 and 2004, respectively.

NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED)

The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the "Clinic") operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy, and maintains fiscal accountability over the financial affairs of the Clinic. Accordingly, the financial statements of the Clinic are not included in the accompanying financial statements under GASB Statement No. 14 and they are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB Statement No. 39.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
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NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED) (Continued)

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic under which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2005 and 2004, the amount paid by WVSOM for instruction, office expenses, and equipment rental totaled \$250,000 and \$250,000, respectively. WVSOM made payments totaling \$30,000 and \$30,000 for the years ended June 30, 2005 and 2004, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are not publicly available.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. ("MSOPTI") is a consortium formed in 1998 through affiliation agreements between WVSOM and partner hospitals in the States of West Virginia and Ohio which provides post graduate clinical training to osteopathic interns and residents. The affiliation agreements with MSOPTI are renewed annually through contracts executed between each hospital, WVSOM and MSOPTI.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Board of Directors, as specified in the MSOPTI by-laws, which are made up of three members from WVSOM and one member from each of the eleven partner hospitals. In carrying out its responsibilities, the Board of Directors of MSOPTI employs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For the years ended June 30, 2005 and 2004, WVSOM contributed \$50,000 and \$50,000, respectively, to MSOPTI. In addition, WVSOM incurred \$110,721 and \$108,142 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2005 and 2004, respectively. The separate financial statements of MSOPTI are not publicly available.

NOTE 14. CONTINGENCIES

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

NOTE 14. CONTINGENCIES (Continued)

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. WVSOM's management believes that disallowances, if any, will not have a significant financial impact on WVSOM's financial position.

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state, or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. WVSOM 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.

NOTE 15. COMPONENT UNIT'S DISCLOSURES

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

1. NATURE OF THE ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - West Virginia School of Osteopathic Medicine Foundation, Inc. is a not-for-profit corporation organized to promote educational benefits for current and past students of the West Virginia School of Osteopathic Medicine. The organization's significant accounting policies are described below.

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

Functional Expenses - Expenses are charged based on direct expenditures incurred. Other expenses that are common to program expenses and general or administrative expenses are allocated on a statistical basis.

Basis of Presentation - Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements for Not-For-Profit Organizations*. Under SFAS No. 117, WVSOM Foundation, Inc. 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.

Revenue Recognition - Contributions from donors, student organizations or program events are reported as temporarily, permanently or unrestricted funds.

NOTE 15. COMPONENT UNIT'S DISCLOSURES (Continued)

1. NATURE OF THE ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions of donated non-cash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received. WVSOM Foundation, Inc. receives a substantial amount of services donated in carrying out the Organization's mission. Those amounts have been reflected in the financial statements for those services since they meet the criteria for recognition under SFAS No. 116.

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

Cash and Cash Equivalents - WVSOM Foundation, Inc. considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash and cash equivalents for purposes of the statement of cash flows include temporarily restricted cash and cash equivalents.

Property and Equipment - Acquisitions of property and equipment in excess of \$0 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using primarily the straight-line method. Depreciation range is from 5 to 39 years.

Income Taxes - WVSOM Foundation, Inc., is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3). This is not a private foundation. The exemption is currently under evaluation.

Prepays and Deposits - Prepaid expenses are insurance and fees. Deposits are composed of advance rental deposits.

2. CASH

Cash is on deposit with FDIC insured institutions. The amounts are not within the coverage limits of \$100,000 per institution.

3. ACCOUNTS AND LOAN RECEIVABLES

WVSOM Foundation, Inc., has not experienced any losses from receivables and therefore does not feel it is necessary to have an allowance for bad debts. Accounts receivable are mainly amounts owed for rental functions. The loan receivables are short term, ninety days or less, loans for students and are paid back when they receive their funds.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15. COMPONENT UNIT'S DISCLOSURES (Continued)

4. PROPERTY, PLANT AND EQUIPMENT

	<u>2005</u>	<u>2004</u>
Building	\$ 2,285,211	\$ 2,285,211
Automobile	20,360	20,360
Equipment	28,088	28,088
Land	<u>19,500</u>	<u>19,500</u>
	2,353,159	2,353,159
Less accumulated depreciation	<u>(419,136)</u>	<u>(357,161)</u>
	<u>\$ 1,934,023</u>	<u>\$ 1,995,998</u>

Depreciation expense for June 30, 2005 and 2004 was \$61,975 and \$59,395, respectively.

5. INVESTMENTS

Investments as of June 30, 2005 and 2004, are summarized as follows:

	<u>2005</u>		
Cost	Fair Market Value	Carrying Value	
Temporarily restricted:			
Monticeito	<u>\$ 30,200</u>	<u>\$ 38,932</u>	<u>\$ 38,932</u>
Cost	Fair Market Value	Carrying Value	
Temporarily restricted:			
Monticeito	\$ 30,200	\$ 35,054	\$ 35,054
Stanley	<u>23,129</u>	<u>23,393</u>	<u>23,393</u>
	<u>\$ 53,329</u>	<u>\$ 58,447</u>	<u>\$ 58,447</u>

The following schedule summarizes the investment return and its classification in the statement of activities for the year then ended June 30, 2005 and 2004:

	<u>2005</u>	<u>2004</u>
Interest and dividends	\$ 1,662	\$ 3,117
Unrealized gains	<u>2,188</u>	<u>5,118</u>
Total investment return	<u>\$ 3,850</u>	<u>\$ 8,235</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 15. COMPONENT UNIT'S DISCLOSURES (Continued)

6. TEMPORARILY RESTRICTED NET ASSETS

Temporary restricted net assets are available for the following purposes:

	<u>2005</u>	<u>2004</u>
Loans and scholarships	<u>\$ 110,544</u>	<u>\$ 107,716</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2005 AND 2004

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The following table represents operating expenses for the years ended June 30 within both natural and functional classifications:

	2005								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$ 4,244,183	\$ 1,098,072	\$ 1,395,390	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,737,645
Research	180,171	45,777	43,776	-	-	-	-	-	269,724
Public service	98,182	22,938	45,419	-	-	-	-	-	166,539
Academic support	761,724	205,101	375,204	-	-	-	-	-	1,342,029
Student services	594,452	327,762	212,061	-	-	-	-	-	1,134,275
General institutional support	1,777,724	563,516	519,794	-	-	-	-	-	2,861,034
Operations and maintenance of plant	614,882	26,540	689,503	418,092	-	-	-	-	1,749,017
Student financial aid	-	-	-	-	5,500	-	-	-	5,500
Auxiliary enterprises	48,339	12,306	395,468	-	-	-	-	-	456,113
Depreciation	-	-	-	-	-	902,197	-	-	902,197
Other	-	-	-	-	-	-	64,889	32,555	97,444
Total	\$ 8,319,657	\$ 2,302,012	\$ 3,676,615	\$ 418,092	\$ 5,500	\$ 902,197	\$ 64,889	\$ 32,555	\$ 15,721,517

	2004								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$ 4,075,648	\$ 952,564	\$ 1,225,917	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,254,129
Research	155,396	36,110	53,857	-	-	-	-	-	245,363
Public service	103,070	16,739	23,943	-	-	-	-	-	143,752
Academic support	695,237	163,166	345,200	-	-	-	-	-	1,203,603
Student services	509,710	118,494	251,438	-	-	-	-	-	879,642
General institutional support	1,683,868	427,806	381,513	-	-	-	-	-	2,493,187
Operations and maintenance of plant	593,044	137,151	290,359	407,961	-	-	-	-	1,428,515
Student financial aid	-	-	-	-	6,000	-	-	-	6,000
Auxiliary enterprises	46,167	11,470	397,421	-	-	-	-	-	455,058
Depreciation	-	-	-	-	-	728,405	-	-	728,405
Other	-	-	-	-	-	-	108,071	234,902	342,973
Total	\$ 7,862,140	\$ 1,863,500	\$ 2,969,648	\$ 407,961	\$ 6,000	\$ 728,405	\$ 108,071	\$ 234,902	\$ 14,180,627

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*

Governing Board
West Virginia School of Osteopathic Medicine

We have audited the financial statements of West Virginia School of Osteopathic Medicine (WVSOM) as of and for the year ended June 30, 2005, and have issued our report thereon dated September 9, 2005, which states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WVSOM's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving WVSOM's 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 WVSOM's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Suttle & Stalraker, PLLC

September 9, 2005