

West Liberty State College

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

WEST LIBERTY STATE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Liberty State College:

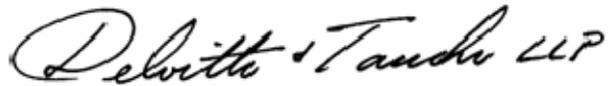
We have audited the statements of net assets of West Liberty State College (the "College") as of June 30, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of West Liberty State College Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the College. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements which were audited by other auditors were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, such financial statements present fairly, in all material respects, the respective financial position and changes in net assets of the College and the discretely presented component unit of the College as of June 30, 2005 and 2004, and cash flows of the College for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 11 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005 on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

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

October 14, 2005

West Liberty State College

State Route 88
P.O. Box 295
West Liberty, WV 26074-0295

Management Discussion and Analysis Fiscal Year 2005 Financial Statements



Overview of the Financial Statements and Financial Analysis

West Liberty State College (“WLSC”) is proud to present its financial statements for fiscal years 2005 and 2004. The emphasis of discussions about these statements will be for the year ended June 30, 2005. 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 WLSC’s financial statements provides an overview of its financial activities for the fiscal years 2005 and 2004 and is required supplemental information.

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of governmental college and university financial statements. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of WLSC. This is the third fiscal year for this format.

GASB 39

The Government Accounting Standards Board (GASB) has revised the financial reporting guidelines for organizations that support government entities, effective for reporting periods beginning after June 15, 2003. Under GASB’s Statement No. 39, if a private foundation that provides financial support to a public college or university meets specified criteria, the college is required to include the foundation’s financial activities in the college’s financial statements.

The reader should understand that although West Liberty State College is the beneficiary of the West Liberty State College Foundation, the Foundation is independent of the College in all respects. It is not a subsidiary or

affiliate of the College and is not directly or indirectly controlled by the College. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the College.

The College is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. The College does not have the power or authority to mortgage, pledge or encumber the assets of the Foundation. The members of the Foundation's board of directors are entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to the College, in accordance with donor designations, if any. Third parties dealing with the College, the Higher Education Policy Commission and the State of West Virginia (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all of the foregoing conditions and limitations.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WLSC as of June 30. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WLSC. 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 is 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 WLSC. 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 WLSC.

Net assets are divided into three major categories. The first category, invested in capital assets, provides equity in the property, plant and equipment owned by WLSC, with title held by the West Virginia Higher Education Policy Commission ("HEPC"). 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 are balances that have been restricted by the West Virginia Legislature ("Legislature"). These restricted activities are fundamental to the normal ongoing operations of WLSC 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 WLSC.

	Net Assets		
	(In Thousands)		
	2005	2004	2003
ASSETS:			
Current assets	\$ 6,962	\$ 5,997	\$ 4,179
Other noncurrent assets	7,379	13,357	1,044
Capital assets—net	<u>35,043</u>	<u>29,215</u>	<u>27,453</u>
TOTAL ASSETS	<u>\$ 49,384</u>	<u>\$ 48,569</u>	<u>\$ 32,676</u>
LIABILITIES:			
Current liabilities	\$ 4,555	\$ 3,937	\$ 2,827
Noncurrent liabilities:	<u>21,242</u>	<u>22,444</u>	<u>9,658</u>
Total liabilities	<u>25,797</u>	<u>26,381</u>	<u>12,485</u>
NET ASSETS (DEFICIT)			
Invested in capital assets	20,031	19,819	20,719
Restricted expendable	1,698	2,198	1,911
Unrestricted	<u>1,858</u>	<u>171</u>	<u>(2,439)</u>
Total net assets	<u>23,587</u>	<u>22,188</u>	<u>20,191</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 49,384</u>	<u>\$ 48,569</u>	<u>\$ 32,676</u>

A review of the individual asset and liabilities categories that contributed to the overall increase in net assets reveals the following:

- Total cash and cash equivalents decreased by \$5.2 million in FY 2005 compared with FY 2004. This decrease is due primarily to the use of bonds proceeds by the College for payment of capital expenditures and repayments of principal and interest on bonds and debt service assessed by the Commission. The College has one year or until September 3, 2006 to spend all its bond proceeds on the preapproved projects by the Board of Governors of WLSC. The College has issued purchase orders for bond projects totaling \$10,380,881 as of June 30, 2005.
- Total cash and cash equivalents increased by \$13.9 million in FY 2004 compared with FY 2003. This increase is due to the sale of bonds by the College, which in turn has caused an increase in noncurrent liabilities. The College has issued purchase orders for bond projects totaling \$5,409,329 as of June 30, 2004.
- Capital leases consist of copiers, HVAC system changes to Main Hall, and improvements to the Marketplace for Sodexo. All current leases will be completed by June 30, 2009.
- Current liabilities include an accrual of \$1.6 million related to projects under construction which is an increase of approximately \$540,000 from FY 2004.

- Noncurrent liabilities have a decrease in bonds payable that were issued on September 3, 2003 and which mature over the next 25 years, and a decrease in debt obligation to Commission totals approximately \$500,000.

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 (“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 WLSC.

In general, operating revenues are earned for providing goods and services to the various customers and constituencies of WLSC. 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 WLSC 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 WLSC without the Legislature directly receiving commensurate goods and services for those revenues.

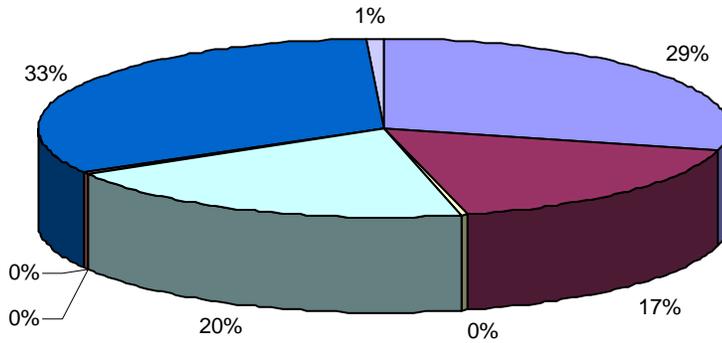
Revenues, Expenses and Changes in Net Assets

(In Thousands)

	2005	2004	2003
OPERATING REVENUES	\$ 17,624	\$ 17,234	\$17,478
OPERATING EXPENSES	<u>24,526</u>	<u>24,458</u>	<u>25,843</u>
OPERATING LOSS	(6,902)	(7,224)	(8,365)
NONOPERATING REVENUES—Net	<u>7,626</u>	<u>7,709</u>	<u>9,219</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	724	485	854
CAPITAL PROCEEDS FROM POLICY COMMISSION	675		419
CAPITAL GIFTS AND GRANTS		1,539	
TRANSFER OF LIABILITY FROM POLICY COMMISSION	<u> </u>	<u>(27)</u>	<u> </u>
INCREASE IN NET ASSETS	1,399	1,997	1,273
NET ASSETS—Beginning of year	<u>22,188</u>	<u>20,191</u>	<u>18,918</u>
NET ASSETS—End of year	<u>\$ 23,587</u>	<u>\$22,188</u>	<u>\$20,191</u>

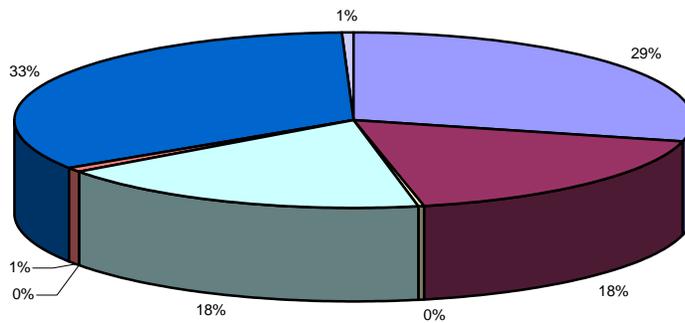
A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

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



Student tuition and fees	Contracts and grants
Interest on loans receivables	Auxiliary enterprise revenue
Fees received from the Commission	Miscellaneous - net
State appropriations	Investment income

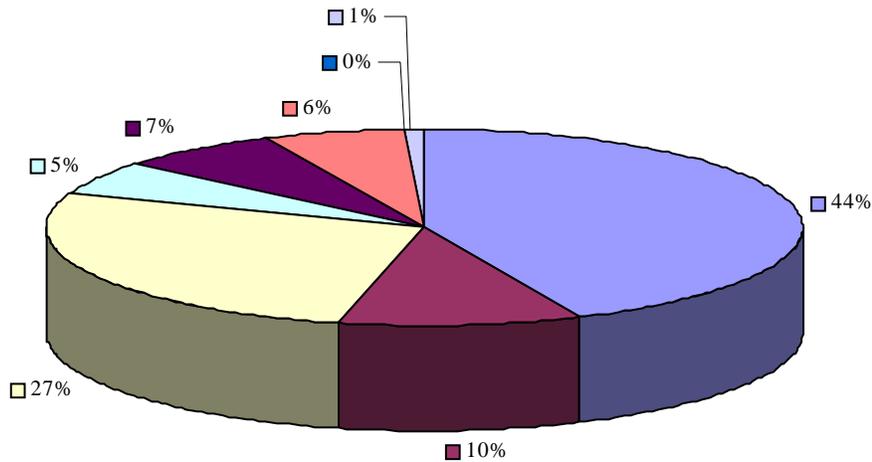
**FY 2004 Total Revenues
Operating, Nonoperating, and Capital**



Student tuition and fees	Contracts and grants
Interest on loans receivables	Auxiliary enterprise revenue
Fees received from the Commission	Miscellaneous - net
State appropriations	Investment income

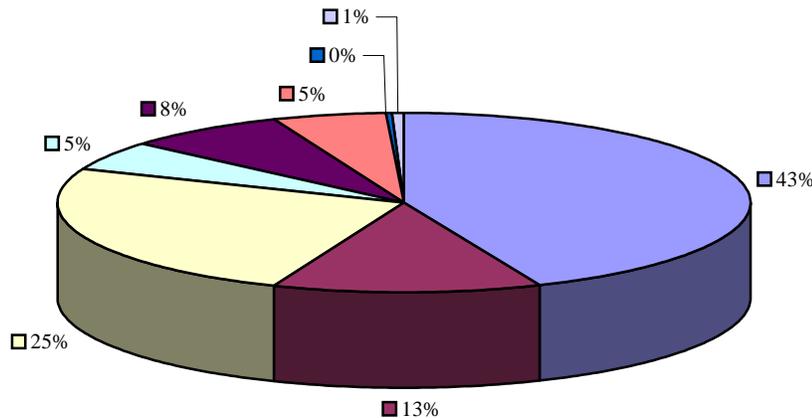
- Student tuition and fees (net of scholarship allowance) made up 43.6% of WLSC’s operating revenues and, as the pie chart shows, 29% of total revenues. Tuition and fee revenues increased in FY 2005 for both resident and non-resident. The tuition and fees were increased in FY 2005 by 6.9% for resident and 6.9% for non-residents. FY 2004 had an increase of 6.0% for resident and 6.0% increase for non-resident students.
- Other operating revenues such as noncapital grants and contracts, revenues from auxiliary enterprises, fees received from the HEPC, and other operating revenues comprised 56.3% of WLSC’s operating revenues and, as the pie chart shows, 37.6% of total revenues, which is essentially the same as 2004.
- Nonoperating revenues from the State consisted mainly of appropriated State funds. These State appropriations accounted for 32.5% of total operating, nonoperating, and capital revenues in FY 2005. These funds are used to support the operations (salary and fringe benefits) of WLSC. State appropriations decreased by \$269,964 in FY 2005, which compares to a decrease of \$1,123,795 in FY 2004.
- Investment income made up of less than 1% of total operating, nonoperating, and capital revenues in FY 2005 and FY 2004. WLSC participates in the investment pool managed by the State.

FY 2005 Operating Expenses



Salaries and wages	Benefits
Supplies and other services	Utilities
Student financial aid	Depreciation
Loan cancellations and write-off	Fees assessed by the Commission for operations

FY 2004 Operating Expenses



Salaries and wages	Benefits
Supplies and other services	Utilities
Student financial aid	Depreciation
Loan cancellations and write-off	Fees assessed by the Commission for operations

- The salaries and wages, and employee benefits categories made up approximately 54% and 56% of the operating expenses of WLSC for FY 2005 and FY 2004 respectively. The reduction in State appropriation funding allowed minimal funding for salary increases. The only salaries increases given were for promotion in rank increases, increment, and completion of moving all the classified employees to zero step on the Mercer Scale. Benefit costs increased slightly because of employer matching for Public Employees Insurance Agency premiums as well as other matching costs for social security, worker's compensation, etc., associated with the raises granted.
- The decrease in utilities for FY 2004 was caused by a gas leak on campus in one of the main lines in FY 2003. More efficient controls and monitoring has taken place in FY 2004 and FY 2005. Such that utilities are basically unchanged between the two years.
- Supplies and other services made up approximately 27% and 25% of the operating expenses of the budget for both FY 2005 and FY 2004 respectively. The decrease in expenses in FY2004 can be attributable to increased efficiency by the staff and faculty. The increase in expenses in FY 2005 is due to the increase in equipment expense purchases as a result of the increase in the capitalization threshold from \$1,000 to \$5,000, as well as, other normal operational increases.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WLSC 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 WLSC. 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 approximately \$.7 million for the FY 2005, and approximately \$1.7 million for the FY 2004.

Cash Flows
(In Thousands)

	2005	2004	2003
Cash Provided by (used in)			
OPERATING ACTIVITIES	\$(5,374)	(6,097)	(7,407)
NONCAPITAL FINANCING ACTIVITIES	8,570	8,841	9,965
CAPITAL FINANCING ACTIVITIES	(2,793)	(1,222)	(1,984)
INVESTING ACTIVITIES	<u>275</u>	<u>146</u>	<u>111</u>
NET INCREASE IN CASH	678	1,668	685
CASH AND CASH EQUIVALENTS—Beginning of year	<u>5,110</u>	<u>3,442</u>	<u>2,757</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,788</u>	<u>\$ 5,110</u>	<u>\$ 3,442</u>

Capital Asset and Debt Administration

WLSC had a many renovations completed or started during FY 2005 that were added to capital assets. These projects were funded from a variety of sources primarily from proceeds of bonds issued in September 2003, as well as, Federal and private grants, and use of WLSC funds.



- In FY 2004, WLSC submitted a request to the HEPC for a new Technology and Renovation upgrades that will be funded through the sale of bonds guaranteed with Capital Fee proceeds. The HEPC approved the project and permitted the sale of Bonds, which were sold on September 3, 2003. The total amount of the bonds sold for \$13,905,000
- In late spring of FY 2003 WLSC received a grant from Senator Byrd in the amount of \$1,688,000 for installation of Internet wiring in the Residence Halls. This project is scheduled to be completed in December 2005. The tuition and registration fee revenues deposited in the Capital Building/Land Improvement account is dedicated for these types of projects.
- The College was awarded a grant from WV Senator Mollohan’s office for the business program in technology for \$495,000. This grant will create four new labs and the funding is the cornerstone for

the new Business Information Systems program for the College. This project should be completed in March 2006.

- Several land improvements were completed or started in FY 2005 as was the case in FY 2004. Our campus lighting system is continually being upgraded in the Quad area. Sidewalks and road paving has continued in phase II of our Campus Master Plan.
- The College was awarded \$2,000,000 from the sale of capital bonds from HEPC. The proceeds will be used to help construct the new Media Arts Center. The College plans to draw the money down starting in October 2005.
- The College was awarded a grant from WV Senator Mollohan's office for the architect work for a Science Center at the Highlands for \$97,000 in March 2005.



Economic Outlook

With less than promising economic forecasts for the State as well as looming deficit in Medicaid, no growth or slow growth in Lottery revenues, etc., and with approximately 32.5% of operations funded by State appropriations, WLSC may be vulnerable to continued spending freezes and/or a reduction in State appropriations if there is a significant downturn in the State's economy. All State agencies have been asked to submit State appropriation budget requests for FY 2006 at 100% of the FY 2005 level. This is good news for the College, but it still leaves our funding level close to what it was in FY 1997. In FY 2006, both resident and non-resident tuition and fees increased by 6.9%. In FY 2007, we are projecting an additional increase for both resident and non-resident students.

Although the economic forecasts for the State of West Virginia may be tenuous, WLSC is well positioned to attract and maintain students. Increases in non-resident students and class sizes, improved physical plant, and favorable comparison of academic programs at the national level with peer schools indicate that WLSC should be able to remain competitive for recruitment of new students.

WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 5,788,247	\$ 5,109,884
Appropriation due from Primary Government	18,509	18,706
Accounts receivable—net	723,300	468,843
Loans to students—current portion	332,808	310,838
Prepaid expenses	11,818	10,041
Inventories	<u>87,026</u>	<u>78,413</u>
Total current assets	<u>6,961,708</u>	<u>5,996,725</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	6,400,939	12,303,311
Loans to students, net of allowance of \$681,543 and \$645,273	978,241	1,053,770
Capital assets—net	<u>35,042,777</u>	<u>29,215,040</u>
Total noncurrent assets	<u>42,421,957</u>	<u>42,572,121</u>
TOTAL	<u>\$49,383,665</u>	<u>\$48,568,846</u>

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2005 AND 2004

	2005	2004
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	\$ 442,793	\$ 454,115
Due to Commission	25,910	100,078
Accrued liabilities	2,210,202	1,688,323
Deferred revenue	302,698	270,181
Compensated absences—current portion	640,672	553,288
Debt obligation to Commission—current portion	219,993	213,944
Capital leases—current portion	357,880	382,528
Bonds payable—current portion	<u>355,000</u>	<u>275,000</u>
Total current liabilities	<u>4,555,148</u>	<u>3,937,457</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	1,531,396	1,573,713
Compensated absences	1,985,644	2,259,563
Debt obligation to Commission	3,896,924	4,116,916
Capital leases	984,540	1,302,463
Bonds payable	<u>12,843,584</u>	<u>13,191,227</u>
Total noncurrent liabilities	<u>21,242,088</u>	<u>22,443,882</u>
Total liabilities	<u>25,797,236</u>	<u>26,381,339</u>
NET ASSETS:		
Invested in capital assets—net of related debt	<u>20,030,802</u>	<u>19,818,640</u>
Restricted for—expendable:		
Scholarships	44,488	280,187
Debt service	1,112,312	1,117,256
Capital projects	<u>540,671</u>	<u>800,596</u>
Total restricted expendable	<u>1,697,471</u>	<u>2,198,039</u>
Unrestricted	<u>1,858,156</u>	<u>170,828</u>
Total net assets	<u>23,586,429</u>	<u>22,187,507</u>
TOTAL	<u><u>\$49,383,665</u></u>	<u><u>\$48,568,846</u></u>

See notes to financial statements.

(Concluded)

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
Cash	\$ 8,950	\$ 38,885
Promises to give	483,848	441,467
Other receivables	19,401	33,763
Investments at estimated fair value (cost \$7,134,955 and \$6,110,306, respectively)	8,088,586	6,867,241
Beneficial interest in perpetual trust	2,194,877	2,154,475
Fixed assets—net	<u>12,045</u>	<u>15,334</u>
TOTAL	<u>\$ 10,807,707</u>	<u>\$ 9,551,165</u>
LIABILITIES AND NET ASSETS:		
LIABILITIES:		
Accounts payable and accrued expenses	\$ 65,701	\$ 54,221
Note payable	8,684	13,872
Liability for charitable gift annuities	<u>67,455</u>	<u>59,829</u>
Total liabilities	<u>141,840</u>	<u>127,922</u>
NET ASSETS:		
Unrestricted	460,039	277,987
Temporarily restricted	3,723,597	3,034,845
Permanently restricted	<u>6,482,231</u>	<u>6,110,411</u>
Total net assets	<u>10,665,867</u>	<u>9,423,243</u>
TOTAL	<u>\$ 10,807,707</u>	<u>\$ 9,551,165</u>
See notes to financial statements.		

WEST LIBERTY STATE COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$2,108,251 and \$1,822,042	\$ 7,684,532	\$ 7,570,467
Contracts and grants:		
Federal	3,038,819	3,331,901
State	1,349,291	1,298,959
Private	124,616	70,222
Interest on student loans receivable	22,957	29,689
Auxiliary enterprise revenue, net of scholarship allowance of \$1,405,501 and \$1,214,695	5,286,672	4,716,054
Miscellaneous—net	<u>117,592</u>	<u>216,253</u>
Total operating revenues	<u>17,624,479</u>	<u>17,233,545</u>
OPERATING EXPENSES:		
Salaries and wages	10,607,687	10,664,393
Benefits	2,582,766	3,079,223
Supplies and other services	6,695,854	6,114,340
Utilities	1,277,357	1,245,099
Student financial aid—scholarships and fellowships	1,728,616	1,876,752
Depreciation	1,436,203	1,297,294
Loan cancellations and write-offs	26,091	35,808
Fees assessed by the Commission for operations	<u>172,060</u>	<u>144,883</u>
Total operating expenses	<u>24,526,634</u>	<u>24,457,792</u>
OPERATING LOSS	<u>(6,902,155)</u>	<u>(7,224,247)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	8,570,738	8,840,702
Investment income	209,258	145,599
Interest on indebtedness	(649,434)	(682,088)
Fees assessed by the Commission for debt service	<u>(504,485)</u>	<u>(595,543)</u>
Net nonoperating revenues	<u>7,626,077</u>	<u>7,708,670</u>
INCREASE IN NET ASSETS BEFORE TRANSFER	723,922	484,423
CAPITAL AND BOND PROCEEDS FROM COMMISSION	675,000	
CAPITAL GIFTS AND GRANTS		1,539,168
TRANSFER OF LIABILITY FROM COMMISSION		<u>(27,215)</u>
INCREASE IN NET ASSETS	1,398,922	1,996,376
NET ASSETS—Beginning of year	<u>22,187,507</u>	<u>20,191,131</u>
NET ASSETS—End of year	<u>\$23,586,429</u>	<u>\$22,187,507</u>

See notes to financial statements

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	\$ 167,688	\$ 1,386,422	\$ 147,249	\$ 1,701,359
Interest and dividend income	54,834	137,825	93,323	285,982
Gain (loss) on investments	139,596	244,241		383,837
Change in value of split interest agreements		(8,419)	40,402	31,983
Other income		103,080		103,080
Net assets released from restrictions and other	<u>1,083,551</u>	<u>(1,174,397)</u>	<u>90,846</u>	
Total support and revenues	<u>1,445,669</u>	<u>688,752</u>	<u>371,820</u>	<u>2,506,241</u>
EXPENSES:				
West Liberty State College Support:				
Scholarships	330,081			330,081
Athletic programs	56,939			56,939
Academic programs	270,464			270,464
Other programs	289,067			289,067
Capital improvement programs	108,295			108,295
Fundraising	44,713			44,713
General and administrative expenses	<u>164,058</u>			<u>164,058</u>
Total expenses	<u>1,263,617</u>	<u>-</u>	<u>-</u>	<u>1,263,617</u>
CHANGES IN NET ASSETS	182,052	688,752	371,820	1,242,624
NET ASSETS—Beginning of year	<u>277,987</u>	<u>3,034,845</u>	<u>6,110,411</u>	<u>9,423,243</u>
NET ASSETS—End of year	<u>\$ 460,039</u>	<u>\$ 3,723,597</u>	<u>\$ 6,482,231</u>	<u>\$ 10,665,867</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	\$ 148,477	\$ 846,784	\$ 971,594	\$ 1,966,855
Interest and dividend income	33,584	97,200	89,108	219,892
Gain (loss) on investments	88,924	410,220		499,144
Change in value of split interest agreements		(2,564)	52,613	50,049
Other income		79,079		79,079
Net assets released from restrictions and other	<u>667,894</u>	<u>(692,894)</u>	<u>25,000</u>	<u> </u>
Total support and revenues	<u>938,879</u>	<u>737,825</u>	<u>1,138,315</u>	<u>2,815,019</u>
EXPENSES:				
West Liberty State College Support:				
Scholarships	212,022			212,022
Athletic programs	86,549			86,549
Academic programs	145,234			145,234
Other programs	142,483			142,483
Capital improvement programs	85,332			85,332
Fundraising	120,650			120,650
General and administrative expenses	<u>220,586</u>	<u> </u>	<u> </u>	<u>220,586</u>
Total expenses	<u>1,012,856</u>	<u>-</u>	<u>-</u>	<u>1,012,856</u>
CHANGES IN NET ASSETS	(73,977)	737,825	1,138,315	1,802,163
NET ASSETS—Beginning of year	<u>351,964</u>	<u>2,297,020</u>	<u>4,972,096</u>	<u>7,621,080</u>
NET ASSETS—End of year	<u>\$ 277,987</u>	<u>\$ 3,034,845</u>	<u>\$ 6,110,411</u>	<u>\$ 9,423,243</u>

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 8,439,682	\$ 8,275,781
Contracts and grants	4,440,502	3,741,419
Payments to and on behalf of employees	(13,138,117)	(13,560,739)
Payments to suppliers	(7,592,917)	(6,957,984)
Payments to utilities	(1,211,222)	(1,254,794)
Payments for scholarships and fellowships	(2,648,015)	(1,876,752)
Loans issued to students	(317,093)	(498,049)
Collection of loans to students	323,123	353,889
Auxiliary enterprise charges	6,389,903	5,631,175
Debt service assessed by Commission	(172,060)	(144,883)
Other receipts—net	<u>112,223</u>	<u>194,351</u>
Net cash used in operating activities	<u>(5,373,991)</u>	<u>(6,096,586)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	8,570,738	8,840,702
William D. Ford direct lending receipts	7,631,594	7,357,919
William D. Ford direct lending payments	<u>(7,632,287)</u>	<u>(7,356,782)</u>
Net cash provided by noncapital financing activities	<u>8,570,045</u>	<u>8,841,839</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(7,003,146)	(1,959,466)
Capital and bond proceeds from Commission	675,000	
Capital gifts and grants		1,539,168
Proceeds from sale of capital assets	3,408	
Proceeds from bond issuance		13,748,914
Principal paid on long term liabilities	(552,821)	(644,357)
Principal paid on bonds	(275,000)	(371,000)
Interest paid on bonds	(747,062)	(562,176)
Interest paid on long term liabilities	(291,406)	(175,234)
Decrease (increase) in noncurrent cash and cash equivalents	5,902,372	(12,202,293)
Debt service assessed by Commission	<u>(504,485)</u>	<u>(595,553)</u>
Net cash used in capital financing activities	<u>(2,793,140)</u>	<u>(1,221,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES—Interest on investments		
	<u>275,449</u>	<u>145,599</u>
INCREASE IN CASH	678,363	1,668,855
CASH AND CASH EQUIVALENTS—Beginning of year	<u>5,109,884</u>	<u>3,441,029</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 5,788,247</u>	<u>\$ 5,109,884</u>

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (6,902,155)	\$ (7,224,247)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	1,436,203	1,297,294
Changes in assets and liabilities:		
Due from Primary Government	197	469
Accounts receivable—net	(242,966)	(141,282)
Due from Commission	(11,491)	9,831
Loans to students—net	53,559	(144,160)
Prepaid expenses	(1,777)	(9,161)
Inventories	(8,613)	24,387
Accounts payable	(11,322)	(216,365)
Due to Commission	(74,168)	90,157
Accrued liabilities	521,879	79,862
Compensated absences	(186,535)	155,104
Deferred revenue	32,517	(96,417)
Advances from federal sponsors	(42,317)	35,828
Other	<u>62,998</u>	<u>42,114</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (5,373,991)</u>	<u>\$ (6,096,586)</u>
NONCASH TRANSACTIONS:		
Construction in progress additions in accrued liabilities	<u>\$ 1,642,327</u>	<u>\$ 1,100,150</u>

See notes to financial statements.

(Concluded)

WEST LIBERTY STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. ORGANIZATION

West Liberty State College (the “College”) is governed by the West Liberty State College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College 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 Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

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

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

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight

responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation of the College is not part of the College reporting entity and is not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of this entity, and is not accountable for the fiscal matters of the foundation under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the College 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 West Liberty State College Foundation, Incorporated (the "Foundation") are discretely presented here with the College's financial statements for the fiscal years ended June 30, 2005 and 2004. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from the GASB revenues recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Note 17).

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 a combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance." Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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 the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2005 and 2004, respectively.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, 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, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College’s financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). The State Treasurer’s Office is permitted by West Virginia Code 12-1-12A to invest up to \$125 million in overnight repurchase agreements. These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying 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 (the “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 disbursement needs are invested for longer periods. A more detailed discussion of the IMB’s investment operations pool can be found in the IMB’s annual report. A copy of the IMB’s annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

Investments—The College’s investments are deposited with the Municipal Bond Commission or with external financial institutions. These funds primarily represent unexpended proceeds of bond issuances, and are restricted to expenditures for capital improvements and bond related costs and debt service reserve funds. Funds on deposit with external financial institutions are invested in money market accounts. A portion of these funds are classified as noncurrent due to the restrictions on expenditure or requirement to provide debt service reserve funds. Amounts for restricted expenditures are available for immediate withdrawal. Investments are recorded at fair value.

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 Internal Revenue Service (“IRS”) arbitrage limits.

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

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

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

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

Capital Assets—Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was \$112,095 for the year ended June 30, 2005. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The College capitalizes all purchases of library books and uses a capitalization threshold of \$5,000 for other capital assets.

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

Compensated Absences—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees’ rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 ½ sick-leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the

extended coverage. Employees hired July 1, 2001 or later will no longer receive sick-leave credit toward insurance premiums when they retire.

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

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

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

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

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

Classification of Revenues—The College has classified its revenues as 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.
- ***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. Nonoperating revenues also exclude student fees which were billed for capital improvements.
- ***Other revenues***—Other revenues consist primarily of capital grants and gifts.

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

Federal Financial Assistance Programs—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's statements of net assets as the loans are repayable directly to the U.S. Department of Education. In 2005 and 2004, the College received and disbursed approximately \$7,630,000 and \$7,350,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2005 and 2004, the College received and disbursed approximately \$2,730,034 and \$2,941,152, respectively, under these federal student aid programs.

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

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

Government Grants and Contracts—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Income Taxes—The College is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the IRS.

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

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

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 has issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the College to evaluate prominent events or changes in circumstances affecting the 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 assets. The College has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has also issued Statement No. 46, *Net Restricted by Enabling Legislation*, an amendment of GASB Statement No. 34, effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies to restrictions imposed on net asset use by ensuring legislation. The College 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. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, GASB Statement No. 47 should be implemented simultaneously with GASB Statement No. 45. This statement provides recognition and measurement guidance related to benefits provided to employees that are terminated. The College has not yet determined the effect, if any that adoption of GASB Statement No. 47 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2005 and 2004:

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer— College	\$ 4,984,882	\$ -	\$ 4,984,882
Cash on hand	500		500
Cash with Trustee Bank		6,400,939	6,400,939
Cash in bank	<u>802,865</u>		<u>802,865</u>
	<u>\$ 5,788,247</u>	<u>\$ 6,400,939</u>	<u>\$ 12,189,186</u>
	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer: College	\$ 4,518,047	\$ -	\$ 4,518,047
Municipal Bond Commission for the College		169	169
Cash with Trustee Bank		12,303,142	12,303,142
Cash in bank	<u>591,837</u>		<u>591,837</u>
	<u>\$ 5,109,884</u>	<u>\$ 12,303,311</u>	<u>\$ 17,413,195</u>

Cash with Trustee Banks includes deposits held by the Bond Trustee Bank for the bonds issued on September 3, 2003. The College uses WesBanco Bank (the “Trustee Bank”) as its trustee bank for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2005 and 2004 is \$6,400,939 and \$12,303,142, respectively, and was invested in commercial papers and U.S. Treasury money market funds.

Cash and cash equivalents invested with the Trustee Bank in commercial papers and U.S. Treasury money market funds are rated AAAM by Standard and Poor’s and Aaa by Moody’s. The carrying values at June 30, 2005 of the commercial papers and U.S. Treasury money market funds are \$1,088,160 and \$5,312,779, respectively. These funds have no significant custodial credit risk nor interest rate risk. These funds are not exposed to a concentration of credit risk nor any foreign currency risk.

The combined carrying amounts of cash in the bank at June 30, 2005 and 2004 were \$802,865 and \$591,837 as compared with the combined bank balance of \$921,535 and \$241,564, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State’s agent.

Cash on deposit with the State Treasurer is comprised of the following investment pools:

Cash Liquidity Pool

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 A-1 by

Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the credit ratings of the cash liquidity pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Commercial paper	P1	A-1	\$ 598,241,394	37.9 %
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aa1	AAA	155,559,323	9.9
U.S. Treasury bills	P1	A-1	152,998,937	9.7
Agency notes	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.

The College ownership represents 0.25% 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 statements of net assets is invested in the lending agent's money market fund.

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

Security Type	Fair Value	Weighted Average Maturity
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 note	119,564,248	52
Money market funds	<u>4,241,278</u>	<u>1</u>
Total rated investments	<u>\$ 1,579,008,293</u>	<u>45</u>

Foreign currency risk—The cash liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market Pool

Credit Risk—The IMB limits the exposure to credit risk in the government money market pool by limiting the pool to U.S. Treasury issue, 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 agencies issues held by the pool has 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. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The College's ownership represents 0.02% 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 statements of net assets 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 WAM for the various asset types in the government money market pool.

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

Enhanced Yield Pool

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 A-1 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	<u>49,990,408</u>	<u>18.4</u>
Total rated investments			<u>\$ 267,291,805</u>	<u>98.4 %</u>

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

The College's ownership represents 0.38% of these amounts held by IMB.

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 statements of net assets is invested in the lending agent's money market fund.

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

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

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

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2005 and 2004:

	2005	2004
Student tuition and fees, net of allowance for doubtful accounts of \$490,474 and \$338,902	\$ 701,978	\$ 405,021
Due from West Liberty State College Foundation		51,740
Due from the Commission	<u>21,322</u>	<u>12,082</u>
	<u>\$ 723,300</u>	<u>\$ 468,843</u>

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2004 and 2005:

	2005			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress	<u>2,201,855</u>	<u>4,529,079</u>	<u>2,105,526</u>	<u>4,625,408</u>
Total capital assets not being depreciated	<u>\$ 2,301,855</u>	<u>\$4,529,079</u>	<u>\$2,105,526</u>	<u>\$ 4,725,408</u>
Other capital assets:				
Infrastructure	\$ 538,353	\$ 84,701	\$ (7,366)	\$ 630,420
Buildings	40,377,776	3,822,775	7,366	44,193,185
Equipment	3,871,307	914,663	122,019	4,663,951
Leased equipment	361,549			361,549
Library books	<u>2,353,959</u>	<u>18,248</u>	<u>33,532</u>	<u>2,338,675</u>
Total other capital assets	<u>47,502,944</u>	<u>4,840,387</u>	<u>155,551</u>	<u>52,187,780</u>
Less accumulated depreciation for:				
Infrastructure	61,456	31,521	14,525	78,452
Buildings	16,258,880	748,997	(14,525)	17,022,402
Equipment	3,099,814	273,989	122,019	3,251,784
Leased equipment	216,595	46,420		263,015
Library books	<u>953,014</u>	<u>335,276</u>	<u>33,532</u>	<u>1,254,758</u>
Total accumulated depreciation	<u>20,589,759</u>	<u>1,436,203</u>	<u>155,551</u>	<u>21,870,411</u>
Other capital assets—net	<u>\$26,913,185</u>	<u>\$3,404,184</u>	<u>\$ -</u>	<u>\$30,317,369</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 2,301,855	\$4,529,079	\$2,105,526	\$ 4,725,408
Other capital assets	<u>47,502,944</u>	<u>4,840,387</u>	<u>155,551</u>	<u>52,187,780</u>
Total cost of capital assets	49,804,799	9,369,466	2,261,077	56,913,188
Less accumulated depreciation	<u>20,589,759</u>	<u>1,436,203</u>	<u>155,551</u>	<u>21,870,411</u>
Capital assets—net	<u>\$29,215,040</u>	<u>\$7,933,263</u>	<u>\$2,105,526</u>	<u>\$35,042,777</u>

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Construction in progress		<u>2,502,492</u>	<u>300,637</u>	<u>2,201,855</u>
Total capital assets not being depreciated	<u>\$ 100,000</u>	<u>\$2,502,492</u>	<u>\$300,637</u>	<u>\$ 2,301,855</u>
Other capital assets:				
Infrastructure	\$ 430,533	\$ 107,820	\$ -	\$ 538,353
Buildings	39,861,464	516,312		40,377,776
Equipment	3,754,038	211,195	93,926	3,871,307
Leased equipment	335,022	26,527		361,549
Library books	<u>2,341,358</u>	<u>23,571</u>	<u>10,970</u>	<u>2,353,959</u>
Total other capital assets	<u>46,722,415</u>	<u>885,425</u>	<u>104,896</u>	<u>47,502,944</u>
Less accumulated depreciation for:				
Infrastructure	35,109	26,347		61,456
Buildings	15,595,999	662,881		16,258,880
Equipment	2,967,929	197,540	65,655	3,099,814
Leased equipment	170,175	46,420		216,595
Library books	<u>599,878</u>	<u>364,106</u>	<u>10,970</u>	<u>953,014</u>
Total accumulated depreciation	<u>19,369,090</u>	<u>1,297,294</u>	<u>76,625</u>	<u>20,589,759</u>
Other capital assets—net	<u>\$27,353,325</u>	<u>\$ (411,869)</u>	<u>\$ 28,271</u>	<u>\$26,913,185</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 100,000	\$2,502,492	\$300,637	\$ 2,301,855
Other capital assets	<u>46,722,415</u>	<u>885,425</u>	<u>104,896</u>	<u>47,502,944</u>
Total cost of capital assets	46,822,415	3,387,917	405,533	49,804,799
Less accumulated depreciation	<u>19,369,090</u>	<u>1,297,294</u>	<u>76,625</u>	<u>20,589,759</u>
Capital assets—net	<u>\$27,453,325</u>	<u>\$2,090,623</u>	<u>\$328,908</u>	<u>\$29,215,040</u>

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

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2005 and 2004:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Revenue bonds payable	\$ 13,635,000	\$ -	\$ (275,000)	\$ 13,360,000	\$ 355,000
Discount on issuance	(168,773)		7,357	(161,416)	
Total bonds payable—net	13,466,227		(267,643)	13,198,584	
Capital leases payable	1,684,991		(342,571)	1,342,420	357,880
Other long-term liabilities:					
Accrued compensated absences	2,812,851		(186,535)	2,626,316	640,672
Advances from Federal sponsors	1,573,713		(42,317)	1,531,396	
Debt obligation to Commission	4,330,860		(213,943)	4,116,917	219,993
TOTAL LONG-TERM LIABILITIES	<u>\$ 23,868,642</u>	<u>\$ -</u>	<u>\$ (1,053,009)</u>	<u>\$ 22,815,633</u>	
	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Revenue bonds payable	\$ 101,000	\$ 13,905,000	\$ (371,000)	\$ 13,635,000	\$ 275,000
Discount on issuance		(176,130)	7,357	(168,773)	
Total bonds payable—net	101,000	13,728,870	(363,643)	13,466,227	
Capital leases payable	2,042,446		(357,455)	1,684,991	382,528
Other long-term liabilities:					
Accrued compensated absences	2,657,747	155,104		2,812,851	553,288
Advances from Federal sponsors	1,537,884	35,829		1,573,713	
Debt obligation to Commission	4,590,548	27,213	(286,901)	4,330,860	213,944
TOTAL LONG-TERM LIABILITIES	<u>\$ 10,929,625</u>	<u>\$ 13,947,016</u>	<u>\$ (1,007,999)</u>	<u>\$ 23,868,642</u>	

7. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2005 and 2004:

		<u>2005</u>	<u>2004</u>
	<u>Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>Principal Amount Outstanding</u>
Capital Improvements 2003:			
Series A Due 2028	3.0% - to 6.125 %	\$190,000 to 650,000	\$ 8,495,000
Series B Due 2018	4.125% - to 5.625 %	\$65,000 to 120,000	1,145,000
Series C Due 2028	3.0% - to 5.5 %	\$85,000 to 285,000	3,720,000
		13,360,000	13,635,000
Discount		(161,416)	(168,773)
		<u>\$13,198,584</u>	<u>\$13,466,227</u>

The Board of Governors of West Liberty State College issued bonds on September 3, 2003. The Dormitory Revenue bonds or Series 2003A for \$8,870,000, the College Union Revenue Bonds, or Series 2003B for \$1,145,000, and the Capital Improvement Revenue Bonds, or Series 2003C for \$3,890,000, for a total of bonds issued for capital improvements to the College of \$13,905,000. The College set up three separate capital fees to be used solely for the payment of the bonds. The bond proceeds are maintained with a trustee until funds are requested for payments on capital projects that were preapproved by the Board of Governors of West Liberty State College. The West Virginia State Treasurer's Office verifies and remits payments for the bonds to the Trustee.

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

Year Ending June 30	Principal	Interest	Total
2006	\$ 355,000	\$ 738,812	\$ 1,093,812
2007	365,000	725,499	1,090,499
2008	380,000	711,811	1,091,811
2009	400,000	697,561	1,097,561
2010	420,000	678,968	1,098,968
2011–2015	2,415,000	3,072,182	5,487,182
2016–2020	2,920,000	2,354,587	5,274,587
2021–2025	3,465,000	1,456,539	4,921,539
2026–2028	2,640,000	328,094	2,968,094
Total	<u>\$ 13,360,000</u>	<u>\$ 10,764,053</u>	<u>\$ 24,124,053</u>

8. CAPITAL LEASE OBLIGATIONS

The College leases various equipment and building improvements. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2005:

Year Ending June 30	Total
2006	\$ 421,143
2007	395,695
2008	385,035
2009	219,757
2010	<u>55,044</u>
	1,476,674
Less interest	<u>(134,254)</u>
Total	<u>\$ 1,342,420</u>

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2005 and 2004:

	2005	2004
Health or life insurance benefits	\$ 1,946,856	\$ 2,211,241
Accrued vacation leave	<u>679,460</u>	<u>601,610</u>
	<u>\$ 2,626,316</u>	<u>\$ 2,812,851</u>

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2005 and 2004, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately \$205,000 and \$248,000, respectively. As of June 30, 2005 and 2004, there were 64 and 61 retirees, respectively, currently eligible for these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002.

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. The College has been approved to receive \$2 million of these funds. State lottery funds will be used to repay the debt, although College revenues are pledged if lottery funds prove insufficient.

For the years ended June 30, 2005 and 2004, the debt service assessed was as follows:

	2005	2004
Principal	\$ 213,943	\$ 286,901
Interest	207,412	199,470
Other	<u>297,073</u>	<u>396,073</u>
	<u>\$ 718,428</u>	<u>\$ 882,444</u>

11. UNRESTRICTED NET ASSETS

The College unrestricted net assets include certain designated net assets as follows:

	2005	2004
Designated for repair and replacement property	\$ 675,000	\$ 234,575
Undesignated deficit	<u>1,183,156</u>	<u>(63,747)</u>
Total unrestricted net assets	<u>\$ 1,858,156</u>	<u>\$ 170,828</u>

12. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Great West Retirement Services 401(a) basic retirement plan. New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2005 and 2004, respectively. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2004 and 2005, respectively. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

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

Total contributions to the STRS for the years ended June 30, 2005, 2004 and 2003 were \$180,489, \$200,139, and \$221,060, respectively, which consisted of \$127,455, \$142,956, and \$157,900 from the College in 2005, 2004, and 2003, respectively, and \$53,034, \$57,183, and \$63,160 from the covered employees in 2005, 2004, and 2003, respectively.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2005, 2004, and 2003, were \$1,063,742, \$1,119,708, and \$1,168,081, respectively, which consisted of contributions of \$531,871 from the College and \$531,871 from the covered employees in 2005, \$559,854 from the College and \$559,854 from the covered employees in 2004, and \$584,040 from the College and \$584,040 from the covered employees in 2003.

Total contributions to the Great West Retirement Services ("Great West") for the years ended June 30, 2005, 2004, and 2003, were \$3,500, \$0, and \$0, respectively, which consisted of contributions of \$1,750 from the College and \$1,750 from the covered employees in 2005, \$0 from the College and \$0 from the covered employees in both 2004 and 2003.

The College's total payroll for the years ended June 30, 2005 and 2004 was \$10,607,687 and \$10,664,393, respectively, total covered employees' salaries in the STRS, TIAA-CREF, and Great West were \$829,865, \$9,395,629, and \$27,480 and \$1,100,577, \$8,637,095 and \$0 in 2005 and 2004, respectively.

13. FOUNDATION

The West Liberty State College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose "...to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Although the College does not control the

timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the College by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB Statement No. 39.

During the years ended June 30, 2005 and 2004, the Foundation contributed \$330,081 and \$212,022, respectively, to the College for scholarships.

14. CONTINGENCIES

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

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

The College owns various buildings which are known to contain asbestos. The College is not required by Federal, State or local law to remove the asbestos from its buildings. The College is required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

15. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors of West Liberty State College, the College issued revenue bonds to finance certain of its auxiliary enterprise activities and capital improvements. Investors in those bonds rely solely on the revenue generated from new capital fees created for repayment.

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

a. *The Board of Governors of the College, issued Dormitory Revenue Bonds 2003, Series A*

On September 3, 2003, the College issued Dormitory Revenue Bonds 2003, Series A, amounting to \$8,870,000.

The 2003A Bonds consist of \$1,230,000 Serial Bonds with varying interest rates from 3.0% to 6.125% and mature from June 30, 2004 to June 1, 2028 and Term Bonds of \$7,640,000.

b. *The Board of Governors of the College, issued College Union Revenue Bonds 2003, Series B*

On September 3, 2003, the College issued College Union Revenue Bonds 2003, Series B, amounting to \$1,145,000.

The 2003B Bonds consists of \$940,000 Serial Bonds with varying interest rates from 4.125% to 5.625% and mature from June 30, 2009 to June 1, 2018, and Term Bonds of \$205,000 maturing on June 1, 2006, 2007, 2008.

c. *The Board of Governors of the College, issued Capital Improvement Revenue Bonds 2003, Series C*

On September 3, 2003, the College issued Capital Improvement Revenue Bonds 2003, Series B, amounting to \$3,890,000.

The 2003C Bonds consist of \$840,000 Serial Bonds with varying interest rates from 3.0% to 5.5% and mature from June 1, 2004 to June 1, 2017, and Term Bonds of \$3,050,000 maturing on June 1, 2006, 2007, 2008.

d. *The State of West Virginia, West Liberty State College, Student Union Revenue Bonds, 1967 Series B*

In 1967, the College sold \$890,000 of Student Union Revenue Bonds (the “Bonds”). The Bonds were issued under authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, for the purpose of financing the costs of alteration and expansion of the existing Student Union on the College campus. The Bonds were secured by and payable from the Student Union fees and certain funds held under the indenture. The Bonds were paid off early during fiscal 2004.

	2005			2004		
	Dormitory 2003A	College Union 2003B	Capital Improvements 2003C	Dormitory 2003A	College Union 2003B	Capital Improvements 2003C
Condensed Statement of Net Assets as of June 30						
ASSETS:						
Current assets	\$ 494,239	\$ 112,728	\$ 409,891	\$ 138,794	\$ 49,501	\$ 219,772
Noncurrent assets	<u>8,484,844</u>	<u>1,433,873</u>	<u>3,888,750</u>	<u>8,754,202</u>	<u>1,122,764</u>	<u>3,828,873</u>
Total assets	<u>\$ 8,979,083</u>	<u>\$ 1,546,601</u>	<u>\$ 4,298,641</u>	<u>\$ 8,892,996</u>	<u>\$ 1,172,265</u>	<u>\$ 4,048,645</u>
LIABILITIES:						
Current liabilities	\$ 218,694	\$ 353,809	\$ 241,524	\$ 270,676	\$ 3,433	\$ 111,084
Noncurrent liabilities	<u>8,194,204</u>	<u>1,069,862</u>	<u>3,579,518</u>	<u>8,389,822</u>	<u>1,134,082</u>	<u>3,667,323</u>
Total liabilities	<u>8,412,898</u>	<u>1,423,671</u>	<u>3,821,042</u>	<u>8,660,498</u>	<u>1,137,515</u>	<u>3,778,407</u>
NET ASSETS:						
Invested in capital assets, net of related debt	(604,130)	(145,952)	(218,850)	(523,254)	(126,653)	(227,794)
Restricted—						
Debt service	694,537	114,794	302,981	697,597	115,331	304,328
Unrestricted	<u>475,778</u>	<u>154,088</u>	<u>393,468</u>	<u>58,155</u>	<u>46,072</u>	<u>193,704</u>
Total net assets	<u>566,185</u>	<u>122,930</u>	<u>477,599</u>	<u>232,498</u>	<u>34,750</u>	<u>270,238</u>
Total net assets and liabilities	<u>\$ 8,979,083</u>	<u>\$ 1,546,601</u>	<u>\$ 4,298,641</u>	<u>\$ 8,892,996</u>	<u>\$ 1,172,265</u>	<u>\$ 4,048,645</u>
Condensed Statement of Revenues, Expenses and Changes in Net Assets for Year Ended June 30						
Operating:						
Operating revenues	\$ 685,607	\$ 113,773	\$ 438,630	\$ 688,425	\$ 90,690	\$ 461,101
Operating expenses	<u>3,903</u>	<u>3,080</u>	<u> </u>	<u>19,100</u>	<u>12,378</u>	<u>11,633</u>
Net operating income	681,704	110,693	438,630	669,325	78,312	449,468
Nonoperating:						
Nonoperating revenues	135,087	33,840	6,716	8,332	1,060	3,358
Nonoperating expenses	<u>(483,104)</u>	<u>(56,353)</u>	<u>(237,985)</u>	<u>(445,159)</u>	<u>(44,622)</u>	<u>(182,588)</u>
Changes in net assets	333,687	88,180	207,361	232,498	34,750	270,238
Net assets—beginning of period	<u>232,498</u>	<u>34,750</u>	<u>270,238</u>	<u> </u>	<u> </u>	<u> </u>
Net assets—end of period	<u>\$ 566,185</u>	<u>\$ 122,930</u>	<u>\$ 477,599</u>	<u>\$ 232,498</u>	<u>\$ 34,750</u>	<u>\$ 270,238</u>
Condensed Statement of Cash Flows for Year Ended June 30						
Net cash provided by operating activities	\$ 681,704	\$ 110,693	\$ 438,630	\$ 669,325	\$ 78,312	\$ 449,468
Net cash used in capital and related financing	<u>(326,259)</u>	<u>(47,466)</u>	<u>(248,511)</u>	<u>(530,531)</u>	<u>(28,811)</u>	<u>(229,696)</u>
Net increase in cash	355,445	63,227	190,119	138,794	49,501	219,772
Cash—beginning of period	<u>138,794</u>	<u>49,501</u>	<u>219,772</u>	<u> </u>	<u> </u>	<u> </u>
Cash—end of period	<u>\$ 494,239</u>	<u>\$ 112,728</u>	<u>\$ 409,891</u>	<u>\$ 138,794</u>	<u>\$ 49,501</u>	<u>\$ 219,772</u>

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2005 and 2004, the following table represents operating expenses within both natural and functional classifications:

	2005								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed By Commission	Total
Instruction	\$ 5,502,215	\$ 1,136,234	\$ 978,291	\$ 43,198	\$ -	\$ -	\$ -	\$ -	\$ 7,659,938
Research	38,829		165,975						204,804
Public service	12,495	90	134	294					13,013
Academic support	1,016,605	234,089	204,946						1,455,640
Student services	968,278	212,006	19,242	222,307					1,421,833
General institutional support	1,657,449	640,325	1,259,666	72					3,557,512
Operations and maintenance of plant	610,492	182,609	740,660	678,016					2,211,777
Student financial aid					1,728,616				1,728,616
Auxiliary enterprises	801,324	177,413	3,326,940	333,470					4,639,147
Depreciation						1,436,203			1,436,203
Other							26,091	172,060	198,151
Total	\$10,607,687	\$ 2,582,766	\$ 6,695,854	\$1,277,357	\$1,728,616	\$ 1,436,203	\$26,091	\$172,060	\$24,526,634

	2004								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed By Commission	Total
Instruction	\$ 5,841,494	\$1,412,906	\$ 737,507	\$ 60,281	\$ -	\$ -	\$ -	\$ -	\$ 8,052,188
Research	32,816		62,493						95,309
Public service	6,032	1,070	7,472						14,574
Academic support	952,342	234,167	226,526	253					1,413,288
Student services	969,670	249,339	311,192	597					1,530,798
General institutional support	1,238,355	719,916	1,183,958						3,142,229
Operations and maintenance of plant	605,974	212,270	673,897	657,365					2,149,506
Student financial aid					1,876,752				1,876,752
Auxiliary enterprises	1,017,710	249,555	2,911,295	526,603					4,705,163
Depreciation						1,297,294			1,297,294
Other							35,808	144,883	180,691
Total	\$10,664,393	\$3,079,223	\$6,114,340	\$1,245,099	\$1,876,752	\$1,297,294	\$35,808	\$144,883	\$24,457,792

17. COMPONENT UNIT'S DISCLOSURE

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

Nature of Activities—The West Liberty State College Foundation, Incorporated (the “Foundation”) is a not-for-profit organization exempt from federal income tax under Section 501 (c)(3) of the Internal Revenue Code. The Foundation was formed to receive and administer funds for scientific, educational and charitable purposes for the support and benefit of West Liberty State College (the “College”). Oversight of the Foundation is the responsibility of an independently elected Board of Directors not otherwise affiliated with the College. The president of the College is a non-voting member of the Board of Directors. While contributions are generally for the benefit and support of the College, the Foundation exercises discretion over the distribution of assets.

Summary of Significant Accounting Policies:

Basis of Accounting—The financial statements of the Foundation have been prepared on the accrual basis of accounting.

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

Cash—Cash consists of cash on hand and deposits held in financial institutions such as demand deposits. Interest-bearing accounts are considered as investments.

Contributions and Contributions Receivable—All contributions are recorded at their estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted support that increases those net asset classes.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates for United States government securities. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not recorded as support until the conditions are substantially met.

Investments—Investments in equity securities and all debt securities are reported at their fair value based upon quoted market prices.

The Foundation operates a pooled investment portfolio for all funds. New funds or additions to existing funds are assigned a share in the investment pool based upon the amount of cash or estimated fair value of securities deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, is allocated on a monthly basis. Consequently, investment income, gain and losses allocated to temporarily restricted funds are also classified as temporarily restricted.

Split Interest Agreements:

Beneficial interest in perpetual trust—The Foundation was bequeathed a beneficial interest in a perpetual trust established at a local bank in accordance with a decedent’s will. Under the terms of this split-interest agreement, the Foundation is to receive distributions of 10% of the income from the trust in perpetuity. These distributions are to be used to establish an endowment, the income from which will be used to provide scholarships. The Foundation’s beneficial interest is valued in the financial statements at 10% of the fair market value of the trust assets. Adjustments due to changes in the market value of the trust assets are recorded as changes in value of split interest agreements. Additions to the trust from the benefactor’s estate are treated as permanently restricted contribution revenue to the extent of the Foundation’s 10% interest in the trust. Distributions received from the trust are permanently restricted for endowed scholarships and are recorded as permanently restricted investment income.

Charitable gift annuities—The Foundation participates in charitable gift annuity agreements with certain donors. Under these agreements temporarily restricted contribution revenue is recorded when donors transfer assets to the Foundation. The amount of revenue recognized is the difference between the fair market value of the assets received and the liability calculated at the net present value of the estimated future payments to the beneficiaries over their life expectancies. In estimating the net present value of the liability, the Foundation uses life expectancy information prepared by American Council on Gift Annuities and discount rates ranging from 4.5% to 7.75%.

Fixed assets—The Foundation’s fixed assets consist of a vehicle which is carried at cost less accumulated depreciation which is computed on the straight-line method over the estimated useful life of the asset.

Net assets—The Foundation has classified its net assets and its revenue, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions. Below is a summary of those classifications:

Unrestricted—Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted.

Temporarily restricted—Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for College support according to the restriction are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently restricted—Assets and contributions for which the donor stipulates that resources be maintained permanently, but permits the Foundation to use or expend part or all of the income derived from the donated assets, are permanently restricted. Such assets are comprised of endowment accounts which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. The investment income, including realized and unrealized gains and losses, are recorded as temporarily restricted until disbursed according to the terms of the gift instrument.

Both temporarily and permanently restricted net assets are to be used for the support and benefit of West Liberty State College.

Promises to Give—Unconditional promises to give at June 30, 2005 and 2004 are as follows:

	2005	2004
Receivable in less than one year	\$ 241,329	\$ 221,823
Receivable in one to five years	243,113	228,103
Receivable in six to ten years	<u>35,000</u>	<u> </u>
Total unconditional promises to give	519,442	449,926
Less discount to net present value	<u>(35,594)</u>	<u>(8,459)</u>
Net unconditional promises to give at June 30, 2005 and 2004	<u>\$ 483,848</u>	<u>\$ 441,467</u>

Investments—The cost and estimated fair values of investments at June 30, are as follows:

	2005		2004	
	Estimated Fair Value	Cost	Estimated Fair Value	Cost
Corporate bonds and notes	\$ 191,140	\$ 200,006	\$ 181,440	\$ 200,007
United States Treasury, government agency, and other government obligations	547,490	550,011	195,312	200,006
Equity securities	4,640,871	3,683,241	3,930,212	3,166,242
Mutual funds	1,442,358	1,434,792	1,479,076	1,462,850
Money markets funds	<u>1,266,727</u>	<u>1,266,905</u>	<u>1,081,201</u>	<u>1,081,201</u>
	<u>\$ 8,088,586</u>	<u>\$ 7,134,955</u>	<u>\$ 6,867,241</u>	<u>\$ 6,110,306</u>

Interest and dividends from investments are recorded net of investment expenses of \$19,614 and \$14,835, respectively in 2005 and 2004.

Investments include securities held to satisfy charitable gift annuity agreements as follows:

	2005	2004
Fair value	<u>\$ 117,851</u>	<u>\$ 111,370</u>
Cost	<u>\$ 109,329</u>	<u>\$ 101,928</u>

Split-interest Agreements—The following summarize the transactions affecting the beneficial interest in the perpetual trust for the years ended June 30, 2005 and 2004:

	2005	2004
Permanently restricted contribution revenue resulting from additions to the trust	<u>\$ -</u>	<u>\$ -</u>
Distributions received from the trust recorded as permanently restricted investment income	<u>\$ 93,323</u>	<u>\$ 89,108</u>
Change in value of the split interest agreement	<u>\$ 40,402</u>	<u>\$ 52,613</u>

Fixed Assets—At June 30, 2005 and 2004 fixed assets consist of the following:

	2005	2004
Vehicle	\$ 19,446	\$ 19,446
Accumulated depreciation	<u>(7,401)</u>	<u>(4,112)</u>
Fixed assets—net	<u>\$ 12,045</u>	<u>\$ 15,334</u>

Note Payable:

	2005	2004
Bank loan, at 6.14%, payable monthly, secured by vehicle	<u>\$ 8,684</u>	<u>\$ 13,872</u>

Maturities for the next five years are as follows:

	Amount
2006	\$ 5,078
2007	4,018
2008	
2009	
2010	<u> </u>
Total	<u>\$ 9,096</u>

Interest expense included in the statements of activities for the years ended June 30, 2005 and 2004, was \$765 and \$1,003, respectively.

Related Party Transactions—West Liberty State College through its Office of Development provides facilities and administrative services to the Foundation in exchange for which the Foundation pays a fee equivalent to the salary and benefits of certain staff positions within the Office of Development. General and administrative expenses included \$195,256 and \$271,266, respectively, in 2005 and 2004 for these expenses. Part of the 2004 payroll costs were funded by a private donation which provided \$57,528. This arrangement expired as of June 30, 2004. Accounts payable included \$13,335 and \$0 for these expenses as of June 30, 2005 and 2004, respectively.

Supplemental Cash Flow Information—The Foundation had the following noncash transactions in the years ended June 30, 2005 and 2004:

	2005	2004
Noncash contributions received:		
Professional services	\$ 22,316	\$ 16,249
Property and equipment for use by the college	85,488	11,637
Investment securities	<u>13,511</u>	<u>51,247</u>
	<u>\$ 121,315</u>	<u>\$ 79,133</u>
Interest paid	<u>\$ 765</u>	<u>\$ 1,003</u>

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

West Liberty State College Governing Board

We have audited the financial statements of West Liberty State College (the "College") as of and for the years ended June 30, 2005 and 2004, and have issued our report thereon dated October 14, 2005, which states reliance on other auditors for the discretely presented component unit. We conducted our audits of the College in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the College's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

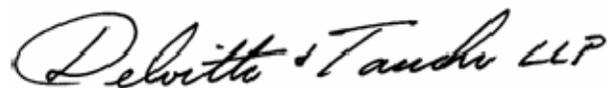
Internal Control Over Financial Reporting

In planning and performing our audits, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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



October 14, 2005