

West Virginia State University

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

WEST VIRGINIA STATE UNIVERSITY

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A)	3–9
COMBINED FINANCIAL STATEMENTS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004:	
Statements of Net Assets	10–11
Component Unit—Statements of Net Assets	12
Statements of Revenues, Expenses and Changes in Net Assets	13–14
Component Unit—Statements of Activities	15–16
Statements of Cash Flows	17–18
Notes to Financial Statements	19–48
ADDITIONAL INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2005:	49
Schedule of Net Assets Information	50
Schedule of Revenues, Expenses and Changes in Net Asset Information	51
Schedule of Cash Flow Information	52–53
Schedule of Natural Classifications Within Functional Classifications	54
Note to Additional Information—WVSCTC Financial Data	55–56
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	57

INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Virginia State University:

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

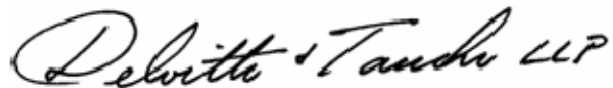
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements,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

In our opinion, based on our audits and the report of the other auditors, such combined financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2005 and 2004, and the results of its operations and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 9 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the University'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 audit.

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

October 6, 2005

West Virginia State University,
West Virginia State Community and Technical College &
West Virginia State University Foundation

Management Discussion and Analysis
For the Years ended June 30, 2005 and 2004

Overview of the Financial Statements and Financial Analysis

West Virginia State University (the “University”) is pleased to present the combined Financial Statements for the years ended June 2005 and 2004. The combined information also includes the administratively linked West Virginia State Community and Technical College (“WVSCTC”) and the West Virginia State University Research and Development Corporation (the “Corporation”) and for the second year the West Virginia State University and West Virginia State Community and Technical College Foundation.

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.

The required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal years ended June 30, 2005 and 2004.

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

Statement of Net Assets

The purpose of the University’s Combined Statement of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net assets of the University as of June 30, 2005 and 2004.

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

By reviewing the Combined Statement of Net Assets, the reader is able to ascertain the assets

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

Net assets are divided into three major types:

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

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

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

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

Statement of Net Assets June 30, 2005, 2004 and 2003

	2005	2004	2005 Change	2003
ASSETS				
Current Assets	\$11,565,794	\$10,572,733	\$993,061	\$12,029,356
Noncurrent Assets	<u>27,878,799</u>	<u>27,949,933</u>	<u>(71,134)</u>	<u>30,428,353</u>
Total assets	<u>39,444,593</u>	<u>38,522,666</u>	<u>921,927</u>	<u>42,457,709</u>
LIABILITIES				
Current Liabilities	5,006,513	4,603,572	402,941	6,176,942
Noncurrent liabilities	<u>13,044,516</u>	<u>13,591,527</u>	<u>(547,011)</u>	<u>13,903,777</u>
Total liabilities	<u>18,051,029</u>	<u>18,195,099</u>	<u>(144,070)</u>	<u>20,080,719</u>
NET ASSETS				
Invested in capital assets, net of related debt	16,681,982	16,270,765	411,217	18,123,329
Restricted – expendable	750,610	1,220,386	(469,776)	3,799,265
Restricted – nonexpendable	34,742	43,361	(8,619)	57,048
Unrestricted	<u>3,926,230</u>	<u>2,793,055</u>	<u>1,133,175</u>	<u>397,348</u>
Total net assets	<u>21,393,564</u>	<u>20,327,567</u>	<u>1,065,997</u>	<u>22,376,990</u>
Total liabilities and net assets	<u>\$39,444,593</u>	<u>\$38,522,666</u>	<u>\$921,927</u>	<u>\$42,457,709</u>

The increase in current assets from 2004 to 2005 was due primarily to accounts receivable of \$1.3 million. Land Grant match for FY 2005 of \$1.2 million that was received in FY 2006. The decrease in current assets from 2003 to 2004 was due primarily to a decrease in cash and cash equivalents of \$1.4 million primarily because of \$1.2 million for Land Grant match that was received during FY 2003 was spent during FY 2004.

The significant decrease in noncurrent assets from 2003 to 2004 in the restricted cash and cash equivalents was due to the expenditure of the Student Union Bond fund of \$2.8 million that remained as of June 30, 2003.

The primary change in current liabilities from 2004 to 2005 was due to an increase to deferred revenue of \$0.3 million. The primary changes in the University's current liabilities from 2003 to 2004 are 1) accrued expenses decreased due to \$0.7 million retainage payable for Student Union and 2) deferred revenue decreased because of the \$1.2 million Land Grant state matching funds which were not funded in FY 2004.

Total noncurrent liabilities decrease from 2004 to 2005 was due to decrease in bonds payable of \$ 0.2 million for the student union bond.

Changes in net assets from 2004 to 2005 were due primarily due to increase in investment in capital assets of \$0.4 million, a decrease in sponsored projects of almost \$0.5 million, an increase in unrestricted net assets of \$1.0 million which primarily due to the increase in operating revenues.

Statement of Revenues, Expenses and Changes in Net Assets

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

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

Statement of Revenues, Expenses and Changes in Net Assets
Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2005 Change	2003
Operating revenues	\$34,794,826	\$32,563,171	\$2,231,655	\$30,280,495
Operating expenses	<u>47,285,787</u>	<u>47,929,820</u>	<u>(644,033)</u>	<u>43,925,596</u>
Operating loss	(12,490,961)	(15,366,649)	2,875,688	(13,645,101)
Nonoperating revenues – net	<u>13,039,143</u>	<u>13,317,464</u>	<u>(278,321)</u>	<u>14,558,040</u>
(Loss) before other revenues, expenses, gains or losses	548,182	(2,049,185)	2,597,367	(87,061)
Transfer of liability from the Commission		(174,929)	174,929	-
Capital Projects <payments to> proceeds from the Commission	250,000	-	250,000	433,920
Capital grants and gifts	<u>267,815</u>	<u>174,691</u>	<u>93,124</u>	<u>638,477</u>
Increase (decrease) in net assets	1,065,997	(2,049,423)	3,115,420	985,336
Net assets, beginning of year	<u>20,327,567</u>	<u>22,376,990</u>	<u>(2,049,423)</u>	<u>21,391,654</u>
Net assets, end of year	<u>\$21,393,564</u>	<u>\$20,327,567</u>	<u>\$1,065,997</u>	<u>\$22,376,990</u>

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

Operating revenue changes from FY 2004 to 2005 of \$2.2 million were due primarily to increase in student tuition and fees in the amount of \$0.6 million, increase in auxiliary enterprise revenue of \$1.8 million. There were also decreases in state grants and contracts and miscellaneous operating revenues. The operating revenues of the University from 2003 to 2004 were greater in part because of an increase in tuition and fees and in great part because of the recognition of the \$1.2 million Land-Grant State match which has been deferred as of June 30, 2003 and also due to slight increases in several smaller State and private grants.

Total operating expenses decrease from FY 2004 to 2005 by \$0.5 million due in part to slight decline in salaries and benefits and in supplies and other services. Operating expenses from 2003 to 2004 increased primarily due to increase in salaries of \$0.4 million and benefits of \$0.3 million. Scholarships and fellowships increase by \$1.1 million and supplies and other services increase by \$2.0 million in large part due to the \$1.2 Land Grant state match.

Net nonoperating revenue increased from FY 2004 to 2005 by \$0.3 million due primarily to state appropriations. Net nonoperating revenues decreased from 2003 to 2004 primarily because State appropriations were reduced by almost \$1.3 due to budget cuts imposed by the Governor of the State of West Virginia. Investment income decreased by almost \$0.3 million due to market conditions.

Statement of Cash Flows

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

Statement of Cash Flows Years Ended June 30, 2005, 2004 and 2003

	2005	2004	2005 Change	2003
Cash flows from operating activities:				
Net cash (used in) provided by operating activities	\$(11,898,175)	\$(15,041,933)	\$3,143,758	\$(10,029,152)
Cash flows from noncapital financing activities:				
Net cash provided by noncapital financing activities	13,323,790	13,673,510	(349,720)	14,962,713
Cash flows from capital financing activities:				
Net cash used in capital financing activities	(2,066,096)	(223,257)	(1,842,839)	(3,491,781)
Cash flows from investing activities:				
Net cash provided by investing activities	<u>180,943</u>	<u>105,498</u>	<u>75,445</u>	<u>358,139</u>
<Decrease> Increase in cash and cash equivalents	(459,538)	(1,486,182)	1,026,644	1,799,919
Cash and cash equivalents, beginning of year	<u>9,147,420</u>	<u>10,633,602</u>	<u>(1,486,182)</u>	<u>8,833,683</u>
Cash and cash equivalents, end of year	<u>\$8,687,882</u>	<u>\$9,147,420</u>	<u>\$(459,538)</u>	<u>\$10,633,602</u>

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

The decrease in net cash used in operating activities was due in biggest part to changes in tuition and fees, grants and contracts, payments to suppliers and auxiliary enterprises charges. The increase in net cash used in operating activities from 2003 to 2004 was due to expense increases greater than revenue increases as previously discussed.

The increase in net cash provided by noncapital financing activities in FY 2005 was primarily due to

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

The increase in net cash used in capital financing activities was due primarily by purchases and construction of capital assets and by the decrease in noncurrent cash and cash equivalents.

The decrease in net cash used in capital financing activities for FY 2004 was due to a decrease in capital grants and gifts received of almost \$0.5 million and to capital projects proceeds from the Commission of \$0.4 million received in FY 2003 only. These were funds from prior years that the Commission had in their accounts which were transferred to the University in FY2003. Additionally there was a decrease in purchases of capital assets of \$3.5 million in FY 2004 from FY 2003.

Capital Asset and Debt Administration

Grants, contracts, and sponsored agreements held within the University and its Corporation, normally allow for the purchase of capital assets such as educational and scientific equipment, land and/or buildings, renovation of research facilities, and motor vehicles.

Several new projects took place all over campus. Some examples are the new nursing lab at Cole Complex, the campus electrical north loop, acquisition of property for new parking lots and new offices for Land Grant, continuation of signage around campus.

The University entered into an agreement with Kanawha County to operate the facilities at Shawnee Park in Institute. Another agreement was reached with the City of Charleston for the use of the Roosevelt Center on the east end of Charleston. The University purchased a building on the west side of Charleston to provide space for a small business incubator by Land Grant.

Economic Outlook

The recent regaining of its Land-Grant and University status has augmented the University's focus not only in the area of instruction but also on those of research and public service. These added institutional tasks represent new opportunities for funding to the institution. For instance, the reinstatement of the University as a Land-Grant institution entitles it to a variety of permanent funding streams available only to 1890 Land-Grant schools. These major entitlements include facilities, capacity building, research, and outreach funding streams. Also, the University's revenue growth is attributed to the active participation of administrators, faculty, and staff in increasing funds for its Title III-B, and successfully bringing more competitive grants to the University from private, state, local, and federal sources. Additionally, the successful growth and advancement of the University is attributed in part to the establishment of graduate programs, and the attainment of university status. These enhancements have provided the University and the Corporation with increased benefits derived from greater opportunities of funding via grants, contracts, and sponsored agreements with diverse funding agencies.

In spite of the decline of graduating high school students in West Virginia, the University and the CTC are situated between the two major metropolitan areas of the state to be able to attract non-traditional students. This coupled with current sluggish growth of state and local economies; the University has managed to sustain a moderate increase of its level of funding. All funding streams captured by the University currently have a great impact on the economic development, research capacity, and expansion of educational facilities of the University and the State of West Virginia. It is expected that this expansion in funds will continue steadily as the University gradually increases the participation of its faculty, students, and staff in instruction, research, and public service

Although the administration of the University and the CTC can not predict the future trends of the local, state and national economy, the University and the CTC are positioned to attract new students from a broader base. Attaining the Land Grant and University status will also enhance the opportunities for new funding sources.

WEST VIRGINIA STATE UNIVERSITY

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

ASSETS	2005	2004
CURRENT ASSETS:		
Cash and cash equivalents	\$ 8,687,882	\$ 9,147,420
Accounts receivable—net	2,207,821	934,144
Loans to students—current portion	134,443	131,386
Inventories	365,701	262,741
Prepaid expenses	<u>169,947</u>	<u>97,042</u>
Total current assets	<u>11,565,794</u>	<u>10,572,733</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	672,056	668,981
Loans to students, net of allowance of \$244,638 and \$242,794 in 2005 and 2004, respectively	458,784	407,681
Deferred finance costs—net	42,409	44,904
Capital assets—net	<u>26,705,550</u>	<u>26,828,367</u>
Total noncurrent assets	<u>27,878,799</u>	<u>27,949,933</u>
TOTAL	<u>\$ 39,444,593</u>	<u>\$ 38,522,666</u>

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

LIABILITIES AND NET ASSETS	2005	2004
CURRENT LIABILITIES:		
Accounts payable	\$ 1,312,814	\$ 1,246,515
Accrued liabilities	1,589,140	1,602,666
Compensated absences—current portion	852,910	871,011
Deferred revenue	625,999	302,590
Debt obligation to the Commission—current portion	307,975	302,766
Bonds payable—current portion	210,000	205,000
Notes payable—current portion	<u>107,675</u>	<u>73,024</u>
Total current liabilities	<u>5,006,513</u>	<u>4,603,572</u>
NONCURRENT LIABILITIES:		
Deposits	83,884	75,019
Compensated absences	2,941,183	2,915,670
Debt obligation to the Commission	1,801,623	2,109,598
Bonds payable	4,661,420	4,864,151
Notes payable	2,977,284	3,047,967
Advances from federal sponsors	<u>579,122</u>	<u>579,122</u>
Total noncurrent liabilities	<u>13,044,516</u>	<u>13,591,527</u>
Total liabilities	<u>18,051,029</u>	<u>18,195,099</u>
NET ASSETS:		
Invested in capital assets	16,681,982	16,270,765
Restricted for:		
Nonexpendable	34,742	43,361
Expendable:		
Sponsored projects	23,958	520,329
Loans	120,993	99,386
Debt service	<u>605,659</u>	<u>600,671</u>
Total restricted	785,352	1,263,747
Unrestricted net assets	<u>3,926,230</u>	<u>2,793,055</u>
Total net assets	<u>21,393,564</u>	<u>20,327,567</u>
TOTAL	<u>\$ 39,444,593</u>	<u>\$ 38,522,666</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENTS OF NET ASSETS JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash	\$ 304,695	\$ 203,573
Other receivables	123,707	137,100
Investments—fair market value	2,766,085	2,526,773
Beneficial interest in trusts	113,520	106,945
Property and improvements:		
Land	166,000	166,000
Buildings and improvements	1,276,425	1,276,425
Furniture and equipment	43,643	42,068
	<u>1,486,068</u>	<u>1,484,493</u>
Less accumulated depreciation	<u>379,832</u>	<u>344,355</u>
Total current assets	1,106,236	1,140,138
OTHER ASSETS	<u>6,750</u>	<u>6,338</u>
TOTAL	<u>\$ 4,420,993</u>	<u>\$ 4,120,867</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 14,466	\$ 2,604
Accrued scholarship support		69,340
Liability for split interest agreements	<u>23,773</u>	<u>28,904</u>
Total current liabilities	<u>38,239</u>	<u>100,848</u>
NET ASSETS:		
Unrestricted	210,702	207,008
Temporarily restricted	1,203,341	1,094,397
Permanently restricted	<u>2,968,711</u>	<u>2,718,614</u>
Total net assets	<u>4,382,754</u>	<u>4,020,019</u>
TOTAL	<u>\$ 4,420,993</u>	<u>\$ 4,120,867</u>

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY

COMBINED 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 \$3,203,679 and \$2,875,339 in 2005 and 2004, respectively	\$ 9,667,958	\$ 9,035,404
Contracts and grants:		
Federal	15,425,500	13,536,253
State	2,598,369	3,677,876
Private	606,076	462,535
Sales and services of educational activities	110,812	100,417
Auxiliary enterprise revenue, net of scholarship allowance of \$1,953,262 and \$1,617,127 in 2005 and 2004, respectively	5,894,493	5,093,007
Miscellaneous—net	<u>491,618</u>	<u>657,679</u>
 Total operating revenues	 <u>34,794,826</u>	 <u>32,563,171</u>
OPERATING EXPENSES:		
Salaries and wages	21,131,270	21,193,635
Benefits	5,363,009	5,660,726
Supplies and other services	12,301,880	12,566,146
Utilities	1,684,911	1,686,372
Student financial aid—scholarships and fellowships	4,950,387	4,890,920
Depreciation and amortization	1,680,696	1,775,982
Loan cancellations and write-offs	1,844	(8,002)
Fees assessed by the Commission for operations	<u>171,790</u>	<u>164,041</u>
 Total operating expenses	 <u>47,285,787</u>	 <u>47,929,820</u>
 OPERATING LOSS	 <u>(12,490,961)</u>	 <u>(15,366,649)</u>

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

	2005	2004
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 13,447,344	\$ 13,776,585
Investment income	180,943	105,498
Interest on indebtedness	(456,795)	(426,801)
Loss on fixed asset disposal	(8,795)	(34,743)
Fees assessed by the Commission for debt service and reserves	<u>(123,554)</u>	<u>(103,075)</u>
Net nonoperating revenues	<u>13,039,143</u>	<u>13,317,464</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	548,182	(2,049,185)
TRANSFER OF LIABILITY FROM THE COMMISSION		(174,929)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	250,000	
CAPITAL GRANTS AND GIFTS	<u>267,815</u>	<u>174,691</u>
INCREASE (DECREASE) IN NET ASSETS	1,065,997	(2,049,423)
NET ASSETS—Beginning of year	<u>20,327,567</u>	<u>22,376,990</u>
NET ASSETS—End of year	<u>\$ 21,393,564</u>	<u>\$ 20,327,567</u>
See notes to combined financial statements.		(Concluded)

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY
 FOUNDATION, INCORPORATED, A COMPONENT
 UNIT OF WEST VIRGINIA STATE UNIVERSITY
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2005

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:				
Grants and donations	\$ 197,632	\$ 523,144	\$ 91,911	\$ 812,687
Rental income		16,254		16,254
Investment income	2,245	27	277,806	280,078
Miscellaneous		392		392
Total revenues, gain and other support	<u>199,877</u>	<u>539,817</u>	<u>369,717</u>	<u>1,109,411</u>
TRANSFER				
EXPENSES:				
Salaries and wages	74,372			74,372
Taxes and licenses	15,958			15,958
Professional fees	22,758		11,627	34,385
Supplies	7,992			7,992
Maintenance	5,915			5,915
Travel	3,087			3,087
Telephone	2,595			2,595
Office expense	5,330			5,330
Printing	12,240			12,240
Meeting expense	18,652			18,652
Conference/seminar fees	2,241			2,241
Scholarships and grants				
Depreciation	1,291	34,187		35,478
Miscellaneous	23,752			23,752
Program expenses		396,686	100,479	497,165
Total expenses	<u>196,183</u>	<u>430,873</u>	<u>112,106</u>	<u>739,162</u>
NET (DECREASE) INCREASE	3,694	108,944	257,611	370,249
CHANGE IN VALUE OF SPLIT INTEREST AGREEMENT			5,131	5,131
CHANGE IN VALUE OF PERPETUAL TRUSTS			6,576	6,576
UNREALIZED GAIN ON INVESTMENTS			(19,221)	(19,221)
CHANGE IN NET ASSETS	3,694	108,944	250,097	362,735
NET ASSETS—Beginning of year	<u>207,008</u>	<u>1,094,397</u>	<u>2,718,614</u>	<u>4,020,019</u>
NET ASSETS—End of year	<u>\$ 210,702</u>	<u>\$ 1,203,341</u>	<u>\$ 2,968,711</u>	<u>\$ 4,382,754</u>

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

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

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 7,904,743	\$ 8,882,861
Contracts and grants	18,596,522	16,478,481
Payments to and on behalf of employees	(26,500,394)	(26,706,041)
Payments to suppliers	(12,025,250)	(12,829,286)
Payments to utilities	(1,684,911)	(1,645,501)
Payments for scholarships and fellowships	(4,950,387)	(4,890,920)
Loans issued to students	(174,770)	(147,100)
Collection of loans to students	118,766	131,417
Sales and service of educational activities	110,812	100,417
Auxiliary enterprise charges	5,903,358	5,098,457
Fees retained by Commission	(171,790)	(147,892)
Other receipts (payments)—net	975,126	633,174
	<u>(11,898,175)</u>	<u>(15,041,933)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	13,428,849	13,760,071
FFELP lending receipts	13,863,462	11,013,172
FFELP lending payments	(13,844,967)	(10,996,658)
Fees assessed by the Commission for debt service and reserves	(123,554)	(103,075)
	<u>13,323,790</u>	<u>13,673,510</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	113,898	174,691
Capital projects proceeds from the Commission	250,000	
Purchases of capital assets	(1,426,326)	(2,067,059)
Proceeds on sale of capital assets		1,798
Principal paid on payable to Commission	(302,766)	(470,633)
Principal paid on notes and bonds	(241,032)	(269,089)
Interest paid on notes, bonds and leases	(456,795)	(431,255)
(Increase) decrease in noncurrent cash and cash equivalents	(3,075)	2,838,290
	<u>(2,066,096)</u>	<u>(223,257)</u>
CASH FLOWS FROM INVESTING ACTIVITY—		
Interest on investments	180,943	105,498
	<u>180,943</u>	<u>105,498</u>
DECREASE IN CASH AND CASH EQUIVALENTS		
	(459,538)	(1,486,182)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>9,147,420</u>	<u>10,633,602</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 8,687,882</u>	<u>\$ 9,147,420</u>

(Continued)

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS 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	\$ (12,490,961)	\$ (15,366,649)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,680,696	1,775,982
Changes in assets and liabilities:		
Receivables—net	(1,752,476)	(134,577)
Loans to students—net	(54,160)	(23,685)
Prepaid expenses	(72,905)	(46,813)
Inventories	(102,960)	77,451
Accounts payable and accrued liabilities	554,906	(283,196)
Compensated absences	7,411	143,866
Deferred revenue	323,409	(1,189,762)
Deposits held in custody for others	<u>8,865</u>	<u>5,450</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (11,898,175)</u>	<u>\$ (15,041,933)</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY

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

1. ORGANIZATION

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

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

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

The additional information schedules are included to comply with the requirements of the West Virginia Higher Education Policy Commission and the West Virginia Council of Community and Technical College Education to provide financial information for all components parts of West Virginia State University under Senate Bill 448. This presentation provides financial information for the University and West Virginia State Community and Technical College.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity—The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The University is a separate entity which, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council of 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 combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation (the “Research and Development Corporation”), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University’s ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation. Their related organizations, West Virginia State University Foundation and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of The West Virginia State University Foundation, Incorporated (the “Foundation”) are presented here with the University’s financial statements. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s audited financial information as it is presented herein (see also Note 20).

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

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

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions 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.

- *Unrestricted net assets*—Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- **Operating revenues**—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts and (4) sales and services of educational activities.
- **Nonoperating revenues**—Nonoperating revenues include activities that have the characteristics of nonexchange 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 University has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the University attempts to utilize restricted net assets first when practical.

Federal Financial Assistance Programs—The University makes loans to students under the Federal Family Education Loan Program (“FFELP”). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University’s balance sheet as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2005 and 2004, the University received and disbursed approximately \$13.6 million and \$11.0 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the years ended June 30, 2005 and 2004, the University received and disbursed approximately \$6.6 million and \$6.3 million, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (“NACUBO”). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending are accounted for as a third-party payment (credited to the student’s account as if the student made the payment). All other aid is reflected in the combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents

the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on an University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

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

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

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

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

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

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

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies to restrictions imposed on net asset use by enabling legislation. The University 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.

Reclassification—Certain prior year balances have been reclassified to conform to the 2005 fiscal year presentation.

3. CASH AND CASH EQUIVALENTS

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

	2005		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	\$ 7,974,357	\$ 34,743	\$ 8,009,100
Municipal Bond Commission for the University	1,934		1,934
Cash in escrow		625,575	625,575
Cash in bank	<u>711,591</u>	<u>11,738</u>	<u>723,329</u>
	<u>\$ 8,687,882</u>	<u>\$ 672,056</u>	<u>\$ 9,359,938</u>
	2004		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
University	\$ 7,823,271	\$ 43,361	\$ 7,866,632
Municipal Bond Commission for the University	1,896		1,896
Cash in escrow		600,863	600,863
Cash in bank	<u>1,322,253</u>	<u>24,757</u>	<u>1,347,010</u>
	<u>\$ 9,147,420</u>	<u>\$ 668,981</u>	<u>\$ 9,816,401</u>

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the University's bond trust indenture. Cash shown above as cash in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 9 is paid in full.

The combined carrying amounts of cash in the bank at June 30, 2005 and 2004 were \$723,329 and \$1,347,010, respectively, compared with the combined bank balance of \$1,132,022 and \$1,531,476, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2005 and 2004, \$525,191 and \$595,160, respectively, was covered by Federal depository insurance while \$606,931 and \$936,316, respectively, was uninsured and uncollateralized.

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

Cash Liquidity Pool

Credit risk—The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor’s and P1 by Moody’s. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

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

Security Type	Moody’s	S&P	Carrying Value	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	Aaa	AAA	155,559,323	9.9%
Certificates of deposit	P1	A-1	152,998,937	9.7%
Agency bonds	Aaa	AAA	147,955,465	9.4%
Agency discount notes	P1	A-1	119,564,248	7.6%
Money market funds	Aaa	AAA	4,241,278	0.3%
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 University’s ownership represents .33% 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 corporation or association that represented more than 5% of assets.

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

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

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

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

Government Money Market 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 issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The University's ownership represents .03% of the net asset position of this pool.

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

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

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

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

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

Enhanced Yield 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 A1 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 weighted average credit ratings of the Enhanced Yield pool's investments.

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

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

The University's ownership represents .52% of the net asset position of this pool.

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

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

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

Security Type	Fair Value	WAM (years)
Corporate notes	\$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U.S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	4,362,262	0.0
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	2004
Student tuition and fees, net of allowance for doubtful accounts of \$833,219 and \$799,209, respectively	\$ 400,234	\$ 504,089
Grants and contracts receivable	517,673	361,888
Due from the Commission	1,226,097	23,537
Due from other State agencies	10,078	8,412
Other accounts receivable	<u>53,739</u>	<u>36,218</u>
	<u>\$ 2,207,821</u>	<u>\$ 934,144</u>

5. DEFERRED FINANCE COSTS

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

2005	Beginning Balance	Additions	Reductions	Ending Balance
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>4,990</u>	<u>2,495</u>	<u> </u>	<u>7,485</u>
Deferred finance costs—net	<u>\$ 44,904</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 42,409</u>
2004	Beginning Balance	Additions	Reductions	Ending Balance
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>2,495</u>	<u>2,495</u>	<u> </u>	<u>4,990</u>
Deferred finance costs—net	<u>\$ 47,399</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 44,904</u>

6. CAPITAL ASSETS

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

	2005			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,143,605	\$ 73,800	\$ -	\$ 1,217,405
Construction in progress		<u>226,476</u>		<u>226,476</u>
Total capital assets not being depreciated	<u>\$ 1,143,605</u>	<u>\$ 300,276</u>	<u>\$ -</u>	<u>\$ 1,443,881</u>
Other capital assets:				
Land improvements	\$ 1,398,000	\$ 40,275	\$ -	\$ 1,438,275
Infrastructure	3,441,300			3,441,300
Buildings	35,697,034	609,872		36,306,906
Equipment	8,318,985	403,751	(93,104)	8,629,632
Motor vehicles	263,704	91,463		355,167
Software	342,318			342,318
Library books	<u>3,968,742</u>	<u>118,542</u>		<u>4,087,284</u>
Total other capital assets	<u>53,430,083</u>	<u>1,263,903</u>	<u>(93,104)</u>	<u>54,600,882</u>
Less accumulated depreciation for:				
Land improvements	491,392	44,035		535,427
Infrastructure	2,977,540			2,977,540
Buildings	14,535,046	664,956		15,200,002
Equipment	6,178,909	624,722	(84,309)	6,719,322
Motor vehicles	163,318	71,783		235,101
Software	244,830	29,421		274,251
Library books	<u>3,154,286</u>	<u>243,284</u>		<u>3,397,570</u>
Total accumulated depreciation	<u>27,745,321</u>	<u>1,678,201</u>	<u>(84,309)</u>	<u>29,339,213</u>
Other capital assets—net	<u>\$25,684,762</u>	<u>\$ (414,298)</u>	<u>\$ (8,795)</u>	<u>\$25,261,669</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,143,605	\$ 300,276	\$ -	\$ 1,443,881
Other capital assets	<u>53,430,083</u>	<u>1,263,903</u>	<u>(93,104)</u>	<u>54,600,882</u>
Total cost of capital assets	54,573,688	1,564,179	(93,104)	56,044,763
Less accumulated depreciation	<u>27,745,321</u>	<u>1,678,201</u>	<u>(84,309)</u>	<u>29,339,213</u>
Capital assets—net	<u>\$26,828,367</u>	<u>\$ (114,022)</u>	<u>\$ (8,795)</u>	<u>\$26,705,550</u>

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

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

Title for certain real property is with the Commission.

7. NONCURRENT LIABILITIES

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

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 3,120,991	\$ -	\$ 36,032	\$ 3,084,959	\$ 107,675
Bonds payable	5,069,151	7,269	205,000	4,871,420	210,000
Payable to the Commission	2,412,364		302,766	2,109,598	307,975
Other noncurrent liabilities:					
Accrued compensated absences	3,786,682	85,211	77,800	3,794,093	852,910
Advances from Federal Sponsors	579,122			579,122	
Deposits held in custody for others	75,019	8,865		83,884	
Total noncurrent liabilities	<u>\$ 15,043,329</u>	<u>\$ 101,345</u>	<u>\$ 621,598</u>	<u>\$ 14,523,076</u>	
	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 3,190,080	\$ -	\$ 69,089	\$ 3,120,991	\$ 73,024
Bonds payable	5,261,882	7,269	200,000	5,069,151	205,000
Payable to the Commission	2,708,068	174,929	470,633	2,412,364	302,766
Other noncurrent liabilities:					
Accrued compensated absences	3,642,815	143,866		3,786,681	871,011
Advances from Federal Sponsors	579,122			579,122	
Deposits held in custody for others	69,569	5,450		75,019	
Total noncurrent liabilities	<u>\$ 15,451,536</u>	<u>\$ 331,514</u>	<u>\$ 739,722</u>	<u>\$ 15,043,328</u>	

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

8. BONDS PAYABLE

On August 1, 2002, the College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds mature in intervals through June 1, 2022 and bear interest ranging from 2.0 percent to 6.2 percent. As of June 30, 2005 and 2004, the College had outstanding \$4,871,420 and \$5,069,151, respectively, net of an unamortized discount of \$123,580 and \$130,849, respectively.

Principal maturities for the years ending after June 30, 2005 are as follows:

2006	\$ 210,000
2007	215,000
2008	220,000
2009	230,000
2010	240,000
2011–2015	1,340,000
2016–2020	1,720,000
2021–2022	<u>820,000</u>
Total	<u>\$4,995,000</u>

9. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories. As of June 30, 2005 and 2004, the University had outstanding \$3,084,959 and \$3,120,991, respectively. At an interest of approximately 6.3%, current monthly principal and interest payments of \$21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the years ending after June 30, 2005 are as follows:

2006	\$ 107,675
2007	80,621
2008	86,619
2009	91,977
2010	96,980
2011–2015	575,704
2016–2020	765,251
2021–2025	1,018,541
2026	<u>261,591</u>
Total	<u>\$ 3,084,959</u>

10. COMPENSATED ABSENCES LIABILITY

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

	2005	2004
Health or life insurance benefits	\$2,574,105	\$2,557,205
Accrued vacation leave	<u>1,219,988</u>	<u>1,229,476</u>
	<u>\$3,794,093</u>	<u>\$3,786,681</u>

For the years ended June 30, 2005 and 2004, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled \$42,948 and \$39,941, respectively. As of June 30, 2005 and 2004, there were 27 and 33 retirees, respectively, currently eligible for these benefits.

11. OPERATING LEASES

Future annual minimum lease payments for years subsequent to June 30, 2005 are as follows:

2006	\$ 557,436
2007	554,436
2008	553,436
2009	549,077
2010	<u>45,000</u>
Total	<u>\$2,259,385</u>

Total rental expense for the years ended June 30, 2005 and 2004 was \$494,238 and \$614,777, respectively.

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2005 and 2004, the University paid \$302,766 and \$295,704, respectively, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2005 is \$2,109,598.

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 University has been approved to receive

\$1,350,000 of these funds. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

13. UNRESTRICTED NET ASSETS

The University unrestricted net assets include certain obligated net assets as follows at June 30:

	2005	2004
Designated for auxiliaries	\$ 1,279,848	\$ 584,681
Designated for repair and replacement of property	250,000	
Undesignated	<u>2,396,382</u>	<u>2,208,374</u>
Total unrestricted net assets	<u>\$ 3,926,230</u>	<u>\$ 2,793,055</u>

14. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2005 and 2004, zero employees were enrolled in the Educators Money 401(a) basic retirement plan.

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

Total contributions to the STRS for the years ended June 30, 2005, 2004 and 2003 were \$414,653, \$433,244 and \$461,323, respectively, which consisted of \$295,578, \$308,922 and \$328,959 from the University, respectively, and \$118,985, \$124,322 and \$132,364, respectively, from the covered employees.

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

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6 percent of total annual compensation. The University matches the employees' 6 percent contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the University.

Total contributions to the TIAA-CREF for the years ended June 30, 2005, 2004 and 2003 were \$2,213,612, \$2,295,389 and \$2,249,000, respectively, which consisted of contributions of \$920,857 from the University and \$1,292,755 from the covered employees in 2005, \$983,444 from the University and \$1,311,945 from the covered employees in 2004 and \$958,256 from the University and \$1,290,744 from the covered employees in 2003.

The University's total payroll for the year ended June 30, 2005 was \$21,154,347; total covered employees' salaries in the STRS and TIAA-CREF were \$1,995,658 and \$14,986,540, respectively. The University's total payroll for the year ended June 30, 2004 was \$20,788,578; total covered employees' salaries in the STRS and TIAA-CREF were \$2,084,614 and \$16,390,739, respectively.

15. COOPERATIVE AGREEMENT

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute ("RCPI"). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenditures during fiscal year 2005 were \$296,530 and \$317,990, respectively. Total receipts and expenditures during fiscal year 2004 were \$316,300 and \$318,382, respectively. RCPI is not entirely or almost entirely for the benefit of the University and is therefore not a GASB No. 39 component unit.

16. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "...to aid, strengthen and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Directors of the Foundation employ management, form policy and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2005 and 2004, the Foundation's net assets (including unrealized gains) totaled \$4,382,754 and \$4,020,019, respectively, on the accrual basis of accounting.

During the years ended June 30, 2005 and 2004, the Foundation contributed \$130,224 and \$119,527, respectively, to the University for scholarships. Additionally, the Foundation paid operating lease expenses for the University of \$ -0- in the year ended June 30, 2005.

17. AFFILIATED ORGANIZATION

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

18. CONTINGENCIES

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

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

The University owns various buildings which are known to contain asbestos. The University is not required by federal, state or local law to remove the asbestos from its buildings. The University is required under federal environmental, health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

19. SEGMENT INFORMATION

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

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

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

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

	State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds	
	2005	2004
Condensed Statement of Net Assets as of June 30,		
ASSETS:		
Current assets	\$ 303,197	\$ 303,275
Noncurrent assets	<u>6,203,874</u>	<u>6,306,693</u>
TOTAL	<u>\$6,507,071</u>	<u>\$6,609,968</u>
LIABILITIES:		
Current liabilities	\$ 226,807	\$ 225,084
Noncurrent liabilities	<u>4,670,937</u>	<u>4,871,525</u>
Total liabilities	<u>4,897,744</u>	<u>5,096,609</u>
NET ASSETS:		
Invested in capital assets	867,101	793,112
Restricted:		
Debt service	465,353	442,631
Unrestricted	<u>276,873</u>	<u>277,616</u>
Total net assets	<u>1,609,327</u>	<u>1,513,359</u>
TOTAL	<u>\$6,507,071</u>	<u>\$6,609,968</u>

	West Virginia State University, Student Union Revenue Bonds	
Condensed Statement of Revenues, Expenses and Changes in Net Assets as of June 30,	2005	2004
OPERATING:		
Operating revenues	\$ 895,546	\$ 772,926
Operating expenses	<u>(570,325)</u>	<u>(393,521)</u>
Net operating income	325,221	379,405
NONOPERATING:		
Nonoperating revenues	6,647	9,383
Nonoperating expenses	<u>(235,900)</u>	<u>(239,566)</u>
INCREASE IN NET ASSETS	95,968	149,222
NET ASSETS—Beginning of year	<u>1,513,359</u>	<u>1,364,137</u>
NET ASSETS—End of year	<u>\$1,609,327</u>	<u>\$1,513,359</u>
Condensed Statement of Cash Flows		
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 325,221	\$ 379,405
NET CASH USED BY CAPITAL AND RELATED FINANCING	<u>(325,299)</u>	<u>(318,776)</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78)	60,629
CASH AND CASH EQUIVALENTS—Beginning of year	<u>303,275</u>	<u>242,646</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 303,197</u>	<u>\$ 303,275</u>

20. COMPONENT UNIT DISCLOSURES

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

(NOTE TO DCS: The LETTERED NOTES (A-H) will be replaced with copies of other auditors notes, 8 pages, I have renumbered the report accordingly. Please delete Note A on this page before binding)

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in

perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts and pledges to be used to fund current Foundation activities.

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

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

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

Unrestricted net assets—Net assets not subject to donor-imposed stipulation.

Temporarily restricted net assets—Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

Permanently restricted net assets—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation to use all or part of the income earned on related investments for general or specific purposes.

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

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

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

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

Contributions—Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundations. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future operations, programs and activities are

recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

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

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

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

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

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

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

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

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

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

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

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

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

B. CONCENTRATIONS OF CREDIT RISK

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

C. RECEIVABLES

Receivables at June 30, 2004 consist of the following:

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

D. INVESTMENTS

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

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

E. LIABILITY FOR SPLIT INTEREST AGREEMENTS

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

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

As of June 30, 2004 Charitable gift annuity \$ 28,904

F. FEDERAL INCOME TAXES

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

G. RETIREMENT PLAN

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

H. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES

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

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

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

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

21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

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

	2005								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$10,465,966	\$2,406,745	\$ 2,168,033	\$ 64,199	\$ 111,984	\$ -	\$ -	\$ -	\$15,216,927
Research	963,215	384,807	900,165	8,798	21,300				2,278,285
Public service	689,683	127,075	566,138	10,956					1,393,852
Academic support	1,142,489	328,622	522,773	109,686	1,661				2,105,231
Student services	1,433,858	388,418	1,025,664	26,135					2,874,075
General institutional support	3,156,618	631,212	1,989,247	54,800	52,388				5,884,265
Operations and maintenance of plant	1,632,401	624,361	761,613	982,137	7,000				4,007,512
Scholarship and fellowship			(25,949)		4,436,344				4,410,395
Auxiliary enterprises	1,647,040	471,769	4,394,196	428,200	319,710				7,260,915
Depreciation and amortization expense						1,680,696			1,680,696
Tuition and fees retained by the Commission								171,790	171,790
Loan cancellations and write offs							1,844		1,844
Total	\$21,131,270	\$5,363,009	\$12,301,880	\$1,684,911	\$4,950,387	\$1,680,696	\$1,844	\$171,790	\$47,285,787

	2004								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$10,272,691	\$2,583,568	\$ 1,779,913	\$ 73,870	\$ 76,602	\$ -	\$ -	\$ -	\$14,786,644
Research	973,778	220,668	1,317,628	20,683					2,532,757
Public service	545,894	119,672	957,197	26,558	3,300				1,652,621
Academic support	1,212,761	294,097	525,255	111,099					2,143,212
Student services	1,539,656	374,524	948,676	29,020					2,891,876
General institutional support	3,452,248	1,106,264	1,785,846	44,317	35,721				6,424,396
Operations and maintenance of plant	1,514,492	489,170	1,033,358	961,669	7,000				4,005,689
Scholarship and fellowship			24,549		4,614,133				4,638,682
Auxiliary enterprises	1,682,115	472,763	4,193,724	419,156	154,164				6,921,922
Depreciation and amortization expense						1,775,982			1,775,982
Tuition and fees retained by the Commission								164,041	164,041
Loan cancellations and write offs							(8,002)		(8,002)
Total	\$21,193,635	\$5,660,726	\$12,566,146	\$1,686,372	\$4,890,920	\$1,775,982	\$(8,002)	\$164,041	\$47,929,820

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ADDITIONAL INFORMATION

WEST VIRGINIA STATE UNIVERSITY

SCHEDULE OF NET ASSETS INFORMATION AS OF JUNE 30, 2005

ALL FUNDS

ASSETS	Community and Technical College	Four-Year and Other Components	Eliminations	Total Institution
CURRENT ASSETS:				
Cash and cash equivalents	\$ 854,473	\$ 7,833,409	\$ -	\$ 8,687,882
Accounts receivable—net	159,761	2,063,648	(15,588)	2,207,821
Loans to students—current portion		134,443		134,443
Inventories		365,701		365,701
Prepaid expenses		169,947		169,947
Total current assets	<u>1,014,234</u>	<u>10,567,148</u>	<u>(15,588)</u>	<u>11,565,794</u>
NONCURRENT ASSETS:				
Restricted cash and cash equivalents	437,386	234,670		672,056
Loans to students—net		458,784		458,784
Deferred finance costs—net		42,409		42,409
Capital assets—net	<u>90,518</u>	<u>26,615,032</u>		<u>26,705,550</u>
Total noncurrent assets	<u>527,904</u>	<u>27,350,895</u>		<u>27,878,799</u>
TOTAL	<u>\$ 1,542,138</u>	<u>\$ 37,918,043</u>	<u>\$ (15,588)</u>	<u>\$ 39,444,593</u>
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES:				
Accounts payable	\$ 484,031	\$ 844,371	\$ (15,588)	\$ 1,312,814
Accrued liabilities	408,463	1,180,677		1,589,140
Compensated absences—current portion	71,853	781,057		852,910
Deferred revenue	69,820	556,179		625,999
Debt obligation to Commission—current portion		307,975		307,975
Bonds payable—current portion		210,000		210,000
Notes payable—current portion		107,675		107,675
Total current liabilities	<u>1,034,167</u>	<u>3,987,934</u>	<u>(15,588)</u>	<u>5,006,513</u>
Noncurrent liabilities:				
Deposits		83,884		83,884
Compensated absences	308,695	2,632,488		2,941,183
Debt obligation to Commission		1,801,623		1,801,623
Bonds payable		4,661,420		4,661,420
Notes payable		2,977,284		2,977,284
Advances from federal sponsors		579,122		579,122
Total noncurrent liabilities	<u>308,695</u>	<u>12,735,821</u>		<u>13,044,516</u>
Total liabilities	<u>1,342,862</u>	<u>16,723,755</u>	<u>(15,588)</u>	<u>18,051,029</u>
NET ASSETS:				
Invested in capital assets—net of related debt	90,518	16,591,464		16,681,982
Restricted for—				
Nonexpendable:		34,742		34,742
Expendable:				
Sponsored projects		23,958		23,958
Loans		120,993		120,993
Debt service		605,659		605,659
Total restricted	-	785,352	-	785,352
Unrestricted	<u>108,758</u>	<u>3,817,472</u>		<u>3,926,230</u>
Total net assets	<u>199,276</u>	<u>21,194,288</u>		<u>21,393,564</u>
TOTAL	<u>\$ 1,542,138</u>	<u>\$ 37,918,043</u>	<u>\$ (15,588)</u>	<u>\$ 39,444,593</u>

See note to schedules.

WEST VIRGINIA STATE UNIVERSITY

SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

ALL FUNDS

	Community and Technical College	Four-Year and Other Components	Eliminations	Total Institution
OPERATING REVENUES:				
Tuition and fees—net	\$ 2,683,293	\$ 6,984,665	\$ -	\$ 9,667,958
Contracts and grants:				
Federal	75,752	15,349,748		15,425,500
State/local	514,147	2,084,222		2,598,369
Private	72,836	533,240		606,076
Sales and services of educational activities		110,812		110,812
Auxiliary enterprise revenue		5,894,493		5,894,493
Other operating revenues		491,618		491,618
	<u>3,346,028</u>	<u>31,448,798</u>		<u>34,794,826</u>
OPERATING EXPENSES:				
Salaries and wages	4,157,730	16,973,540		21,131,270
Benefits	876,744	4,486,265		5,363,009
Supplies and other services	1,001,839	11,300,041		12,301,880
Utilities	332,055	1,352,856		1,684,911
Student financial aid—scholarships and fellowships	28,682	4,921,705		4,950,387
Depreciation	14,766	1,665,930		1,680,696
Loan cancellations and write-offs		1,844		1,844
Fees assessed by the Commission for operations		171,790		171,790
	<u>6,411,816</u>	<u>40,873,971</u>		<u>47,285,787</u>
OPERATING LOSS	<u>(3,065,788)</u>	<u>(9,425,173)</u>		<u>(12,490,961)</u>
NONOPERATING REVENUES (EXPENSES):				
State appropriations	2,734,186	10,713,158		13,447,344
Investment income	26,938	154,005		180,943
Interest on indebtedness		(456,795)		(456,795)
Loss on disposal of fixed assets	(41)	(8,754)		(8,795)
Fees assessed by the Commission for debt service		(123,554)		(123,554)
	<u>2,761,083</u>	<u>10,278,060</u>		<u>13,039,143</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(304,705)	852,887		548,182
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION		250,000		250,000
CAPITAL GRANTS AND GIFTS		<u>267,815</u>		<u>267,815</u>
INCREASE (DECREASE) IN NET ASSETS	(304,705)	1,370,702		1,065,997
NET ASSETS—Beginning of year	<u>503,981</u>	<u>19,823,586</u>		<u>20,327,567</u>
NET ASSETS—End of year	<u>\$ 199,276</u>	<u>\$21,194,288</u>	<u>\$ -</u>	<u>\$21,393,564</u>

See note to schedules.

WEST VIRGINIA STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four-Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	\$ 2,808,107	\$ 5,096,636	\$ 7,904,743
Contracts and grants	662,735	17,933,787	18,596,522
Payments to and on behalf of employees	(4,572,078)	(21,928,316)	(26,500,394)
Payments to suppliers	(549,467)	(11,475,783)	(12,025,250)
Payments to utilities	(332,056)	(1,352,855)	(1,684,911)
Payments for scholarships and fellowships	(28,682)	(4,921,705)	(4,950,387)
Loans issued to students		(174,770)	(174,770)
Collection of loans to students		118,766	118,766
Sales and service of educational activities		110,812	110,812
Auxiliary enterprise charges		5,903,358	5,903,358
Fees retained by Commission		(171,790)	(171,790)
Other (payments) receipts—net	(5,404)	980,530	975,126
Net cash used in operating activities	<u>(2,016,845)</u>	<u>(9,881,330)</u>	<u>(11,898,175)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	2,734,186	10,694,663	13,428,849
FFELP lending receipts		13,863,462	13,863,462
FFELP lending payments		(13,844,967)	(13,844,967)
Fees assessed by the Commission for debt service and reserves		(123,554)	(123,554)
Net cash provided by noncapital financing activities	<u>2,734,186</u>	<u>10,589,604</u>	<u>13,323,790</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		113,898	113,898
Capital projects proceeds from the Commission		250,000	250,000
Purchases of capital assets	(55,682)	(1,370,644)	(1,426,326)
Principal paid on payable to Commission		(302,766)	(302,766)
Principal paid on notes, bonds and leases		(241,032)	(241,032)
Interest paid on notes, bonds and leases		(456,795)	(456,795)
(Increase) decrease in noncurrent cash and cash equivalents	(283,269)	280,194	(3,075)
Net cash used in capital financing activities	<u>(338,951)</u>	<u>(1,727,145)</u>	<u>(2,066,096)</u>
CASH FLOWS FROM INVESTING ACTIVITY—			
Interest on investments	26,938	154,005	180,943
Cash provided by investing activities	<u>26,938</u>	<u>154,005</u>	<u>180,943</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	405,328	(864,866)	(459,538)
CASH AND CASH EQUIVALENTS—Beginning of year	<u>449,145</u>	<u>8,698,275</u>	<u>9,147,420</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 854,473</u>	<u>\$ 7,833,409</u>	<u>\$ 8,687,882</u>

(Continued)

WEST VIRGINIA STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION YEAR ENDED JUNE 30, 2005

	Community and Technical College	Four-Year and Other Components	Combined Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	\$(3,065,788)	\$(9,425,173)	\$(12,490,961)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation and amortization expense	14,766	1,665,930	1,680,696
Changes in assets and liabilities:			
Receivables—net	124,814	(1,877,290)	(1,752,476)
Loans to students—net		(54,160)	(54,160)
Prepaid expenses		(72,905)	(72,905)
Inventories		(102,960)	(102,960)
Accounts payable and accrued liabilities	811,246	(256,340)	554,906
Compensated absences	103,521	(96,110)	7,411
Deferred revenue	(5,404)	328,813	323,409
Deposits held in custody for others		8,865	8,865
	<u> </u>	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(2,016,845)</u>	<u>\$(9,881,330)</u>	<u>\$(11,898,175)</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY

ADDITIONAL INFORMATION—COMPONENT FINANCIAL DATA NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS FOR THE YEAR ENDED JUNE 30, 2005

	Community and Technical College								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by Commission	Total
Instruction	\$ 2,508,102	\$ 456,314	\$ 483,689	\$ 3,453	\$ -	\$ -	\$ -	\$ -	\$ 3,451,558
Research									
Public service	116,260	17,219	6,328						139,807
Academic support	360,283	102,018	200,630	29,991					692,922
Student services	342,376	100,753	72,213	5,364					520,706
General institutional support	489,210	68,517	130,192	6,359					694,278
Operations and maintenance of plant	341,500	131,924	96,668	286,888	2,030				859,010
Scholarship and fellowship					26,651				26,651
Auxiliary enterprises									
Depreciation and amortization expenses						14,766			14,766
Tuition and fees retained by the Commission									
Loan cancellation and write offs									
Chargeback from University			434,394						434,394
Total	\$ 4,157,731	\$ 876,745	\$ 1,424,114	\$ 332,055	\$ 28,681	\$ 14,766	\$ -	\$ -	\$ 6,834,092

	Four Year and Other Components								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-offs	Fees Assessed by Commission	Total
Instruction	\$ 7,772,946	\$1,950,431	\$ 1,635,314	\$ 60,745	\$ 111,984	\$ -	\$ -	\$ -	\$11,531,420
Research	963,215	384,807	900,165	8,798	21,300				2,278,285
Public service	573,423	109,856	559,810	10,956					1,254,045
Academic support	782,206	226,604	322,143	79,695	1,661				1,412,309
Student services	1,091,482	287,665	953,451	20,771					2,353,369
General institutional support	2,852,325	562,695	1,916,880	48,441	52,388				5,432,729
Operations and maintenance of plant	1,290,902	492,438	656,150	695,248	4,970				3,139,708
Scholarship and fellowship			(25,949)		4,409,692				4,383,743
Auxiliary enterprises	1,647,040	471,768	4,394,196	428,202	319,711				7,260,917
Depreciation and amortization expenses						1,665,930			1,665,930
Tuition and fees retained by the Commission								171,790	171,790
Loan cancellation and write offs							1,844		1,844
Total	\$16,973,539	\$4,486,264	\$11,312,160	\$1,352,856	\$4,921,706	\$1,665,930	\$ 1,844	\$171,790	\$40,886,089

WEST VIRGINIA STATE UNIVERSITY

NOTE TO ADDITIONAL INFORMATION—WVSCTC FINANCIAL DATA FOR THE YEAR ENDED JUNE 30, 2005

1. WEST VIRGINIA STATE COMMUNITY AND TECHNICAL COLLEGE

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

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

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

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

The enrollment percentage utilized for the 2005 fiscal year is 29 percent for WVSCTC and 71 percent for the University. The 29 percent of the total full time equivalent number of students (“FTE”) has been reported by the West Virginia State University Research and Development Corporation Office of Institutional Research to the Commission. In analyzing the percentage trend over a three-year period, the WVSCTC percentage of enrollment of 29 percent in fiscal year 2005 is indicative of the enrollment percentage pattern over the last few years.

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

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

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

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

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

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

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

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

To the West Virginia State University Governing Board:

We have audited the combined financial statements of West Virginia State University (the "University") as of and for the year ended June 30, 2005, and have issued our report thereon dated October 6, 2005, which states reliance on other auditors for the discretely presented component unit. We conducted our audit of the University 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 University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

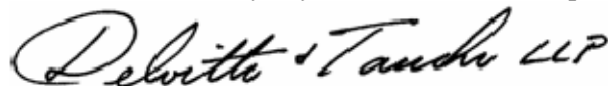
Internal Control Over Financial Reporting

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

Compliance and Other Matters

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

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



October 6, 2005