West Liberty State College

Financial Statements as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Reports

WEST LIBERTY STATE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Liberty State College:

We have audited the statements of net assets of West Liberty State College (the "College") as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of West Liberty State College Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the College. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

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

In our opinion, based on our audits and the report of the other auditors, such financial statements present fairly, in all material respects, the respective financial position and changes in net assets of the College and the discretely presented component unit of the College as of June 30, 2007 and 2006, and cash flows of the College for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 to 13 is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2007, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 8, 2007

West Liberty State College
State Route 88
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Management Discussion and Analysis
Fiscal Year 2007 (Unaudited)
Financial Statements

Overview of the Financial Statements and Financial Analysis

West Liberty State College (WLSC) is proud to present its financial statements for fiscal years 2007 and 2006. The emphasis of discussions about these statements will be for the year ended June 30, 2007. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WLSC's financial statements provides an overview of its financial activities for the fiscal years 2007 and 2006 and is required supplemental information.

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

GASB Statement No. 39

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

The reader should understand that although WLSC is the beneficiary of the West Liberty State College Foundation, Incorporated (the "Foundation") is independent of the WLSC in all respects. It is not a subsidiary or affiliate of the WLSC and is not directly or indirectly controlled by the WLSC. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to the WLSC.

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

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WLSC as of June 30, 2007 and 2006. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WLSC. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities is discussed in the Notes to the financial statements.

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

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

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

Condensed Statements of Net Assets

(In Thousands)

	2007	2006	2005
ASSETS:			
Current assets	$ 7,257	$ 7,797	$ 6,961
Other noncurrent assets	2,363	3,850	7,380
Capital assets—net	43,565	40,573	35,043
TOTAL ASSETS	$ 53,185	$ 52,220	$ 49,384
LIABILITIES:			
Current liabilities	$ 4,294	$ 3,856	$ 4,555
Noncurrent liabilities	19,513	20,220	21,242
Total liabilities	$ 23,807	$ 24,076	$ 25,797
NET ASSETS:			
Invested in capital assets, net of related debt	$ 25,865	$ 23,882	$ 20,031
Restricted expendable	1,583	1,292	1,698
Unrestricted	1,930	2,970	1,858
Total net assets	29,378	28,144	23,587
TOTAL LIABILITIES AND NET ASSETS	$ 53,185	$ 52,220	$ 49,384

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

2007:

- Cash and cash equivalents has decreased by $1.9 million. This decrease is largely due to the use of bonds proceeds by the WLSC, which in turn has caused an in noncurrent assets. The non bond related cash decreased by $427,000. The WLSC has spent all but $367,000 of the bond proceeds as of June 30, 2007. The remaining balance will be used before December 2007 on the Beta Hall renovations.

- Capital leases payable consist of copiers, heating, ventilation, and air conditioning system changes to the Main Hall, and improvements to the Marketplace for Sodexo. All capital leases payable are expected to be repaid by June 30, 2009.

- Current liabilities include an accrual and accounts payable of approximately $770,000 related to projects under construction which is relatively a comparable amount in FY 2006.

- Noncurrent liabilities have a decrease of $365,000 in bonds payable that were issued on September 3, 2003, which mature over the next 25 years. In addition, WLSC debt obligation to West Virginia Higher Education Policy Commission (HEPC) increased by approximately $200,000 due to additional noninterest-bearing loan of $500,000 to fund the capital improvements. This was partially offset by total repayments of $300,000 during FY 2007.

2006:

- Cash and cash equivalents has decreased by $2.6 million. This decrease is largely due to the use of bonds proceeds by the college, for payment of capital expenditures and repayments of principal and interest on bonds and debt service assessed by the Commission. The College has until September 3, 2006 to substantially spend all its bond proceeds on the preapproved projects by the Board of Governors of WLSC. The College has unspent bond proceeds of approximately $2,900,000 as of June 30, 2006.

- Capital leases consist of copiers, heating, ventilation, and air conditioning system changes to the Main Hall, and improvements to the Marketplace for Sodexo.

- Current liabilities include an accrual and accounts payable of approximately $750,000 related to projects under construction which is a decrease of approximately $900,000 from FY 2005.

- Noncurrent liabilities have a decrease in bonds payable that were issued on September 3, 2003, which mature over the next 25 years, and a decrease in debt obligations to Commission, which totals approximately $575,000.

Statement of Revenues, Expenses, and Changes in Net Assets

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

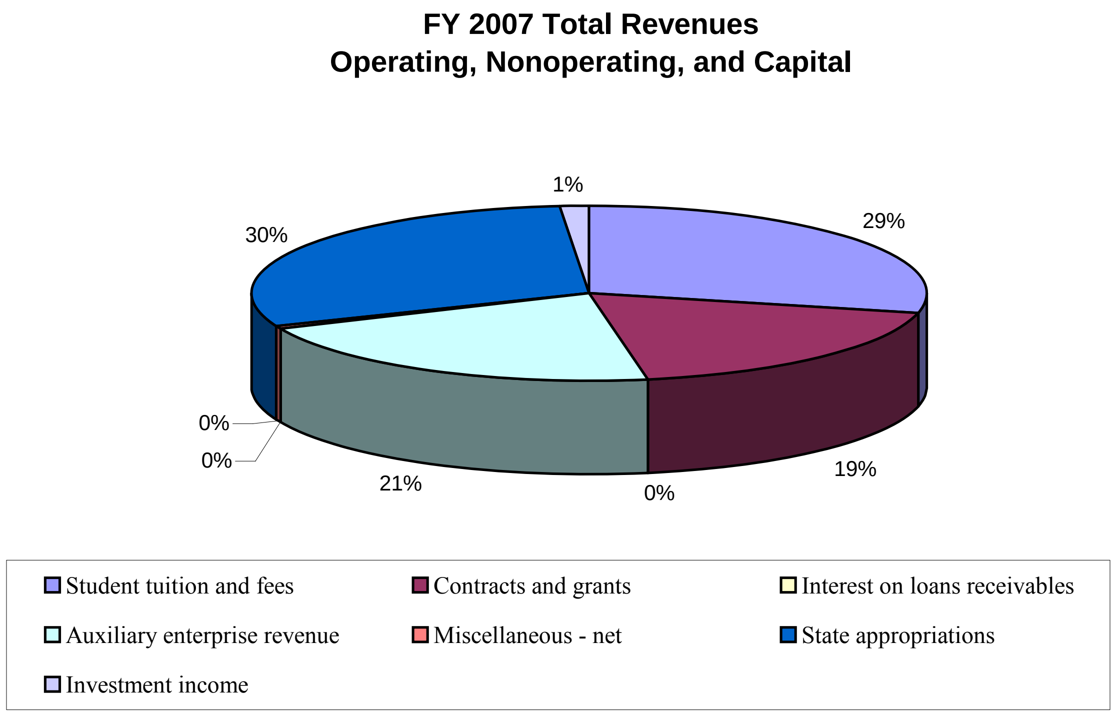
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WLSC. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WLSC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

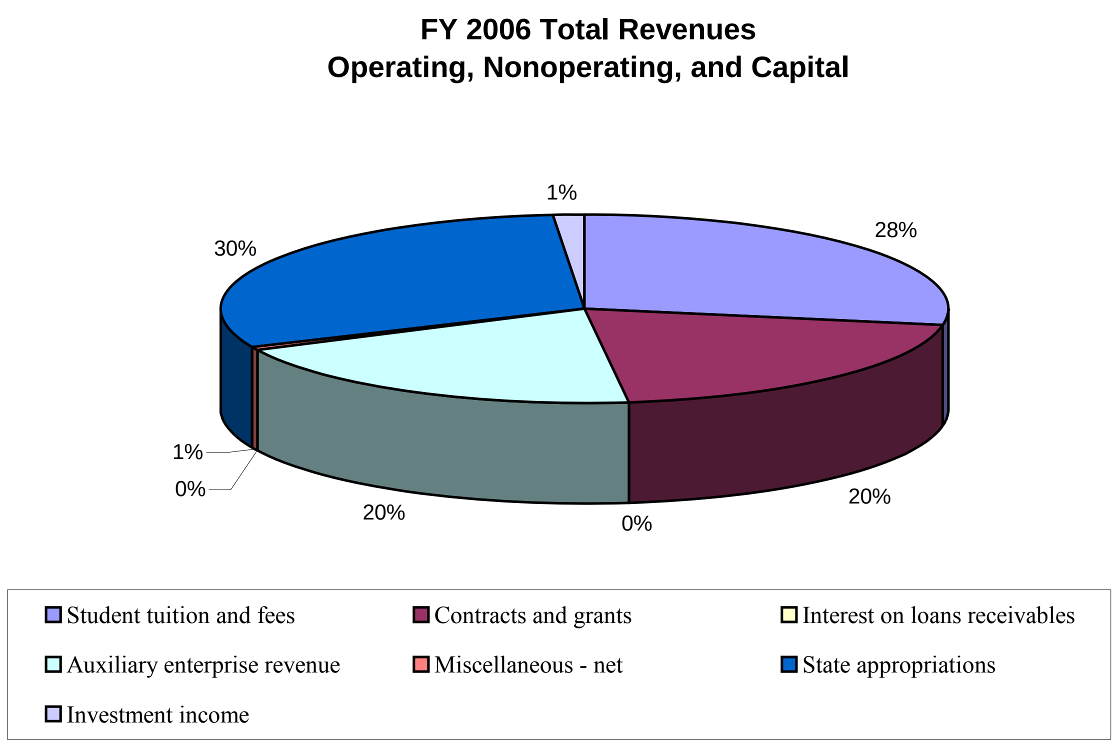
Condensed Statements of Revenues, Expenses and Changes in Net Assets

(In Thousands)

	2007	2006	2005
OPERATING REVENUES	$ 19,902	$ 19,111	$17,624
OPERATING EXPENSES	26,452	24,185	24,526
OPERATING LOSS	(6,550)	(5,074)	(6,902)
NONOPERATING REVENUES	7,765	7,631	7,626
INCREASE IN NET ASSETS BEFORE TRANSFER	1,215	2,557	724
CAPITAL PROCEEDS FROM POLICY COMMISSION	117	2,000	675
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(98)	0	0
NET INCREASE IN NET ASSETS	1,234	4,557	1,399
NET ASSETS—Beginning of year	28,144	23,587	22,188
NET ASSETS—End of year	$ 29,378	$ 28,144	$23,587

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





- Student tuition and fees (net of scholarship allowance) made up 41.5% of WLSC's operating revenues and, as the pie chart shows, 29% of total operating and nonoperating revenues. Tuition and fee revenues increased over FY 2006 for both resident and non-resident. The tuition and fees were increased in FY 2007 by 5.9% for both resident and non-resident students. FY 2006 had an increase of 7.9% for both resident and non-resident students. The WLSC implemented a new metro rate for FY 2008, which gives a $1,000 reduction per semester for students residing in select counties in Ohio and Pennsylvania.

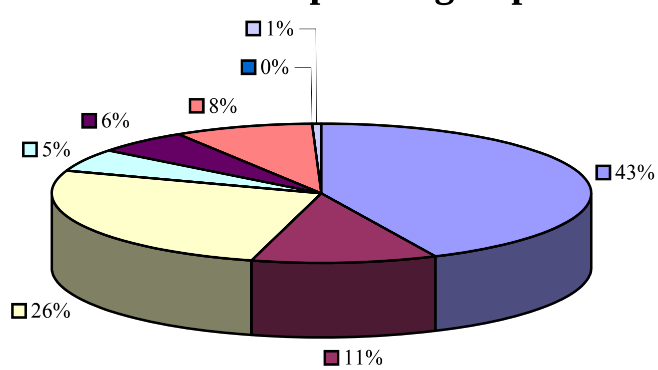
- Other operating revenues such as noncapital grants and contracts, revenues from auxiliary enterprises and other operating revenues comprised 58.5% of WLSC's operating revenues and, as the pie chart shows, 40% of total revenues.

- Nonoperating revenues from the state consisted mainly of appropriated State funds. These State appropriations accounted for 30% of total operating, nonoperating, and capital revenues in FY 2007. These funds are used to support the operations (salary and fringe benefits) of WLSC. State appropriations increased by $122,375 in FY 2007, which compares to a decrease of $131,624 in FY 2006.

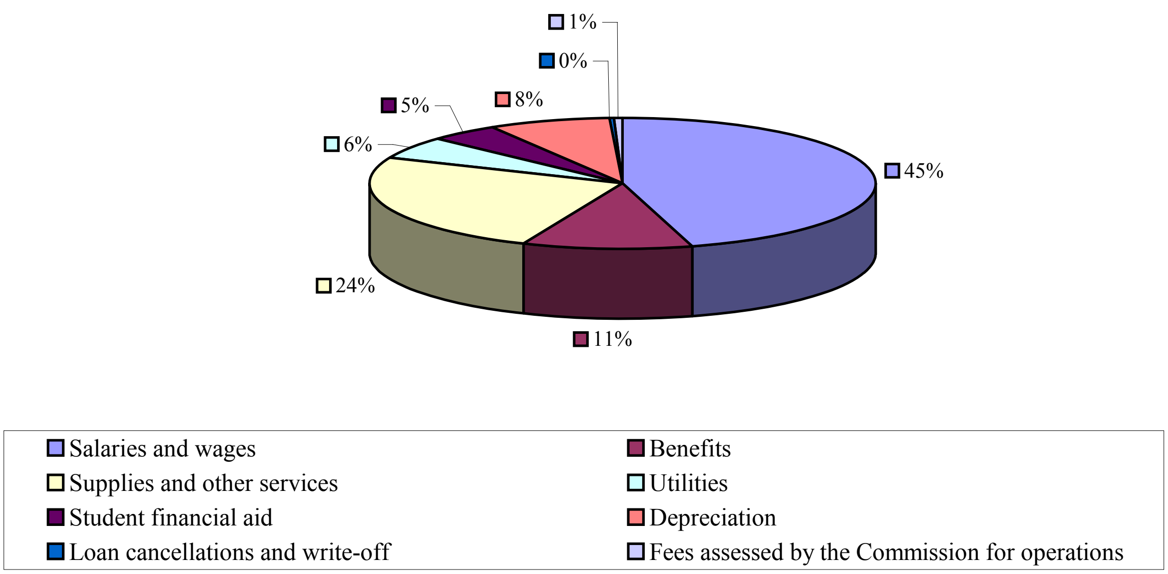
- Investment income made up 1.4% of total operating, nonoperating, and capital revenues in FY 2007 and FY 2006. WLSC participates in the investment pool managed by the State.

- WLSC received the $2 million dollars of capital funding from HEPC in FY 2006 to help cover the cost of the addition to the Media Arts Center. In FY 2007, the WLSC received $116,954 in interest related to the $2 million of capital funding.

FY 2007 Operating Expenses



FY 2006 Operating Expenses



- The salaries and wages, and employee benefits categories made up approximately 54% and 56% of the operating expenses of WLSC for FY 2007 and FY 2006, respectively. The annual raise of 2% was given to employees in July based on the respective employee pooling classification. Benefit costs increased slightly because of employer matching for Public Employees Insurance Agency premiums as well as other matching costs for social security, worker's compensation, etc., associated with raises granted.

- The increase in utilities in FY 2007 and FY 2006 was caused by a rate increases for natural gas.

- Supplies and other services made up approximately 26% and 25% of the operating expenses of the budget for FY 2007 and FY 2006, respectively. Part of the increase in FY 2007 is due to a change in capitalization policy from $1,000 to the State policy of $5,000 per transaction. The decrease in supplies and other services in FY2006 can be attributable to increase in efficiency by the staff and faculty.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WLSC during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WLSC. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, non bond related cash and cash equivalents decreased approximately $427,000 in FY 2007.

Condensed Statements of Cash Flows
(In Thousands)

Cash Provided by (Used in)	2007	2006	2005
OPERATING ACTIVITIES	$(4,013)	$(3,886)	$(5,374)
NONCAPITAL FINANCING ACTIVITIES	8,561	8,440	8,570
CAPITAL FINANCING ACTIVITIES	(5,390)	(4,029)	(2,793)
INVESTING ACTIVITIES	415	402	275
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(427)	927	678
CASH AND CASH EQUIVALENTS—Beginning of year	6,715	5,788	5,110
CASH AND CASH EQUIVALENTS—End of year	$ 6,288	$ 6,715	$ 5,788

Capital Asset and Debt Administration

WLSC had many renovations completed or started during FY 2007 that were added to capital assets. These projects were funded from a variety of sources including Federal and private grants, and use of WLSC funds.

- The HEPC approved projects submitted for various new Technology and Renovation upgrades from the Board of Governor's and permitted the sale of Bonds, which were sold on September 3, 2003. The total amount of the bonds sold for $13,905,000

- In late spring of FY 2003 WLSC received a federal grant with Senator Byrd's support in the amount of $1,688,000 for installation of internet wiring in the Residence Halls. This project was completed in December 2006. The tuition and registration fee revenues deposited in the Capital Building/Land Improvement account is dedicated for these types of projects.

- The WLSC was awarded a federal grant with West Virginia Congressman Mollohan's support for the business program in technology amounting $495,000. This grant will create four new labs and the funding is the cornerstone for the new Business Information Systems program for the WLSC. This project was completed in March 2006.

- Several land improvements were completed or started in FY 2007 as was in FY 2006. Our campus lighting system is continually being upgraded in the Quad area. Sidewalks and road paving has continued in phase II of our Campus Master Plan.

- The WLSC was awarded $2 Million dollars from the sale of capital bonds from HEPC. The proceeds were used to help construct the new Media Arts Center. The WLSC drew the money down during FY 2006. The Media Arts Center was completed in November 2006. The WLSC received an additional $116,954 in FY 2007 from interest on the $2 million dollars.

- The WLSC was awarded a federal grant with West Virginia Congressman Mollohan's office for the architectural work of the new Education and Science Center at the Highlands amounting $97,000 in March 2006. That project is still in the development stages.

- The WLSC received an emergency interest free loan of $500,000 from HEPC to complete the roof of the Fine Arts Building. The WLSC made its first of five annual repayment installments in June 2007.

Economic Outlook

According to a press release issued on July 6, 2007 by the Governor and State Auditor, State revenue collections for the year set a new record and they indicated that "…financial results experienced by West Virginia over the last three years have been extraordinary." The economic forecast for the State looks much more positive now than in the past and, according to the release, "the State's commitment to long-term debt management will serve to soften the potential for upcoming slowdowns in state revenues." The need for additional revenues still exists for the Public Employees Insurance Agency, the State retirement funds' unfunded liabilities and the Medicaid program. Neighboring states are beginning new lottery games and it is anticipated that there will be no growth or slow growth in Lottery revenues. On the positive side at the end of fiscal year 2007 there was a large State surplus of approximately $107 million in the general revenue fund.

All State agencies have been asked to submit State appropriation budget requests for FY 2008 at 100% of the FY 2007 level. This is good news for the WLSC, but it still leaves our funding level close to where it was funded ten years ago. In FY 2007, both resident and non-resident tuition and fees were increased by 5.9%, while in FY 2008 we have budgeted another additional increase for both resident and non-resident students. The new metro rate discount is expected to help increase the percentage of out-of-state students.

Although the economic forecasts for the State of West Virginia appears to be improving, WLSC is well positioned to attract and maintain students. Increases in non-resident students and class sizes, improved physical plant, and favorable comparison of academic programs at the national level with peer schools indicate that WLSC should be able to remain competitive for recruitment of new students. Additionally, WLSC is always looking to fully utilize its assets and look for new teaching opportunities.

WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,288,287	$ 6,715,746
Accounts receivable — net	535,640	696,067
Loans to students — current portion	300,158	319,254
Prepaid expenses	49,976	1,430
Inventories	82,649	64,741
Total current assets	7,256,710	7,797,238
NONCURRENT ASSETS:		
Cash and cash equivalents	1,481,406	2,911,410
Loans to students, net of allowance of $629,472 and $673,994 in 2007 and 2006, respectively	882,497	938,643
Capital assets — net	43,564,597	40,572,818
Total noncurrent assets	45,928,500	44,422,871
TOTAL	$ 53,185,210	$ 52,220,109

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

LIABILITIES AND NET ASSETS	2007	2006
CURRENT LIABILITIES:		
Accounts payable	$ 929,031	$ 793,214
Due to Commission	34,350	12,039
Accrued liabilities	1,519,767	1,380,176
Deferred revenue	166,432	118,216
Compensated absences — current portion	553,311	608,180
Debt obligation to Commission — current portion	348,878	225,457
Capital leases — current portion	362,060	353,429
Bonds payable — current portion	380,000	365,000
Total current liabilities	4,293,829	3,855,711
NONCURRENT LIABILITIES:		
Advances from federal sponsors	1,594,452	1,546,644
Compensated absences	1,715,288	1,885,382
Debt obligation to Commission	3,820,862	3,671,467
Capital leases	269,051	631,111
Bonds payable	12,113,298	12,485,940
Total noncurrent liabilities	19,512,951	20,220,544
Total liabilities	23,806,780	24,076,255
NET ASSETS:		
Invested in capital assets — net of related debt	25,864,748	23,881,569
Restricted for — expendable:		
Scholarships	16,371	
Debt service	1,113,266	1,113,340
Capital projects	453,562	188,284
Total restricted expendable	1,583,199	1,301,624
Unrestricted	1,930,483	2,960,661
Total net assets	29,378,430	28,143,854
TOTAL	$53,185,210	$52,220,109

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
Cash and cash equivalents	$ 1,479,627	$ 669,208
Unconditional promises to give	232,950	255,030
Other receivables	29,245	27,038
Investments at estimated fair value	10,692,720	8,073,894
Beneficial interest in perpetual trust	2,362,336	2,203,055
Fixed assets — net	4,867	8,756
Other assets	20,041	17,041
TOTAL	$ 14,821,786	$ 11,254,022
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 3,703	$ 1,278
Notes payable		4,004
Liability for charitable gift annuities	65,427	64,169
Total liabilities	69,130	69,451
NET ASSETS:		
Unrestricted	1,487,527	886,239
Temporarily restricted	4,699,933	3,791,849
Permanently restricted	8,565,196	6,506,483
Total net assets	14,752,656	11,184,571
TOTAL	$ 14,821,786	$ 11,254,022

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $2,325,151 and $2,246,383 in 2007 and 2006, respectively	$ 8,252,666	$ 7,722,745
Contracts and grants:		
Federal	2,670,166	3,183,509
State	2,107,447	1,789,799
Private	614,439	755,201
Interest on student loans receivable	18,393	16,613
Auxiliary enterprise revenue, net of scholarship allowance of $1,826,904 and $1,626,691 in 2007 and 2006, respectively	6,103,270	5,501,552
Miscellaneous — net	135,660	142,006
Total operating revenues	19,902,041	19,111,425
OPERATING EXPENSES:		
Salaries and wages	11,406,938	11,020,872
Benefits	2,897,755	2,617,881
Supplies and other services	6,922,656	6,037,158
Utilities	1,422,774	1,333,933
Student financial aid — scholarships and fellowships	1,458,632	1,113,172
Depreciation	2,171,482	1,874,501
Loan cancellations and write-offs	17,808	23,068
Fees assessed by the Commission for operations	153,574	165,185
Total operating expenses	26,451,619	24,185,770
OPERATING LOSS	(6,549,578)	(5,074,345)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	8,561,489	8,439,114
Loss on disposal	(1,045)	
Investment income	415,781	412,563
Interest on indebtedness	(732,131)	(725,645)
Fees assessed by the Commission for debt service	(478,620)	(494,262)
Net nonoperating revenues	7,765,474	7,631,770
INCOME BEFORE OTHER REVENUES, EXPENSES GAINS, OR LOSSES	1,215,896	2,557,425
CAPITAL AND BOND PROCEEDS FROM COMMISSION	116,954	2,000,000
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(98,274)	
NET INCREASE IN NET ASSETS	1,234,576	4,557,425
NET ASSETS — Beginning of year	28,143,854	23,586,429
NET ASSETS — End of year	$29,378,430	$28,143,854

See notes to financial statements.

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	$ 1,118,892	$ 635,589	$ 1,451,469	$ 3,205,950
Interest and dividend income	105,828	168,409	96,052	370,289
Gain on investments	199,068	797,221		996,289
Change in value of split interest agreements		2,596	159,281	161,877
Other income		130,223		130,223
Net assets released from restrictions and other	474,043	(825,954)	351,911	
Total support and revenues	1,897,831	908,084	2,058,713	4,864,628
EXPENSES AND LOSSES:				4,864,628
West Liberty State College Support:				
Scholarships	399,337			399,337
Athletic programs	118,114			118,114
Academic programs	202,971			202,971
Capital improvements	47,939			47,939
Other programs	302,023			302,023
Fundraising	60,251			60,251
General and administrative expenses	165,908			165,908
Total expenses and losses	1,296,543	-	-	1,296,543
CHANGES IN NET ASSETS	601,288	908,084	2,058,713	3,568,085
NET ASSETS — Beginning of year	886,239	3,791,849	6,506,483	11,184,571
NET ASSETS — End of year	$ 1,487,527	$ 4,699,933	$ 8,565,196	$ 14,752,656

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

WEST LIBERTY STATE COLLEGE FOUNDATION, INCORPORATED
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT AND REVENUES:				
Contributions	$ 499,800	$ 538,569	$ 103,276	$ 1,141,645
Interest and dividend income	89,734	141,300	94,659	325,693
Gain on investments	11,712	174,185		185,897
Change in value of split interest agreements		(4,085)	8,178	4,093
Other income		95,392		95,392
Net assets released from restrictions and other	1,058,970	(877,109)	(181,861)	
Total support and revenues	1,660,216	68,252	24,252	1,752,720
EXPENSES AND LOSSES:				
West Liberty State College Support:				
Scholarships	301,457			301,457
Athletic programs	230,124			230,124
Academic programs	170,022			170,022
Capital improvements	43,987			43,987
Other programs	302,163			302,163
Fundraising	33,413			33,413
General and administrative expenses	156,350			156,350
Total expenses and losses	1,237,516	-	-	1,237,516
CHANGES IN NET ASSETS	422,700	68,252	24,252	515,204
NET ASSETS — Beginning of year	463,539	3,723,597	6,482,231	10,669,367
NET ASSETS — End of year	$ 886,239	$ 3,791,849	$ 6,506,483	$ 11,184,571

See notes to financial statements.

WEST LIBERTY STATE COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 9,138,964	$ 8,574,000
Contracts and grants	5,409,506	5,675,114
Payments to and on behalf of employees	(14,247,253)	(13,859,582)
Payments to suppliers	(7,733,042)	(7,452,113)
Payments to utilities	(1,523,889)	(1,427,622)
Payments for scholarships and fellowships	(2,865,267)	(2,240,826)
Loans issued to students	(335,806)	(365,836)
Collection of loans to students	455,806	418,537
Auxiliary enterprise charges	7,715,458	6,805,247
Fees assessed by Commission	(153,574)	(165,185)
Other receipts — net	126,096	152,109
Net cash used in operating activities	(4,013,001)	(3,886,157)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	8,561,489	8,439,114
William D. Ford direct lending receipts	7,465,851	7,436,823
William D. Ford direct lending payments	(7,465,851)	(7,435,677)
Net cash provided by noncapital financing activities	8,561,489	8,440,260
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(5,147,796)	(7,289,468)
Capital and bond proceeds from Commission	116,954	2,000,000
Borrowing from Commission	500,000	
Principal paid on long term liabilities	(678,888)	(577,873)
Principal paid on bonds	(365,000)	(355,000)
Interest paid on bonds	(725,498)	(738,811)
Interest paid on long term liabilities	(42,268)	(63,263)
Decrease in noncurrent cash and cash equivalents	1,430,004	3,489,529
Debt service assessed by Commission	(478,620)	(494,262)
Net cash used in capital financing activities	(5,391,112)	(4,029,148)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	415,165	402,544
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(427,459)	927,499
CASH AND CASH EQUIVALENTS — Beginning of year	6,715,746	5,788,247
CASH AND CASH EQUIVALENTS — End of year	$ 6,288,287	$ 6,715,746

(Continued)

WEST LIBERTY STATE COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (6,549,578)	$ (5,074,345)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	2,171,482	1,874,501
Changes in assets and liabilities:		
Due from Primary Government		18,509
Accounts receivable — net	73,678	128,707
Due from Commission	86,749	(101,474)
Loans to students — net	75,242	53,152
Prepaid expenses	(48,546)	10,388
Inventories	(17,908)	22,285
Accounts payable	228,228	333,575
Due to Commission	(70,100)	2,975
Accrued liabilities	139,591	(830,026)
Compensated absences	(224,963)	(132,754)
Deferred revenue	48,216	(184,482)
Advances from federal sponsors	47,808	15,248
Other	27,100	(22,416)
NET CASH USED IN OPERATING ACTIVITIES	$ (4,013,001)	$ (3,886,157)
NONCASH TRANSACTIONS — Construction in progress additions in accounts payable and accrued liabilities	$ 772,311	$ 755,801

See notes to financial statements. (Concluded)

WEST LIBERTY STATE COLLEGE

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — 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 College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

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

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

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

As of July 1, 2003, the College adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* an amendment of GASB Statement No. 14. As a result, the audited financial statements of West Liberty State College Foundation, Incorporated (the "Foundation") are discretely presented here with the College's financial statements for the fiscal years ended June 30, 2007 and 2006. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from the GASB revenues recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Note 16).

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

- *Invested in Capital Assets — Net of Related Debt* — This represents the College's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted Net Assets — Expendable* — This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

  The West Virginia State Legislature ("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 State Legislature.

- *Restricted Net Assets — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The

College does not have any restricted nonexpendable net assets at June 30, 2007 and 2006, respectively.

- *Unrestricted Net Assets* — This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") was pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The BTI was established by the West Virginia State Legislature and is subject to oversight by the West Virginia 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 are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, West Virginia 25305 or http://www.wvbti.com.

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

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in the State to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the West Virginia State Legislature.

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

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

Noncurrent Cash and Cash Equivalents — Cash and cash equivalents, that are (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, are classified as a noncurrent asset in the statements of net assets.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was $41,890 and $82,714 for the years ended June 30, 2007 and 2006, respectively. 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, seven years for library books, and 3 to 10 years for furniture and equipment. The College capitalizes all purchases of library books and uses a capitalization threshold of $5,000 for other capital assets. During fiscal year 2006, the College implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. The financial statements reflect all adjustments required by GASB Statement No. 42 as of June 30, 2007 and 2006.

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

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

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1½ sick-leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick-leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3⅓ years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

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

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

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

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

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and third-party insurers, the College has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums PEIA and the third-party insurers, the College has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The College has classified its revenues according to the following criteria:

- *Operating Revenues* **—** Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

- *Nonoperating Revenues* **—** Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of*

Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34, such as state appropriations and investment income. Nonoperating revenues also exclude student fees, which were billed for capital improvements.

- *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

Use of Restricted Net Assets — The College has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the College attempts to utilize restricted net assets first when practicable. The College did not have any designated net assets as of June 30, 2007 and 2006.

Federal Financial Assistance Programs — The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In 2007 and 2006, the College received and disbursed approximately $7,470,000 and $7,440,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, Academic Competitive Grant, Science Math Access to Retain Talent Grant and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2007 and 2006, the College received and disbursed approximately $2,540,000 and $2,550,000, respectively, under these federal student aid programs.

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

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

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

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

Cash Flows — Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the 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 expenses during the reporting period. Actual results could differ from those estimates.

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

Recent Statements Issued by the GASB — The GASB has 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. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the College is required to participate in this multiple employer cost-sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia 25305-0710 or hppt://www.wvpeia.com. The College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The College has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The College has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

The GASB has issued Statement No. 50. *Pensions Disclosures* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The College has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The College has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2007 and 2006, are held as follows:

2007	**Current**	**Noncurrent**	**Total**
With State Treasurer	$5,407,513	$ -	$ 5,407,513
On hand	29,040		29,040
With Trustee Bank		1,481,406	1,481,406
In bank	851,734		851,734
	$6,288,287	$1,481,406	$ 7,769,693

2006	**Current**	**Noncurrent**	**Total**
With State Treasurer	$6,124,228	$ -	$ 6,124,228
On hand	600		600
With Trustee Bank		2,911,410	2,911,410
In bank	590,918		590,918
	$6,715,746	$2,911,410	$ 9,627,156

Cash and cash equivalents with trustee banks include deposits held by the Bond Trustee for the bonds issued on September 3, 2003. The College uses WesBanco Bank (the “Trustee Bank”) as its trustee bank for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2007 and 2006, is $1,481,406 and $2,911,410, respectively, and was invested in commercial papers and U.S. Treasury money market funds.

Cash and cash equivalents invested with the Trustee Bank in commercial papers and U.S. Treasury money market funds are rated AAAm by Standard and Poor’s and Aaa by Moody’s. The carrying values at June 30, 2007, of the commercial papers and U.S. Treasury money market funds are $1,094,829 and $386,577, respectively. The carrying values at June 30, 2006, of the commercial papers and U.S. Treasury Money Market Funds are $2,288,721 and $622,689, respectively. These funds have neither significant custodial credit risk nor interest rate risk. These funds are neither exposed to a concentration of credit risk nor any foreign currency risk.

The combined carrying amounts of cash in the bank at June 30, 2007 and 2006, were $851,734 and $590,918 as compared with the combined bank balance of $1,030,830 and $760,886, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2007 and 2006 are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

Cash Liquidity Pool

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the Commission may invest in, three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

	Credit Rating *		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Investments:						
Commercial paper	P1	A-1	$ 1,015,926	48.89 %	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76	61,992	3.56
	Aa3	AA	20,001	0.96		
	Aa3	A	23,002	1.11		
	Aa2	AA	15,000	0.72		
	Aa2	A	27,000	1.30		
	Aa1	AA	77,023	3.71		
	Aa	AA			55,063	3.16
	Aa	A			12,000	0.69
			261,025	12.56	129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	306,279	17.58
Negotiable certificates of deposit	P1	A-1	76,500	3.68	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	93,851	5.39
Money market funds	Aaa	AAA	185	0.01	758	0.04
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA			73,000	4.19
U.S. agency notes	Aaa	AAA	246,821	11.88	29,339	1.69
			246,821	11.88	102,339	5.88
Deposits —						
Nonnegotiable certificates of deposit	NR	NR	50,000	2.41	23,800	1.37
			$ 2,077,831	100.00 %	$ 1,741,802	100.00 %

* NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007 and 2006, the College's ownership represents 0.24% and 0.77%, respectively, of these amounts held by the BTI.

Government Money Market Pool

Credit Risk

The BTI 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. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			51,400	22.39	19,900	10.92
			$ 229,551	100.00 %	$ 182,174	100.00 %

At June 30, 2007 and 2006, the College's ownership represents 0.08% and 0.18%, respectively, of these amounts held by the BTI.

Enhanced Yield Pool

Credit Risk

The BTI limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A- by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's. The following table provides information on the credit ratings of the Enhanced Yield Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$ 42,122	18.40 %	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	1,667	0.73	2,448	0.92
	Aa3	AA	7,857	3.43		
	Aa3	A	3,905	1.70		
	Aa2	AA	950	0.41		
	Aa2	A	2,177	0.95		
	Aa1	AA	6,431	2.81		
	A3	A	6,958	3.04		
	A2	AA	747	0.33		
	A2	A	8,188	3.58		
	A1	AA	3,034	1.32		
	A1	A	10,706	4.68		
	Aa	AA			3,790	1.43
	Aa	A			15,660	5.90
	A	AA			3,048	1.15
	A	A			46,847	17.65
			52,620	22.98	71,793	27.05
U.S. agency bonds	Aaa	AAA	46,075	20.13	87,215	32.86
U.S. Treasury bills	Aaa	AAA			58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41		
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13		
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA			1,346	0.51
U.S. angency notes	Aaa	AAA	20,485	8.95		
			20,485	8.95	1,346	0.51
			$ 228,920	100.00 %	$ 265,384	100.00 %

At June 30, 2007 and 2006, the College's ownership represents 0.12% and 2.63%, respectively, of these amounts held by the BTI.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted-average maturities of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities for the various asset types in the Cash Liquidity Pool:

	2007		2006	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 246,821	2	$ 102,339	3
U.S. Treasury bills	358,725	30	306,279	32
Commercial paper	1,015,926	52	943,057	25
Certificates of deposit	126,500	76	122,800	105
U.S. agency discount notes	21,655	113	93,851	89
Corporate notes	261,025	58	129,055	77
U.S. agency bonds/notes	46,994	156	43,663	208
Money market funds	185	1	758	1
	$ 2,077,831	48	$ 1,741,802	42

The overall weighted-average maturities of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted-average maturities for the various asset types in the Government Money Market Pool:

Security Type	2007 Carrying Value (In Thousands)	2007 WAM (Days)	2006 Carrying Value (In Thousands)	2006 WAM (Days)
Repurchase agreements	$ 51,400	2	$ 19,900	3
U.S. Treasury bills	36,379	29	28,346	42
U.S. agency discount notes	74,143	106	112,399	39
U.S. agency bonds/notes	67,620	60	21,420	152
Money market funds	9	1	109	1
	$ 229,551	49	$ 182,174	49

The overall weighted-average maturities of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted-average maturities for the various asset types in the Enhanced Yield Pool:

Security Type	2007 Carrying Value (In Thousands)	2007 WAM (Days)	2006 Carrying Value (In Thousands)	2006 WAM (Days)
Repurchase agreements	$ 20,485	2	$ 1,346	3
U.S. Treasury bonds/notes	55,877	1,092	58,067	894
Corporate notes	52,620	557	71,793	588
Corporate asset-backed securities	42,122	421	46,963	688
U.S. agency bonds/notes	46,075	927	87,215	594
U.S. agency mortgage-backed securities	11,741	814		
	$ 228,920	700	$ 265,384	672

Other Investment Risks

Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name of one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at $50,000,000, which represents 2.41% of the pool's assets. The BTI does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, are as follows:

	2007	2006
Student tuition and fees, net of allowance for doubtful accounts of $952,207 and $755,525 in 2007 and 2006, respectively	$ 499,592	$ 573,270
Due from West Virginia agencies	3,216	100,499
Due from the Commission	32,832	22,298
	$ 535,640	$ 696,067

5. CAPITAL ASSETS

Capital asset transactions for the years ended June 30, 2007 and 2006, are as follows:

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 100,000	$ 8,777	$ -	$ 108,777
Construction in progress	5,014,158	2,513,610	5,932,009	1,595,759
Total capital assets not being depreciated	$ 5,114,158	$ 2,522,387	$ 5,932,009	$ 1,704,536
Other capital assets:				
Infrastructure	$ 3,470,543	$ 702,077	$ -	$ 4,172,620
Buildings	47,629,641	6,812,039	15,000	54,426,680
Equipment	5,343,752	1,045,476	278,816	6,110,412
Leased equipment	361,549			361,549
Library books	2,274,875	14,336	80,173	2,209,038
Total other capital assets	59,080,360	8,573,928	373,989	67,280,299
Less accumulated depreciation for:				
Infrastructure	251,970	208,623		460,593
Buildings	17,927,702	1,085,982	15,000	18,998,684
Equipment	3,635,925	514,379	277,771	3,872,533
Leased equipment	309,434	45,048		354,482
Library books	1,496,669	317,450	80,173	1,733,946
Total accumulated depreciation	23,621,700	2,171,482	372,944	25,420,238
Other capital assets — net	$ 35,458,660	$ 6,402,446	$ 1,045	$ 41,860,061
Capital asset summary:				
Capital assets not being depreciated	$ 5,114,158	$ 2,522,387	$ 5,932,009	$ 1,704,536
Other capital assets	59,080,360	8,573,928	373,989	67,280,299
Total cost of capital assets	64,194,518	11,096,315	6,305,998	68,984,835
Less accumulated depreciation	23,621,700	2,171,482	372,944	25,420,238
Capital assets — net	$ 40,572,818	$ 8,924,833	$ 5,933,054	$ 43,564,597

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 100,000	$ -	$ -	$ 100,000
Construction in progress	4,625,408	6,346,602	5,957,852	5,014,158
Total capital assets not being depreciated	$ 4,725,408	$ 6,346,602	$5,957,852	$ 5,114,158
Other capital assets:				
Infrastructure	$ 630,420	$ 2,840,123	$ -	$ 3,470,543
Buildings	44,193,185	3,436,456		47,629,641
Equipment	4,663,951	717,513	37,712	5,343,752
Leased equipment	361,549			361,549
Library books	2,338,675	21,700	85,500	2,274,875
Total other capital assets	52,187,780	7,015,792	123,212	59,080,360
Less accumulated depreciation for:				
Infrastructure	78,452	173,518		251,970
Buildings	17,022,402	905,300		17,927,702
Equipment	3,251,784	421,853	37,712	3,635,925
Leased equipment	263,015	46,419		309,434
Library books	1,254,758	327,411	85,500	1,496,669
Total accumulated depreciation	21,870,411	1,874,501	123,212	23,621,700
Other capital assets — net	$30,317,369	$ 5,141,291	$ -	$35,458,660
Capital asset summary:				
Capital assets not being depreciated	$ 4,725,408	$ 6,346,602	$5,957,852	$ 5,114,158
Other capital assets	52,187,780	7,015,792	123,212	59,080,360
Total cost of capital assets	56,913,188	13,362,394	6,081,064	64,194,518
Less accumulated depreciation	21,870,411	1,874,501	123,212	23,621,700
Capital assets — net	$35,042,777	$11,487,893	$5,957,852	$40,572,818

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

The College has construction commitments of approximately $700,000 as of June 30, 2007.

6. CHANGES IN LONG-TERM LIABILITIES

Long-term obligation transactions for the College for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds payable:					
Revenue bonds payable	$ 13,005,000	$ -	$ (365,000)	$ 12,640,000	$ 380,000
Discount on issuance	(154,060)		7,358	(146,702)	
Total bonds payable — net	12,850,940	-	(357,642)	12,493,298	
Capital leases payable	984,540		(353,429)	631,111	362,060
Other long-term liabilities:					
Accrued compensated absences	2,493,562		(224,963)	2,268,599	553,311
Advances from federal sponsors	1,546,644	47,808		1,594,452	
Debt obligation to Commission	3,896,924	598,273	(325,457)	4,169,740	348,878
Total long-term liabilities	$ 21,772,610	$ 646,081	$ (1,261,491)	$ 21,157,200	

	2006				
	Beginning Balance	**Additions**	**Reductions**	**Ending Balance**	**Current Portion**
Bonds payable:					
Revenue bonds payable	$ 13,360,000	$ -	$ (355,000)	$ 13,005,000	$ 365,000
Discount on issuance	(161,416)		7,356	(154,060)	
Total bonds payable — net	13,198,584	-	(347,644)	12,850,940	
Capital leases payable	1,342,420		(357,880)	984,540	353,429
Other long-term liabilities:					
Accrued compensated absences	2,626,316		(132,754)	2,493,562	608,180
Advances from federal sponsors	1,531,396	15,248		1,546,644	
Debt obligation to Commission	4,116,917		(219,993)	3,896,924	225,457
Total long-term liabilities	$ 22,815,633	$ 15,248	$ (1,058,271)	$ 21,772,610	

7. BONDS PAYABLE

Bonds payable at June 30, 2007 and 2006, are summarized as follows:

	Interest Rate	**Annual Principal Installment Due**	**2007 Principal Amount Outstanding**	**2006 Principal Amount Outstanding**
Capital Improvements 2003:				
Series A Due 2028	3.750%–6.125%	$215,000 to 650,000	$ 8,090,000	$ 8,295,000
Series B Due 2018	4.125–5.625	$70,000 to 120,000	1,010,000	1,080,000
Series C Due 2028	3.750–6.000	$95,000 to 285,000	3,540,000	3,630,000
			12,640,000	13,005,000
Discount			(146,702)	(154,060)
			$ 12,493,298	$ 12,850,940

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

A summary of the annual aggregate principal payments for years subsequent to June 30, 2007, is as follows:

Years Ending June 30	Principal	Interest	Total
2008	$ 380,000	$ 711,811	$ 1,091,811
2009	400,000	697,561	1,097,561
2010	420,000	678,968	1,098,968
2011	435,000	659,233	1,094,233
2012	460,000	638,503	1,098,503
2013–2017	2,690,000	2,817,585	5,507,585
2018–2022	3,015,000	2,013,430	5,028,430
2023–2027	3,905,000	1,025,738	4,930,738
2028	935,000	56,913	991,913
Total	$12,640,000	$ 9,299,742	$21,939,742

8. CAPITAL LEASE OBLIGATIONS

The College leases various equipment and building improvements. These obligations are accounted for as capital leases. As of June 30, 2007, the schedule by year of future annual minimum payments required under the lease obligations is as follows:

Years Ending June 30	Total
2008	$ 385,035
2009	219,757
2010	55,044
Less interest	(28,725)
Total	$ 631,111

9. COMPENSATED ABSENCES

The composition of the compensated absence liability at June 30, 2007 and 2006, are as follows:

	2007	2006
Health or life insurance benefits	$1,566,615	$1,834,098
Accrued vacation leave	701,984	659,464
	$2,268,599	$2,493,562

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2007 and 2006, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately $105,588 and $161,427, respectively. As of June 30, 2007 and 2006, there were 67 and 69 retirees, respectively, currently eligible for these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The College received $116,954 and $2 million of these funds for the year ended June 30, 2007 and 2006, respectively. State lottery funds will be used to repay the debt, although College revenues are pledged if lottery funds prove insufficient.

For the years ended June 30, 2007 and 2006, the debt services assessed are as follows:

	2007	2006
Principal	$ 225,457	$ 219,993
Interest	191,760	199,748
Other	286,860	294,514
	$ 704,077	$ 714,255

In December 2006, the Commission provided a noninterest-bearing loan of $500,000 to the College, payable beginning June 2007 in five annual installments of $100,000. The College has paid one installment on this loan leaving a balance of $400,000 at June 30, 2007.

11. RETIREMENT PLANS

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2007, 2006, and 2005, were $1,144,454, $1,115,570, and $1,063,742, respectively, which consisted of contributions of $572,227 from the College and $572,227 from the earned covered employees in 2007, $578,314 from the College and $557,785 from the covered employees in 2006, and $531,871 from the College and $531,871 from the covered employees in 2005.

The STRS is a cost-sharing, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2007 and 2006, respectively. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2007 and 2006, respectively. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2007, 2006, and 2005, were $152,468, $158,329, and $180,489, respectively, which consisted of $108,438, $113,092, and $127,455 from the College in 2007, 2006, and 2005, respectively, and $44,030, $45,237, and $53,034 from the covered employees in 2007, 2006, and 2005, respectively.

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

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

Total contributions to the Great West Retirement Services ("Great West") for the years ended June 30, 2007, 2006, and 2005, were $3,862, $4,682, and $3,500, respectively, which consisted of contributions of $1,931 from the College and $1,931 from the covered employees in 2007, $2,341 from the College and $2,341 from the covered employees in 2006, and $1,750 from the College and $1,750 from the covered employees in 2005.

The College's total payroll for the years ended June 30, 2007 and 2006, was $11,406,938 and $11,020,872, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, Teacher Define, and Great West were $733,835, $9,537,109, $31,772, and $32,183, and $753,952, $10,198,417, $29,482, and $39,021, in 2007 and 2006, respectively.

12. FOUNDATION

The West Liberty State College Foundation, Incorporated (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 College and its affiliated nonprofit organizations…" Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the College. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the College does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the College by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the College, the Foundation is considered a component unit of the College and is therefore discretely presented with the College's financial statements in accordance with GASB Statement No. 39.

During the years ended June 30, 2007 and 2006, the Foundation contributed $399,337 and $301,457, respectively, to the College for scholarships.

13. CONTINGENCIES

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

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

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

14. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

	2007			2006		
	Dormitory 2003A	College Union 2003B	Capital Improvement 2003C	Dormitory 2003A	College Union 2003B	Capital Improvement 2003C
Condensed Statement of Net Assets as of June 30						
Assets:						
Current assets	$ 552,379	$ 179,217	$ 652,698	$ 487,067	$ 146,682	$ 529,970
Noncurrent assets	8,920,778	1,377,666	3,739,707	8,713,349	1,396,868	4,199,797
Total assets	$9,473,157	$1,556,883	$4,392,405	$9,200,416	$1,543,550	$4,729,767
Liabilities:						
Current liabilities	$ 638,027	$ 74,049	$ 110,981	$ 351,387	$ 74,261	$ 514,553
Noncurrent liabilities	7,782,969	931,422	3,398,907	7,993,585	1,000,642	3,491,713
Total liabilities	8,420,996	1,005,471	3,509,888	8,344,972	1,074,903	4,006,266
Net assets (deficit):						
Invested in capital assets — net of related debt	(159,280)	261,188	(57,565)	(289,295)	211,174	(94,017)
Restricted — debt service	695,358	114,936	302,972	694,851	114,972	303,517
Unrestricted	516,083	175,288	637,110	449,888	142,501	514,001
Total net assets	1,052,161	551,412	882,517	855,444	468,647	723,501
Total net assets and liabilities	$9,473,157	$1,556,883	$4,392,405	$9,200,416	$1,543,550	$4,729,767
Condensed Statement of Revenues, Expenses, and Changes in Net Assets for the Year Ended June 30						
Operating:						
Operating revenues	$ 742,880	$ 161,894	$ 414,686	$ 692,278	$ 176,263	$ 415,205
Operating expenses	1,714	6,466	201	21,096	9,450	
Net operating income	741,166	155,428	414,485	671,182	166,813	415,205
Nonoperating:						
Nonoperating revenues	69,596	6,348	18,137	113,609	234,739	59,429
Nonoperating expenses	(614,045)	(79,011)	(273,606)	(495,532)	(55,835)	(228,732)
Net nonoperating (expense) income	(544,449)	(72,663)	(255,469)	(381,923)	178,904	(169,303)
Net increase in net assets	196,717	82,765	159,016	289,259	345,717	245,902
Net assets — beginning of year	855,444	468,647	723,501	566,185	122,930	477,599
Net assets — end of year	$1,052,161	$ 551,412	$ 882,517	$ 855,444	$ 468,647	$ 723,501
Condensed Statement of Cash Flows for the Year Ended June 30						
Net cash provided by operating activities	$ 741,166	$ 155,428	$ 414,485	$ 671,182	$ 166,813	$ 415,205
Net cash used in capital and related financing activities	(675,854)	(122,893)	(291,757)	(678,354)	(132,859)	(295,126)
Net increase (decrease) in cash and cash equivalents	65,312	32,535	122,728	(7,172)	33,954	120,079
Cash and cash equivalents — beginning of year	487,067	146,682	529,970	494,239	112,728	409,891
Cash and cash equivalents — end of year	$ 552,379	$ 179,217	$ 652,698	$ 487,067	$ 146,682	$ 529,970

15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2007 and 2006, the following table represents operating expenses within both natural and functional classifications:

2007	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	$ 5,834,015	$ 1,246,932	$ 815,737	$ 67,327	$ -	$ -	$ -	$ -	$ 7,964,011
Research	167,335	21,300	118,480						307,115
Public service			150						150
Academic support	993,117	235,744	191,158						1,420,019
Student services	1,126,149	275,086	358,273	691					1,760,199
General institutional support	1,549,762	661,108	1,241,124	13,921					3,465,915
Operations and maintenance of plant	574,794	177,960	769,438	939,257					2,461,449
Student financial aid					1,458,632				1,458,632
Auxiliary enterprises	1,161,766	279,625	3,428,296	401,578					5,271,265
Depreciation						2,171,482			2,171,482
Other							17,808	153,574	171,382
Total	$11,406,938	$ 2,897,755	$ 6,922,656	$1,422,774	$1,458,632	$ 2,171,482	$17,808	$153,574	$26,451,619

2006	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	$ 5,557,966	$ 1,127,425	$ 744,508	$ 40,526	$ -	$ -	$ -	$ -	$ 7,470,425
Research	195,197	16,744	155,692						367,633
Public service			145						145
Academic support	1,033,553	223,262	160,620						1,417,435
Student services	1,011,131	230,456	317,420	720					1,559,727
General institutional support	1,567,478	599,145	1,178,172	16,354					3,361,149
Operations and maintenance of plant	571,273	172,864	712,437	763,367					2,219,941
Student financial aid					1,113,172				1,113,172
Auxiliary enterprises	1,084,274	247,985	2,768,164	512,966					4,613,389
Depreciation						1,874,501			1,874,501
Other							23,068	165,185	188,253
Total	$11,020,872	$ 2,617,881	$ 6,037,158	$1,333,933	$1,113,172	$ 1,874,501	$23,068	$165,185	$24,185,770

16. COMPONENT UNIT'S DISCLOSURE

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

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

Summary of Significant Accounting Policies:

Basis of Accounting — The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

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

Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted. Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for College support according to the restriction are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation. Assets and contributions for which the donor stipulates that resources be maintained permanently, but permits the Foundation to use or expend part or all of the income derived from the donated assets, are permanently restricted. Such assets are comprised of endowment accounts which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. The investment income, including realized and unrealized gains and losses, are recorded as temporarily restricted until disbursed according to the term of the gift instrument.

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

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 certain reporting amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions — Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

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

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

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

Split-Interest Agreements **—** Split-interest agreements consist of beneficial interest in perpetual trusts and charitable gift annuities.

> *Beneficial Interest In Perpetual Trust* — The Foundation was bequeathed a beneficial interest in a perpetual trust established at a local bank in accordance with a decedent's will. Under the terms of this split-interest agreement, the Foundation is to receive distributions of 10% of the income from the trust in perpetuity. These distributions are to be used to establish an endowment, the income from which will be used to provide scholarships. The Foundation's beneficial interest is valued in the financial statements at 10% of the fair market value of the trust assets. Adjustments due to changes in the market value of the trust assets are recorded as changes in value of split-interest agreements. Distributions received from the trust are permanently restricted for endowed scholarships and are recorded as permanently restricted investment income.
>
> *Charitable Gift Annuities* — The Foundation participates in charitable gift annuity agreements with certain donors. Under these agreements, temporarily restricted contribution revenue is recorded when donors transfer assets to the Foundation. The amount of revenue recognized is the difference between the fair market value of the assets received and the liability calculated at the net present value of the estimated future payments to the beneficiaries over their life expectancies. In estimating the net present value of the liability, the Foundation uses life expectancy information prepared by American Council on Gift Annuities and discount rates ranging from 4.5% to 7.75%.

Fixed Assets — The Foundation's fixed assets consist of a vehicle which is carried at cost. Depreciation is computed on the straight-line method with an estimated useful life of five years.

Cash and Cash Equivalents — For purposes of the statements of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Money market funds included in noncurrent investments are not considered cash equivalents.

Unconditional Promises to Give — Unconditional promises to give at June 30, 2007 and 2006, are as follows:

	2007	2006
Receivable in one year	$ 133,938	$ 134,042
Receivable in two to five years	98,383	122,873
Receivable in six to ten years	17,500	27,500
Total unconditional promises to give	249,821	284,415
Less discount to net present value	(16,871)	(29,385)
Net unconditional promises to give	$ 232,950	$ 255,030

Investments — The cost and estimated fair values of investments at June 30, 2007 and 2006, are as follows:

	2007		2006	
	Estimated Fair Value	Cost	Estimated Fair Value	Cost
Corporate bonds and notes	$ 323,378	$ 350,477	$ 276,496	$ 300,013
United States Treasury, government agency, and other government obligations	1,141,947	1,149,188	1,228,785	1,249,206
Equity securities	4,714,573	3,239,807	5,196,879	4,177,376
Mutual funds	4,156,544	3,901,106	1,014,456	1,037,741
Real estate held for sale	356,278	356,278	357,278	357,278
	$ 10,692,720	$ 8,996,856	$ 8,073,894	$ 7,121,614

Interest and dividends from investments are recorded net of investment expenses of $26,140 and $23,587 in 2007 and 2006, respectively.

Investments include securities held to satisfy charitable gift annuity agreements at June 30, 2007 and 2006, as follows:

	2007	2006
Fair value	$ 152,108	$ 122,463
Cost	$ 127,676	$ 107,606

Split-interest Agreements — The transactions affecting the beneficial interest in the perpetual trust for the years ended June 30, 2007 and 2006, are summarized as follows:

	2007	2006
Distributions received from the trust recorded as permanently restricted investment income	$ 96,052	$ 94,659
Change in value of the split interest agreement	$ 159,281	$ 8,175

Fixed Assets — At June 30, 2007 and 2006, fixed assets consist of the following:

	2007	2006
Vehicle	$ 19,446	$ 19,446
Accumulated depreciation	(14,579)	(10,690)
Fixed assets — net	$ 4,867	$ 8,756

Note Payable — At June 30, 2007 and 2006, note payable consist of the following:

	2007	2006
Bank loan (6.14%, due March 2007, monthly payment $458, secured by vehicle)	$ -	$ 4,004

Interest paid and incurred included in the statements of activities for the years ended June 30, 2007 and 2006, was $65 and $356, respectively.

Temporarily and Permanently Restricted Net Assets — Net assets were temporarily restricted for the following purposes at June 30, 2007:

	Temporarily Restricted	Permanently Restricted
Scholarships	$ 4,184,518	$ 8,565,196
Sponsored projects	515,171	
Capital projects	244	
Total	$ 4,699,933	$ 8,565,196

Related-Party Transactions — The College, through its Office of Development, provides facilities and administrative services to the Foundation in exchange for which the Foundation pays a fee equivalent to the salary and benefits of certain staff positions within the Office of Development. Fundraising, general, and administrative expenses included $180,988 and $195,256 in 2007 and 2006, respectively, for these expenses.

Supplemental Cash Flow Information — The Foundation had the following noncash transactions in the years ended June 30, 2007 and 2006:

	2007	2006
Noncash contributions received:		
Professional services	$ 23,997	$ 22,458
Property and equipment for use by the College	31,169	29,171
Real estate held for sale		376,000
Investment securities	1,490,595	21,648
	$ 1,545,761	$ 449,277

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

To the Governing Board of
West Liberty State College:

We have audited the financial statements of West Liberty State College (the "College") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 8, 2007, which states reliance on other auditors for the discretely presented component unit. We conducted our audit of the College in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the College's discretely presented component unit was conducted 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 College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our 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 Liberty State College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

October 8, 2007