

**West Virginia  
School of Osteopathic Medicine**

Financial Statements  
Years Ended June 30, 2007 and 2006  
and  
Independent Auditors' Reports

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
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## INDEPENDENT AUDITORS' REPORT

Governing Board  
West Virginia School of Osteopathic Medicine  
Lewisburg, West Virginia

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), as of June 30, 2007 and 2006, and for the years then ended, which collectively comprise WVSOM's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of WVSOM. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc. (a component unit of WVSOM). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc., is based solely on the report of the 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 financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc., which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WVSOM's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of WVSOM as of June 30, 2007 and 2006, and the respective changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of WVSOM's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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



Charleston, West Virginia  
October 8, 2007



# West Virginia School of Osteopathic Medicine

400 North Lee Street  
Lewisburg, West Virginia 24901

## Management's Discussion and Analysis Fiscal Year 2007 Financial Statements

### Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine ("WVSOM") is proud to present its financial statements for fiscal year 2007, with fiscal year 2006 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WVSOM's financial statements provides an overview of its financial activities for the year and is required supplemental information.

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

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated are discretely presented as part of WVSOM's financial statements for the fiscal years ended June 30, 2007 and 2006.

### Statement of Net Assets

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

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

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

Net assets are divided into three major categories. The first category, invested in capital assets net of related debt, represents equity in the property, plant and equipment owned by WVSOM. The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets, the balances that had been restricted by the West Virginia Legislature (“Legislature”) were removed by State Code and moved to the unrestricted category in fiscal year 2005. These activities were fundamental to the normal ongoing operations of WVSOM and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WVSOM.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
<b>Assets:</b>			
Current assets	\$ 14,822	\$ 12,112	\$ 13,565
Other non-current assets	4,859	4,573	4,613
Capital assets, net	<u>38,149</u>	<u>35,768</u>	<u>26,166</u>
<b>Total assets</b>	<u>57,830</u>	<u>52,453</u>	<u>44,344</u>
<b>Liabilities</b>			
Current liabilities	5,023	5,136	4,308
Non-current liabilities	<u>3,215</u>	<u>3,326</u>	<u>3,336</u>
<b>Total liabilities</b>	<u>8,238</u>	<u>8,462</u>	<u>7,644</u>
<b>Net assets</b>			
Invested in capital assets	38,149	35,768	26,166
Restricted - expendable	4,567	4,481	4,371
Restricted - nonexpendable	46	46	46
Unrestricted	<u>6,830</u>	<u>3,696</u>	<u>6,117</u>
<b>Total net assets</b>	<u>\$ 49,592</u>	<u>\$ 43,991</u>	<u>\$ 36,700</u>



In fiscal years 2007 and 2006, the total assets of WVSOM increased by \$5.4 million and \$8.1 million, respectively. The changes described below represent the majority of this increase in 2007:

- Current assets increased by \$2.7 million with the cash and cash equivalents comprising the majority of the increase of \$2.7 million.
- Noncurrent assets increased by approximately \$2.7 million primarily due to the continuing WVSOM capital building initiative that is discussed in greater detail in the Capital Asset and Debt Administration section of the MD&A.

In fiscal year 2007, total liabilities decreased by \$225 thousand while in fiscal year 2006 they increased by \$818 thousand. The changes described below represent the majority of the decrease in 2007:

- Current liabilities for the year decreased by \$113 thousand primarily due to the following: a significant decrease in accounts payable which was offset by an increase in accrued liabilities (arrears payroll), an increase in compensated absences and an increase in deferred revenue collections from enrollment fees which reflects a seven percent fee increase.
- Noncurrent liabilities decreased only \$111 thousand because of a slight decrease in our compensated absences.

The ratio of current assets to current liabilities for fiscal years 2007 and 2006 is 3:1 and 2.4:1 respectively. This change reflects a decision made by WVSOM to defer investing in capital assets in the short term regarding new construction projects.

For fiscal years 2007 and 2006, net assets increased approximately \$5.6 million and \$7.3 million respectively.

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

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

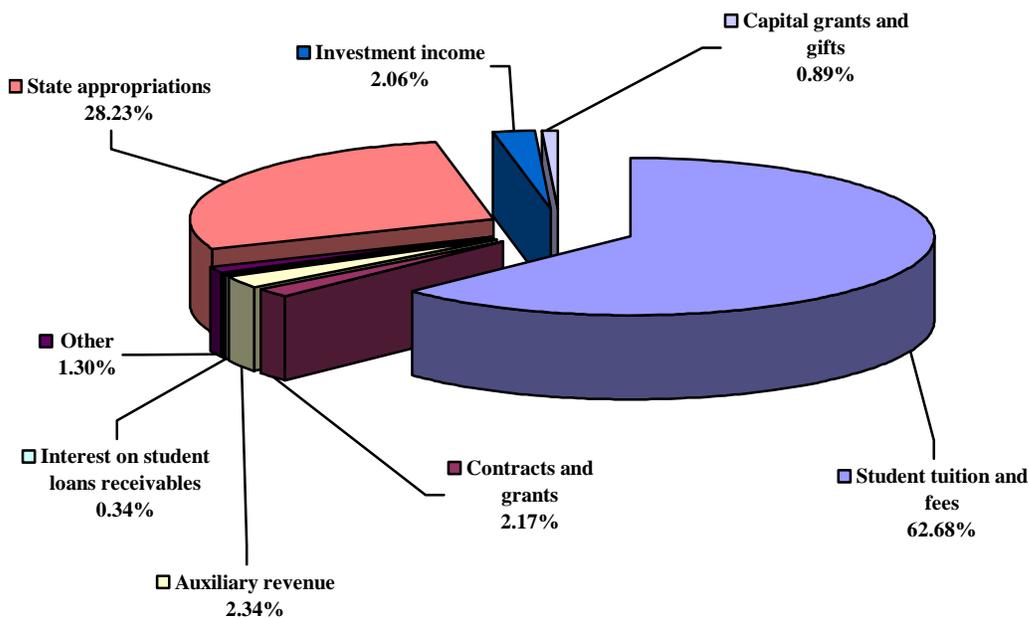
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WVSOM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

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Operating revenues	\$ 18,018	\$ 12,775	\$ 10,661
Operating expenses	<u>20,576</u>	<u>16,494</u>	<u>15,721</u>
Operating loss	(2,558)	(3,719)	(5,060)
Non-operating revenues - net	<u>7,925</u>	<u>7,288</u>	<u>7,084</u>
Income before other revenues, expenses, gains or losses	5,367	3,569	2,024
Other revenues, expenses, gains or losses	<u>234</u>	<u>3,722</u>	<u>2,739</u>
Increase in net assets	5,601	7,291	4,763
Net assets, beginning of year	<u>43,991</u>	<u>36,700</u>	<u>31,937</u>
Net assets, end of year	<u>\$ 49,592</u>	<u>\$ 43,991</u>	<u>\$ 36,700</u>

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

**FY2007 Total Revenues Operating, Nonoperating, and Capital**



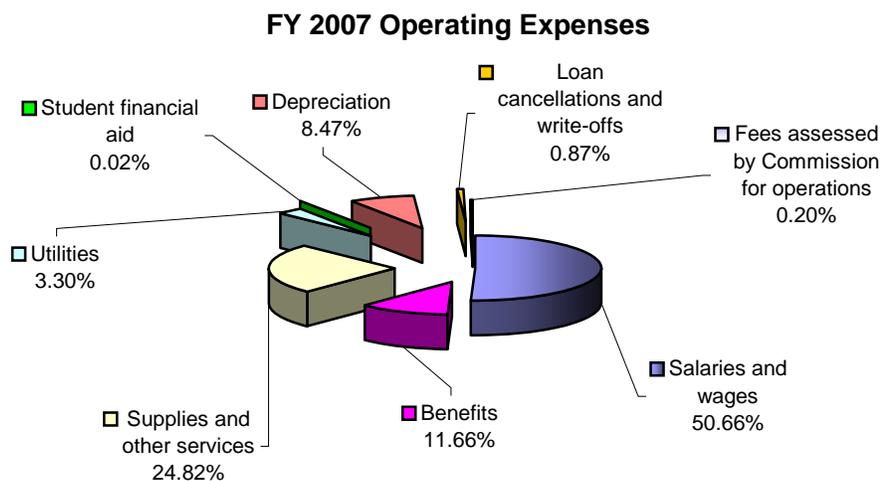
In fiscal year 2007, total operating revenues increased by approximately \$5.2 million, compared to an increase of \$2.1 million in fiscal year 2006. The following explain the increase in operating revenues in fiscal year 2007:

- Student tuition and fees (net of scholarship allowance) increased by \$5.4 million and made up 91.1% of WVSOM's operating revenues and, as the pie chart shows, 62.7% of total revenues. Tuition and fee revenues increased over the previous year because WVSOM increased its entering class size by 100 students making the new entering class size 200 and both resident and non-resident enrollment fees were increased by 7%.
- Other operating revenues such as noncapital grants and contracts, auxiliary enterprises and other operating revenues had a net decrease of \$178 thousand primarily because the capital fee allocation previously received from the Commission is now part of WVSOM's nonoperating general revenue appropriation. These other operating revenue sources comprise 8.9% of WVSOM's operating revenues and 6.2% of total revenues.

In fiscal year 2007, nonoperating revenues increased by approximately \$637 thousand, compared to an increase of approximately \$204 thousand in fiscal year 2006. The increase in fiscal year 2007 was primarily the result of the following: an increase in State appropriations of \$404 thousand of which \$308 thousand was to replace the capital fee allocation from the Commission; an increase of \$145 thousand in investment income, and a \$89 thousand reduction on the loss on disposal of capital assets. State appropriations accounted for 28.2% of total revenues and were used to support the operations of WVSOM. Investment income made up a relatively small piece of the nonoperating revenues and was slightly more than 2.1% of total operating and nonoperating revenues in fiscal year 2007. WVSOM participates in the investment pool managed by the State.

Other revenues, expenses, gains or losses, which consist of capital grants, gifts, and projects, decreased by approximately \$3.5 million in fiscal year 2007, while in fiscal year 2006 they increased by approximately \$983,000. Capital grants, gifts, and projects made up 0.9% of fiscal year 2007 total revenues.

In fiscal year 2007, net assets increased approximately \$5.6 million while in fiscal year 2006 the increase was slightly more than \$7.3 million.



Total operating expenses for fiscal year 2007 increased by approximately \$4.1 million, compared with an increase of approximately of \$772 thousand in fiscal year 2006. The increase in fiscal year 2007 was primarily the result of preparing for the increased class of 200 students plus the following actions:

- The salaries and wages and employee benefits categories increased by \$1.7 million and made up approximately 62.3% of the operating expenses of WVSOM. A pool of money equal to 5% of the base salaries of all filled faculty, classified, and non-classified positions was made available to distribute to each group of employees. Faculty increases were distributed in accordance with the WVSOM faculty merit plan. Classified staff advanced at their years of service and brought the Mercer Schedule up to being fully funding. Non-classified employees received across-the-board increases. The recruiting and hiring process to increase faculty and staff positions continued to support the increased class size beginning in the fall of 2007.
- Supplies and other services increased by \$1 million and accounts for 24.8% of the operating expenses of WVSOM.
- All other expenses make up 12.9% of the total operating expenses as indicated on the pie chart. Utilities increased by 33.8% because of inflation and the addition of new buildings and loan cancellations and write-offs increased significantly because of medical education loan write offs.

### Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, cash and cash equivalents increased by approximately \$2.6 million in fiscal year 2007. This increase is primarily due to an increase in state appropriations and investment income.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash provided by (used in):			
Operating activities	\$ (532)	\$ (2,969)	\$ (3,466)
Non capital financing activities	7,392	6,978	6,963
Capital financing activities	(4,970)	(5,777)	(3,173)
Investing activities	<u>748</u>	<u>387</u>	<u>206</u>
Increase in cash and cash equivalents	2,638	(1,381)	530
Cash and cash equivalents, beginning of year	<u>10,981</u>	<u>12,362</u>	<u>11,832</u>
Cash and cash equivalents, end of year	<u>\$ 13,619</u>	<u>\$ 10,981</u>	<u>\$ 12,362</u>

## Capital Asset and Debt Administration

WVSOM had several renovation and infrastructure improvement projects completed during fiscal year 2007 that were added to our capital assets. These projects were funded from a variety of sources including WVSOM funds and bond proceeds from the HEPC. No debt was incurred.



What began as Phase I of a project to upgrade our current HVAC system which eventually will replace two gas fired, steam, water tube boiler systems in the Main Building that are approximately 50 years old, evolved into renovations in the Main Building and the Quad area as well as the HVAC upgrade. This project began in the spring of 2006, at a cost \$3.5 million, and was completed in fiscal year 2007.

Phase II of this project to upgrade the HVAC system in the rest of the Main Building and Building C was scheduled to begin in the spring of 2007. A decision was made to defer Phase II and to redirect these capital resources toward another capital asset that will begin in early spring of 2008.

As of June 30, 2007 and 2006, WVSOM has no capital debt.



## 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.

No State agencies were asked to submit State appropriation budget requests for fiscal years 2009 and 2008 below the fiscal years 2008 and 2007 base budget levels. In fiscal year 2007, both resident and non-resident enrollment fees were increased by 7.0%; while in fiscal year 2008, the increase for both resident and non-resident students was 5.0% which represents the smallest percentage increase in five years.

With problems continuing to exist in State funding as noted above, there is an urgent need to address many issues that face WVSOM including the following: the ever rising cost of tuition; improving the quality of medical education; continuing the development and implementation of a statewide campus for third and fourth year students as well as residents to keep them in the State to practice; and, having the ability to pay competitive, market level salaries in order to recruit and retain the kind of quality staff our students deserve and demand. It is widely felt on campus that by doubling the size of the entering class to 200, funding will be available to manage these issues.

Although the economic forecast for the State of West Virginia appears to be improving, the emphasis has been on reducing the State's unfunded liabilities and reducing the sales tax. The 2007 Legislature did allocate WVSOM an increase slightly in excess of 7% in its State appropriation for fiscal year 2008. WVSOM's overall financial position continues to remain strong. We feel as if we are well positioned to continue to attract, recruit, and matriculate professional medical students. Increases in the number of applicants (currently running ahead of the previous year), non-resident students, class size, and improvements in the physical plant, along with the continued favorable ranking of academic programs at the national level with peer schools indicate that WVSOM should be able to remain competitive for recruitment of new students. The April 1, 2007 issue of *U.S. News and World Report* magazine rankings of best graduate schools of 2008 has WVSOM among the top medical schools (both M.D. and D.O.) nationwide, including a #8 ranking in Rural Medicine. This marks the ninth consecutive year that WVSOM has made the *U.S. News and World Report* rankings.

WVSOM anticipates the 2008 fiscal year will be much like the last and we will continue to maintain a close watch over institutional resources to maintain the School's ability to react to unknown internal and external issues.

### **Requests for Information**

The financial report is designed to provide an overview of the finances of WVSOM for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to West Virginia School of Osteopathic Medicine at 400 North Lee Street, Lewisburg, West Virginia 24901.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF NET ASSETS  
JUNE 30, 2007 AND 2006

	ASSETS	<u>2007</u>	<u>2006</u>
Current assets:			
Cash and cash equivalents		\$ 13,619,164	\$ 10,980,763
Appropriations due from Primary Government		65,860	68,618
Accounts receivable		346,516	517,435
Due from Commission		55,840	31,129
Loans to students-current portion		443,020	326,403
Prepaid expenses		69,298	82,657
Inventories		<u>222,649</u>	<u>104,632</u>
 Total current assets		 <u>14,822,347</u>	 <u>12,111,637</u>
Noncurrent assets:			
Cash and cash equivalents		46,000	46,000
Loans to students-net of allowance of \$406,183 and \$297,184 in 2007 and 2006, respectively		4,812,539	4,527,433
Capital assets-net		<u>38,148,744</u>	<u>35,768,261</u>
 Total noncurrent assets		 <u>43,007,283</u>	 <u>40,341,694</u>
 Total assets		 <u>57,829,630</u>	 <u>52,453,331</u>
 LIABILITIES			
Current liabilities:			
Accounts payable		455,217	1,284,192
Due to Commission		762	1,121
Accrued liabilities		311,300	219,705
Compensated absences-current portion		657,063	619,920
Deferred revenue		<u>3,598,704</u>	<u>3,011,061</u>
 Total current liabilities		 <u>5,023,046</u>	 <u>5,135,999</u>
Noncurrent liabilities:			
Advances from federal sponsors		1,944,143	1,944,143
Compensated absences		<u>1,270,692</u>	<u>1,382,608</u>
 Total noncurrent liabilities		 <u>3,214,835</u>	 <u>3,326,751</u>
 Total liabilities		 <u>8,237,881</u>	 <u>8,462,750</u>
 NET ASSETS			
Invested in capital assets		<u>38,148,744</u>	<u>35,768,261</u>
Restricted for:			
Expendable:			
Research		245,670	192,922
Loans		4,075,837	3,940,677
Capital projects		<u>245,235</u>	<u>347,329</u>
 Total expendable		 <u>4,566,742</u>	 <u>4,480,928</u>
Nonexpendable		<u>46,000</u>	<u>46,000</u>
Unrestricted		<u>6,830,263</u>	<u>3,695,392</u>
 Total net assets		 <u>\$ 49,591,749</u>	 <u>\$ 43,990,581</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.  
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF FINANCIAL POSITION  
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Assets:		
Cash/checking	\$ 82,625	\$ 73,954
Accounts receivable	2,772	5,482
Short term loan receivable	4,500	12,000
Restricted cash equivalent	90,385	30,469
Restricted investments	20,805	20,050
Assets held in community foundation	181,827	88,965
Building, equipment, and vehicles, net of accumulated depreciation of \$551,372 and \$485,254, in 2007 and 2006, respectively	<u>1,782,286</u>	<u>1,848,404</u>
Total assets	<u>\$ 2,165,200</u>	<u>\$ 2,079,324</u>

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable	\$ 13,511	\$ 2,752
Short term notes payable	30,000	-
Security deposits	600	1,400
Accrued expenses	7,000	6,981
Custodial funds	<u>128,574</u>	<u>125,065</u>
Total liabilities	<u>179,685</u>	<u>136,198</u>
Net assets:		
Permanently restricted	207,284	131,533
Temporarily restricted	6,521	600
Unrestricted	<u>1,771,710</u>	<u>1,810,993</u>
Total net assets	<u>1,985,515</u>	<u>1,943,126</u>
Total net assets and liabilities	<u>\$ 2,165,200</u>	<u>\$ 2,079,324</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS  
 YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowance of \$708,968 and \$488,264 in 2007 and 2006, respectively	\$ 16,410,215	\$ 10,987,883
Contracts and grants:		
Federal	64,541	63,209
State	164,908	249,069
Private	338,241	308,413
Interest on student loans receivable	88,455	66,601
Auxiliary enterprise revenue	612,589	443,299
Fees received from the Commission	-	308,100
Miscellaneous-net	<u>339,380</u>	<u>348,416</u>
Total operating revenues	<u>18,018,329</u>	<u>12,774,990</u>
Operating expenses:		
Salaries and wages	10,423,091	8,921,106
Benefits	2,400,173	2,194,388
Supplies and other services	5,106,225	4,101,054
Utilities	678,366	507,045
Student financial aid-scholarships and fellowships	4,250	3,700
Depreciation	1,743,056	728,074
Loan cancellations and write-offs	179,991	2,865
Fees assessed by the Commission for operations	<u>40,910</u>	<u>35,650</u>
Total operating expenses	<u>20,576,062</u>	<u>16,493,882</u>
Operating loss	<u>(2,557,733)</u>	<u>(3,718,892)</u>
Nonoperating revenues (expenses):		
State appropriations	7,389,721	6,986,172
Investment income	538,545	393,470
Loss on disposal of capital assets	<u>(3,276)</u>	<u>(91,988)</u>
Net nonoperating revenues	<u>7,924,990</u>	<u>7,287,654</u>
Income before other revenues, expenses, gains, or losses	5,367,257	3,568,762
Capital grants and gifts	3	314,688
Capital projects and bond proceeds from the Commission	<u>233,908</u>	<u>3,407,569</u>
Increase in net assets	5,601,168	7,291,019
Net assets-beginning of year	<u>43,990,581</u>	<u>36,699,562</u>
Net assets-end of year	<u>\$ 49,591,749</u>	<u>\$ 43,990,581</u>

The Accompanying Notes Are An Integral  
 Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.  
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2007

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public support and revenue</u>				
Contributed services and operational expense revenue	\$ 408,854	\$ -	\$ -	\$ 408,854
Contributions	66,538	7,743	26,578	100,859
Continuing education revenue	115,159	-	-	115,159
Facility rental and function revenue	32,916	-	-	32,916
Investment revenue	3,767	-	18,175	21,942
Other revenue	<u>1,724</u>	<u>-</u>	<u>-</u>	<u>1,724</u>
Total public support and revenue	<u>628,958</u>	<u>7,743</u>	<u>44,753</u>	<u>681,454</u>
 <u>Expenses</u>				
Program services	439,140	4,684	-	443,824
Management and general	86,557	-	-	86,557
Fundraising	<u>108,684</u>	<u>-</u>	<u>-</u>	<u>108,684</u>
Total expenses	<u>634,381</u>	<u>4,684</u>	<u>-</u>	<u>639,065</u>
 Excess of (expenses over public support and revenue) public support and revenue over expenses				
	(5,423)	3,059	44,753	42,389
Transfers from (to) other funds	<u>(33,860)</u>	<u>2,862</u>	<u>30,998</u>	<u>-</u>
 (Decrease) increase in net assets				
	(39,283)	5,921	75,751	42,389
 Net assets, beginning of year				
	<u>1,810,993</u>	<u>600</u>	<u>131,533</u>	<u>1,943,126</u>
 Net assets, end of year				
	<u>\$ 1,771,710</u>	<u>\$ 6,521</u>	<u>\$ 207,284</u>	<u>\$ 1,985,515</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.  
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS  
YEAR ENDED JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public support and revenue</u>				
Contributed services and operational expense revenue	\$ 388,336	\$ -	\$ -	\$ 388,336
Contributions	50,626	24,268	-	74,894
Continuing education revenue	102,288	-	-	102,288
Facility rental and function revenue	34,341	-	-	34,341
Loss on sale of real estate	(8,723)	-	-	(8,723)
Investment revenue	394	1,093	-	1,487
Other revenue	<u>522</u>	<u>-</u>	<u>-</u>	<u>522</u>
Total public support and revenue	<u>567,784</u>	<u>25,361</u>	<u>-</u>	<u>593,145</u>
<u>Expenses</u>				
Program services	429,619	5,500	-	435,119
Management and general	89,084	-	-	89,084
Fundraising	<u>93,079</u>	<u>-</u>	<u>-</u>	<u>93,079</u>
Total expenses	<u>611,782</u>	<u>5,500</u>	<u>-</u>	<u>617,282</u>
Excess of (expenses over public support and revenue)				
public support and revenue over expenses	(43,998)	19,861	-	(24,137)
Transfers from (to) other funds	<u>6,000</u>	<u>(137,533)</u>	<u>131,533</u>	<u>-</u>
(Decrease) increase in net assets	(37,998)	(117,672)	131,533	(24,137)
Net assets, beginning of year, as originally reported	1,886,751	110,544	-	1,997,295
Prior period adjustment, correction of an error in previously issued financial statements	<u>(37,760)</u>	<u>7,728</u>	<u>-</u>	<u>(30,032)</u>
Net assets, end of year	<u>\$ 1,810,993</u>	<u>\$ 600</u>	<u>\$ 131,533</u>	<u>\$ 1,943,126</u>

The Accompanying Notes Are An Integral  
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
 STATEMENTS OF CASH FLOWS  
 YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 17,182,785	\$ 11,371,355
Contracts and grants	502,440	631,446
Payments to and on behalf of employees	(12,806,835)	(11,076,305)
Payments to suppliers	(5,247,170)	(4,107,182)
Payments to utilities	(644,672)	(517,264)
Payments for scholarships and fellowships	(4,250)	(3,700)
Loans issued to students	(1,071,509)	(700,500)
Collection of loans to students	488,395	545,162
Auxiliary enterprise charges	612,066	446,500
Debt service assessed by Commission	(40,910)	272,450
Other receipts-net	<u>497,416</u>	<u>169,111</u>
Net cash used in operating activities	<u>(532,244)</u>	<u>(2,968,927)</u>
Cash flows from noncapital financing activities:		
State appropriations	7,392,479	6,978,276
Federal Stafford loan program direct lending receipts	16,613,081	13,065,276
Federal Stafford loan program direct lending payments	<u>(16,613,081)</u>	<u>(13,065,276)</u>
Net cash provided by noncapital financing activities	<u>7,392,479</u>	<u>6,978,276</u>
Cash flows from capital financing activities:		
Capital grants and gifts received	-	4,027,545
Purchases of capital assets	<u>(4,969,575)</u>	<u>(9,805,414)</u>
Net cash used in capital financing activities	<u>(4,969,575)</u>	<u>(5,777,869)</u>
Cash flows from investing activities:		
Interest on investments	<u>747,741</u>	<u>387,379</u>
Net cash provided by investing activities	<u>747,741</u>	<u>387,379</u>
Net increase (decrease) in cash and cash equivalents	2,638,401	(1,381,141)
Cash and cash equivalents-beginning of year	<u>10,980,763</u>	<u>12,361,904</u>
Cash and cash equivalents-end of year	<u>\$ 13,619,164</u>	<u>\$ 10,980,763</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (2,557,733)	\$ (3,718,892)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	1,743,056	728,074
Loan cancellations and write-offs	179,991	2,865
Changes in assets and liabilities:		
Accounts receivable	170,919	(206,898)
Loans to students	(401,723)	18,334
Prepaid expenses	13,359	(4,650)
Inventories	(118,017)	13,947
Accounts payable	16,629	(246,663)
Accrued liabilities	(91,595)	5,683
Compensated absences	(74,773)	37,157
Deferred revenue	587,643	431,547
Advances from federal sponsors	<u>-</u>	<u>(29,431)</u>
Net cash used in operating activities	<u>\$ (532,244)</u>	<u>\$ (2,968,927)</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 1. ORGANIZATION**

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

Powers and duties 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 institutions 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.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of the Foundation are presented here with WVSOM's financial statements for the fiscal years ended June 30, 2007 and 2006. The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organization*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 12, 13 and 15).

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

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

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2005 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

- *Restricted Net Assets, Nonexpendable* - These include endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted Net Assets* - Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia 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 State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated 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 multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its respective annual report. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, West Virginia 25301 or <http://www.wvbt.com>.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); 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 (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

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

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

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

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

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

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

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

West Virginia has a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies can begin to offer coverage to private-sector employers beginning July 1, 2008 and to government employers July 1, 2012. Nearly every employer in the State, who has a payroll must have coverage. The cost of all coverage is paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

**Classification of Revenues** - WVSOM has classified its revenues according to the following criteria:

- **Operating Revenues** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- **Nonoperating Revenues** - Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income.
- **Other Revenues** - Other revenues consist primarily of capital grants and gifts.

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

**Federal Financial Assistance Programs** - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program. The activity of this program is not recorded in the accompanying financial statements. WVSOM has awarded \$16,613,081 and \$13,065,276 in 2007 and 2006, respectively, under the Federal Stafford Loan Program from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2007 and 2006, WVSOM received and disbursed \$497,318 and \$399,862, respectively, under these federal student aid programs.

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

**Income Taxes** - WVSOM is exempt from income taxes, except for unrelated business income, as a governmental instrumentality under federal income tax laws and regulations of the Internal Revenue Service as described in Section 115 of the Internal Revenue Code.

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

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

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Recent Statements Issued By the GASB* - The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after December 15, 2007. 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. Effective July 1, 2007, WVSOM is required to participate in the multiple employer cost sharing plan sponsored by the State of West Virginia. 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 <http://www.wvpeia.com>. No liability related to this plan exists for WVSOM at June 30, 2007. WVSOM 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. WVSOM 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. WVSOM 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 pensions with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. WVSOM 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*, 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. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 3. CASH AND CASH EQUIVALENTS**

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

	<u>2007</u>	<u>2006</u>
Cash on deposit with the State Treasurer/BTI	\$ 13,174,787	\$ 8,547,963
Cash in bank	488,685	2,477,957
Cash on hand	<u>1,692</u>	<u>843</u>
	<u>\$ 13,665,164</u>	<u>\$ 11,026,763</u>

Cash held by the State Treasurer includes \$816,157 in 2007 and \$1,273,493 in 2006 of restricted cash.

The combined carrying amounts of cash in bank at June 30, 2007 and 2006 were \$488,685 and \$2,477,957, respectively, as compared with the combined bank balances of \$3,058,156 and \$2,498,018, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances at June 30, 2007 and 2006 were covered by federal depository insurance or were collateralized by securities held by the State's agent.

Amounts with the State Treasurer is comprised of the following investment pools, which are subject to the following BTI policies and limits.

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 WVSOM may invest in, three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
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**NOTE 3. CASH AND CASH EQUIVALENTS (Continued)**

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):

Security Type	Credit Rating *		2007		2006	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
<b>Investments:</b>						
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	-	0.00
	Aa3	A	23,002	1.11	-	0.00
	Aa2	AA	15,000	0.72	-	0.00
	Aa2	A	27,000	1.30	-	0.00
	Aa1	AA	77,023	3.71	-	0.00
	Aa	AA	-	0.00	55,063	3.16
	Aa	A	-	0.00	12,000	0.69
			<u>261,025</u>	<u>12.56</u>	<u>129,055</u>	<u>7.41</u>
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
<b>Repurchase agreements (underlying securities):</b>						
U.S. Treasury notes	Aaa	AAA	-	0.00	73,000	4.19
U.S. agency notes	Aaa	AAA	<u>246,821</u>	<u>11.88</u>	<u>29,339</u>	<u>1.69</u>
			<u>246,821</u>	<u>11.88</u>	<u>102,339</u>	<u>5.88</u>
<b>Deposits:</b>						
Nonnegotiable certificates of deposit	NR	NR	<u>50,000</u>	<u>2.41</u>	<u>23,800</u>	<u>1.37</u>
			<u>\$ 2,077,831</u>	<u>100.00%</u>	<u>\$ 1,741,802</u>	<u>100.00%</u>

At June 30, 2007 and 2006, WVSOM's ownership represents .58% and 0.32%, respectively, of these amounts held by the BTI.

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**NOTE 3. CASH AND CASH EQUIVALENTS (Continued)**

**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):

<u>Security Type</u>	<u>Credit Rating</u>		<u>2007</u>		<u>2006</u>	
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Pool Assets</u>	<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
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	0.00	109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39	-	-
U.S. Treasury strips	Aaa	AAA	-	0.00	15,602	8.56
U.S. agency bonds	Aaa	AAA	-	0.00	4,298	2.36
			<u>51,400</u>	<u>22.39</u>	<u>19,900</u>	<u>10.92</u>
			<u>\$ 229,551</u>	<u>100.00%</u>	<u>\$ 182,174</u>	<u>100.00%</u>

At June 30, 2007 and 2006, WVSOM's ownership represents .20% and 0.07%, 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):

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**NOTE 3. CASH AND CASH EQUIVALENTS (Continued)**

<u>Security Type</u>	<u>Credit Rating</u>		<u>2007</u>		<u>2006</u>	
	<u>Moody's</u>	<u>S&amp;P</u>	<u>Carrying Value</u>	<u>Percent of Pool Assets</u>	<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
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	-	0.00
	Aa3	A	3,905	1.70	-	0.00
	Aa2	AA	950	0.41	-	0.00
	Aa2	A	2,177	0.95	-	0.00
	Aa1	AA	6,431	2.81	-	0.00
	A3	A	6,958	3.04	-	0.00
	A2	AA	747	0.33	-	0.00
	A2	A	8,188	3.58	-	0.00
	A1	AA	3,034	1.32	-	0.00
	A1	A	10,706	4.68	-	0.00
	Aa	AA	-	0.00	3,790	1.43
	Aa	A	-	0.00	15,660	5.90
	A	AA	-	0.00	3,048	1.15
	A	A	-	0.00	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	-	0.00	58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41	-	0.00
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13	-	0.00
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA	-	0.00	1,346	0.51
U.S. agency notes	Aaa	AAA	20,485	8.95	-	0.00
			20,485	8.95	1,346	0.51
			<u>\$ 228,920</u>	<u>100.00%</u>	<u>\$ 265,384</u>	<u>100.00%</u>

At June 30, 2007 and 2006, WVSOM's ownership represents .30% and 1.09%, 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 maturity 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:

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**NOTE 3. CASH AND CASH EQUIVALENTS (Continued)**

<u>Security Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
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	<u>185</u>	<u>1</u>	<u>758</u>	<u>1</u>
	<u>\$ 2,077,831</u>	<u>48</u>	<u>\$ 1,741,802</u>	<u>42</u>

The overall weighted average maturity 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:

<u>Security Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
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	<u>9</u>	<u>1</u>	<u>109</u>	<u>1</u>
	<u>\$ 229,551</u>	<u>49</u>	<u>\$ 182,174</u>	<u>49</u>

The overall weighted average maturity 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:

<u>Security Type</u>	<u>2007</u>		<u>2006</u>	
	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
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	<u>11,741</u>	<u>814</u>	<u>-</u>	<u>-</u>
	<u>\$ 228,920</u>	<u>700</u>	<u>\$ 265,384</u>	<u>672</u>

**NOTE 3. CASH AND CASH EQUIVALENTS (Continued)**

**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.

**NOTE 4. ACCOUNTS RECEIVABLE**

Accounts receivable were as follows at June 30:

	<u>2007</u>	<u>2006</u>
Student tuition and fees-no allowance deemed necessary	\$ 240,659	\$ 425,585
Grants and contracts receivable	90,117	67,387
Other accounts receivable	<u>15,740</u>	<u>24,463</u>
	<u>\$ 346,516</u>	<u>\$ 517,435</u>

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**NOTE 5. CAPITAL ASSETS**

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

	2007			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 636,289	\$ -	\$ -	\$ 636,289
Construction in progress	<u>889,358</u>	<u>-</u>	<u>(889,358)</u>	<u>-</u>
Total capital assets not being depreciated	<u>\$ 1,525,647</u>	<u>\$ -</u>	<u>\$ (889,358)</u>	<u>\$ 636,289</u>
Other capital assets:				
Land improvements	\$ 1,358,507	\$ 128,314	\$ -	\$ 1,486,821
Buildings	35,626,325	4,529,399	-	40,155,724
Equipment	4,814,198	319,555	(20,154)	5,113,599
Library books	<u>167,306</u>	<u>38,905</u>	<u>(62,736)</u>	<u>143,475</u>
Total other capital assets	<u>41,966,336</u>	<u>5,016,173</u>	<u>(82,890)</u>	<u>46,899,619</u>
Less accumulated depreciation for:				
Land improvements	(237,708)	(99,140)	-	(336,848)
Buildings	(4,594,610)	(988,170)	-	(5,582,780)
Equipment	(2,867,075)	(595,991)	16,878	(3,446,188)
Library books	<u>(24,329)</u>	<u>(59,755)</u>	<u>62,736</u>	<u>(21,348)</u>
Total accumulated depreciation	<u>(7,723,722)</u>	<u>(1,743,056)</u>	<u>79,614</u>	<u>(9,387,164)</u>
Other capital assets-net	<u>\$ 34,242,614</u>	<u>\$ 3,273,117</u>	<u>\$ (3,276)</u>	<u>\$ 37,512,455</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,525,647	\$ -	\$ (889,358)	\$ 636,289
Other capital assets	<u>41,966,336</u>	<u>5,016,173</u>	<u>(82,890)</u>	<u>46,899,619</u>
Total cost of capital assets	43,491,983	5,016,173	(972,248)	47,535,908
Less accumulated depreciation	<u>(7,723,722)</u>	<u>(1,743,056)</u>	<u>79,614</u>	<u>(9,387,164)</u>
Capital assets-net	<u>\$ 35,768,261</u>	<u>\$ 3,273,117</u>	<u>\$ (892,634)</u>	<u>\$ 38,148,744</u>

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**NOTE 5. CAPITAL ASSETS (Continued)**

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 555,833	\$ 80,456	\$ -	\$ 636,289
Construction in progress	<u>1,933,181</u>	<u>889,358</u>	<u>(1,933,181)</u>	<u>889,358</u>
Total capital assets not being depreciated	<u>\$ 2,489,014</u>	<u>\$ 969,814</u>	<u>\$ (1,933,181)</u>	<u>\$ 1,525,647</u>
Other capital assets:				
Land improvements	\$ 1,075,430	\$ 283,077	\$ -	\$ 1,358,507
Buildings	25,245,790	10,515,763	(135,228)	35,626,325
Equipment	4,587,177	528,741	(301,720)	4,814,198
Library books	<u>144,493</u>	<u>62,810</u>	<u>(39,997)</u>	<u>167,306</u>
Total other capital assets	<u>31,052,890</u>	<u>11,390,391</u>	<u>(476,945)</u>	<u>41,966,336</u>
Less accumulated depreciation for:				
Land improvements	(150,051)	(87,657)	-	(237,708)
Buildings	(4,202,141)	(519,225)	126,756	(4,594,610)
Equipment	(3,008,014)	(73,062)	214,001	(2,867,075)
Library books	<u>(16,196)</u>	<u>(48,130)</u>	<u>39,997</u>	<u>(24,329)</u>
Total accumulated depreciation	<u>(7,376,402)</u>	<u>(728,074)</u>	<u>380,754</u>	<u>(7,723,722)</u>
Other capital assets-net	<u>\$ 23,676,488</u>	<u>\$10,662,317</u>	<u>\$ (96,191)</u>	<u>\$ 34,242,614</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 2,489,014	\$ 969,814	\$ (1,933,181)	\$ 1,525,647
Other capital assets	<u>31,052,890</u>	<u>11,390,391</u>	<u>(476,945)</u>	<u>41,966,336</u>
Total cost of capital assets	33,541,904	12,360,205	(2,410,126)	43,491,983
Less accumulated depreciation	<u>(7,376,402)</u>	<u>(728,074)</u>	<u>380,754</u>	<u>(7,723,722)</u>
Capital assets-net	<u>\$ 26,165,502</u>	<u>\$11,632,131</u>	<u>\$ (2,029,372)</u>	<u>\$ 35,768,261</u>

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

At June 30, 2007, WVSOM had outstanding contractual commitments of \$112,959 for property, plant, and equipment expenditures.

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**NOTE 6. LONG-TERM LIABILITIES**

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

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,002,528	\$ -	\$ 74,773	\$ 1,927,755	\$ 657,063
Advances from federal sponsors	<u>1,944,143</u>	<u>-</u>	<u>-</u>	<u>1,944,143</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,946,671</u>	<u>-</u>	<u>\$ 74,773</u>	<u>\$ 3,871,898</u>	<u>\$ 657,063</u>
	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 1,965,371	\$ 37,157	\$ -	\$ 2,002,528	\$ 619,920
Advances from federal sponsors	<u>1,944,143</u>	<u>-</u>	<u>-</u>	<u>1,944,143</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,909,514</u>	<u>\$ 37,157</u>	<u>\$ -</u>	<u>\$ 3,946,671</u>	<u>\$ 619,920</u>

**NOTE 7. COMPENSATED ABSENCES**

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

	2007	2006
Accrued health or life insurance benefits	\$ 1,015,970	\$ 1,170,851
Accrued vacation leave	<u>911,785</u>	<u>831,677</u>
	<u>\$ 1,927,755</u>	<u>\$ 2,002,528</u>

The cost of health and life insurance benefits paid by WVSOM is based on a combination of years of service and age. For the years ended June 30, 2007 and 2006, the amount paid by WVSOM for extended health or life insurance coverage retirement benefits totaled approximately \$56,793 and \$53,178, respectively. As of June 30, 2007 and 2006, there were 24 and 18 retirees, respectively, currently eligible for these benefits.

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**NOTE 8. LEASES**

WVSOM leases various equipment under agreements reported as operating leases. The WVSOM has no noncancelable leases. As of June 30, 2007, the future annual minimum lease payments are as follows:

2008	\$ 36,328
2009	30,638
2010	<u>15,087</u>
	<u>\$ 82,053</u>

The total rent expense for this equipment for the years ended June 30, 2007 and 2006 was \$37,992 and \$74,660, respectively.

**NOTE 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS**

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

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the 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 (the "System") are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2007 and 2006.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State of West Virginia. WVSOM was approved to receive \$4.0 million of these funds to assist in financing the Center for Technology and Rural Medicine. State lottery funds will be used to repay the debt, although WVSOM revenues are pledged if lottery funds prove insufficient. As of June 30, 2007, WVSOM had drawn and expended the \$4.0 million of available bond funds.

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**NOTE 10. UNRESTRICTED NET ASSETS**

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

	<u>2007</u>	<u>2006</u>
Designated for auxiliaries	\$ 323,841	\$ 299,492
Undesignated	<u>6,506,422</u>	<u>3,395,900</u>
 Total unrestricted net assets	 <u>\$ 6,830,263</u>	 <u>\$ 3,695,392</u>

**NOTE 11. RETIREMENT PLANS**

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2007, no employees were enrolled in the Educators Money 401(a) basic retirement plan.

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

Total contributions to STRS for the year ended June 30, 2007 were \$65,223, which consisted of \$46,588 from WVSOM and \$18,635 from covered employees. Total contributions to STRS for the year ended June 30, 2006 were \$60,060, which consisted of \$42,900 from WVSOM and \$17,160 from covered employees. Total contributions to STRS for the year ended June 30, 2005 were \$54,735, which consisted of \$39,096 from WVSOM and \$15,638 from covered employees.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 11. RETIREMENT PLANS (Continued)**

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2007, 2006, and 2005 were \$1,158,452, \$998,642, and \$927,982, respectively, which consisted of equal contributions from WVSOM and covered employees of \$579,226, \$499,321, and \$463,991, in 2007, 2006, and 2005, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2007 and 2006 was \$8,755,525 and \$8,655,829, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$310,585 and \$8,444,940 in 2007, and \$286,000 and \$8,369,829 in 2006, respectively.

**NOTE 12. FOUNDATION**

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

Gifts, grants, pledges, bequests and other revenue contributed to the Foundation totaled \$153,068 and \$132,079 for the years ended June 30, 2007 and 2006, respectively.

WVSOM provided direct financial support of \$408,854 and \$388,336 for the years ended June 30, 2007 and 2006, respectively.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED)**

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

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

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2007 and 2006, the amount paid by WVSOM for instruction, office expenses, and equipment rental totaled approximately \$375,000 and approximately \$300,000, respectively. WVSOM made payments totaling approximately \$50,000 and approximately \$50,000 for the years ended June 30, 2007 and 2006, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are not publicly available.

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

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Board of Directors, as specified in the MSOPTI by-laws, which are made up of three members from WVSOM and one member from each of the eleven partner hospitals. In carrying out its responsibilities, the Board of Directors of MSOPTI employs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For the years ended June 30, 2007 and 2006, WVSOM contributed \$50,000 and \$50,000, respectively, to MSOPTI. In addition, WVSOM incurred \$121,198 and \$123,633 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2007 and 2006, respectively. The separate financial statements of MSOPTI are not publicly available.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

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**NOTE 14. CONTINGENCIES**

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

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

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

**NOTE 15. COMPONENT UNIT'S DISCLOSURES**

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

WEST VIRGINIA  
SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

**Note 1 — Description of the Organization**

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (“**the Organization**”) is a non-profit West Virginia corporation organized to promote educational opportunities and fraternal opportunities for current students and alumni of the West Virginia School of Osteopathic Medicine (“**WVSOM**”), located in Lewisburg, West Virginia. The mission statement of the Organization states, “The mission of the Organization is to serve WVSOM, its faculty, students and alumni as an additional financing source through fundraising, managing funds, and overseeing the distribution of these funds.” The Organization accomplishes this by engaging in the following principal activities:

- Rental of and services provided at a conference/meeting facility located on the campus of WVSOM.
- Providing continuing education conference opportunities.
- Solicitation of restricted and unrestricted charitable contributions.
- Investment of available liquid assets.
- Awarding to qualified students, faculty or staff of WVSOM certain grants or scholarships.

**Note 2 — Summary of Significant Accounting Policies**

Basis of Accounting

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

Financial Statement Presentation

The Organization has implemented the financial statement presentation required by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of financial statements in conformity 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 and will likely differ from those estimates.

Cash and cash equivalents

Cash and equivalents include cash, demand deposits with a financial institution and other short-term investments with original maturities of three months or less.

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. There were no pledges receivable as of June 30, 2007 and 2006.

WEST VIRGINIA  
SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

**Note 2 — Summary of Significant Accounting Policies (continued)**

**Loans Receivable**

Loans receivable amounting to \$4,500 and \$12,000 at June 30, 2007 and 2006 represent loans made to current students of WVSOM which are payable within 90 days of their issuance and accrue interest at the rate of 6 percent per annum. If the loans remain unpaid in excess of 90 days, the rate of interest payable on the loan increases to 10 percent per annum. These loans are typically made in order to provide certain students with a “funding bridge” until such time as their respective long-term tuition or other living expenses funding becomes available. No interest accrual has been reflected in the accompanying financial statements as it is undeterminable as to the ultimate amount collectible.

**Assets Held In Community Foundation**

During the 2007 fiscal year the Organization placed with the Greater Kanawha Valley Foundation (“GKVF”) certain restricted assets in the form of a “Donor Designated Sub-Fund Agreements”. The substance of these agreements provides for the income resulting from the investment of the assets to be paid back to the Organization. It further provides for the Organization to have at its discretion the ability to invade 100% of the principal (corpus) placed with GKVF. Notwithstanding this, GKVF does have variance power with respect to these funds whereby the Board of GKVF by majority vote has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations, in the sole judgment of this Board (without the approval of any trustee, custodian or agent,) such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with charitable needs of the area served by the foundation.

The financial statement presentation is determined by Statement of Financial Accounting Standard No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. It requires that if a community foundation accepts a contribution from an Agency and agrees to transfer those assets, the return on investment of those assets or both back to the Agency, then these contributions are presented as an asset in financial statements of the agency (in this case the Organization). Accordingly, the value of the assets held by GKVF as of June 30, 2007 is presented accordingly in the accompanying statement of financial position in the amount of \$181,827.

**Building, Equipment and Vehicles**

Building, equipment and vehicles are carried at cost, or if donated, at estimated fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the respective assets ranging from five to forty years using the straight-line method. The significant components of recorded value of these assets are as follows at June 30, 2007 and 2006:

<u>Description</u>	<u>2007</u>	<u>2006</u>
Building	\$ 2,285,210	\$ 2,285,210
Equipment	7,018	7,018
Vehicles	<u>41,430</u>	<u>41,430</u>
Total Cost or Donated Value	2,333,658	2,333,658
Less Accumulated Depreciation	<u>(551,372)</u>	<u>(485,254)</u>
Building, Equipment and Vehicles, Net	<u>\$ 1,782,286</u>	<u>\$ 1,848,404</u>

WEST VIRGINIA  
SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

**Note 2 — Summary of Significant Accounting Policies (continued)**

Restricted and Unrestricted Revenue and Support

The Organization follows SFAS No. 116, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when as stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets utilized for the specified purpose are accordingly reflected as expenses in the accompanying statement of activities.

Donated Goods, Facilities and Services

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received as donations revenues with a corresponding expense.

Income Taxes

There is no provision for federal or state income taxes on income since the Organization is and exempt nonprofit association under Internal Revenue Code Section 501(c)(3). Management believes there is no unrelated business taxable income associated with the Organization.

Concentrations

The Organization maintains cash in a demand deposit account with a federally insured bank. At times, the balance in the account may be in excess of federally insured limits (at June 30, 2007 and 2006 there were none). In management's opinion, the amounts, if any in excess of the federally insured limits do not pose significant risk to the Organization.

Economic Geographic and Other Dependencies

The Organization generates a significant amount of its support and revenue (including fundraising activities) from the state of West Virginia. Its economy is largely dependent upon the mineral extraction (coal), timbering, farming, and recreation/resort industries. Changes in economies of these industries could significantly influence the Organization's ability to provide its services.

The Organization is also dependent upon significant amounts of support in the form of salaries, wages and employee benefits and other operating costs provided by WVSOM. The ability or desire of WVSOM to continue to provide this support could significantly influence the Organization's ability to provide its services.

Statement of Functional Expenses

Certain expenses included in the accompanying statement of functional expenses that are not directly attributable to a specific function are allocated using the "time study method".

Restricted Cash Equivalent and Investment

Restricted cash equivalent and investment amounting to \$90,385 and \$20,805, respectively at June 30, 2007 are restricted for the sole usage of the WVSOM Alumni Association. Restricted cash equivalent and investments at June 30, 2006 were \$30,469 and \$20,050, respectively. The restricted investment represents Xerox Corporation Medium Term Notes with a maturity date of April 1, 2016 and bearing a 7.2 percent interest rate.

WEST VIRGINIA  
SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INCORPORATED  
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007 AND 2006

**Note 2 — Summary of Significant Accounting Policies (continued)**

**Custodial Liabilities**

Custodial liabilities represent funds held in trust and disbursed at the discretion various WVSOM student, faculty, alumni organizations. This liability amounted to \$128,574 and \$125,065 at June 30, 2007 and 2006.

**Note 3 – Short-Term Note Payable**

The Organization has a line of credit note payable with a commercial bank. The Line has available borrowings of \$150,000 and borrowings against this at June 30, 2007 were \$30,000. The outstanding balance accrues interest at the rate of 9.25%. This line of credit is available through July 29, 2007.

**Note 4 — Related Party Transactions**

WVSOM provides a land lease and right of way to the land on which the Organization's building is situated. This is provided under the terms of lease/right-of-way agreement dated May 24, 1994. The agreement provides for the leasing of approximately 1.4 acres on the campus of WVSOM until June 17, 2092. The lease payment due each year is one dollar. The value of this arrangement has not been recorded in the accompanying financial statements, as there is no objective basis to determine its value.

WVSOM also provides furniture, fixtures and equipment which are used in the Organization's building. The value of the usage of these items has not been recorded in the accompanying financial statements, as there is no objective basis to determine the value of their usage.

WVSOM also provides all the pay and employee benefits for the personnel who operate the Organization as well as assistance with certain operating costs. These are recorded as contributed services and operational expenses revenue and applicable expenses in the accompanying statement of activities. The total amount of the services and operating costs was \$408,854 for the year ended June 30, 2007.

**Note 5 — Potential Assessments**

During fiscal year 2005 the Organization determined that Federal Form 990 (an informational return required of nonprofit organizations from the Internal Revenue Service) had not been filed for the fiscal years ended June 30, 2001, 2002, 2003, and 2005. On August 3, 2005 these returns were filed. Subsequently, the Internal Revenue Service ("the Service") assessed a significant penalty as a result of late filing of the June 30, 2001 year ended return. This at the request of legal counsel and by showing cause was abated by the Service. However, the remaining late filed years could possibly result in significant assessments by the Service. To date no such assessments have been received and management is of the opinion that no significant liability will result should assessments be made. Accordingly, no liabilities for these potential assessments have been recorded in the accompanying financial statements.

**Note 6 – Facilities Usage By School (Unaudited)**

WVSOM uses the conference / meeting facility owned by the Organization (See Note 1) without charge for a variety of functions. It is estimated that the fair value of this usage amounted to approximately \$25,000 for the year ended June 30, 2007.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2007 AND 2006

**NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

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

	2007								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$ 5,557,518	\$ 1,178,755	\$ 2,046,886	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 8,783,159
Research	186,829	44,007	117,999	-	-	-	-	-	348,835
Public service	125,701	22,257	31,880	-	-	-	-	-	179,838
Academic support	920,136	204,901	419,385	-	-	-	-	-	1,544,422
Student services	787,539	169,101	593,109	-	-	-	-	-	1,549,749
General institutional support	2,106,313	610,984	928,636	-	-	-	-	-	3,645,933
Operations and maintenance of plant	679,012	157,887	513,090	678,366	-	-	-	-	2,028,355
Student financial aid	-	-	-	-	4,250	-	-	-	4,250
Auxiliary enterprises	60,043	12,281	455,240	-	-	-	-	-	527,564
Depreciation	-	-	-	-	-	1,743,056	-	-	1,743,056
Other	-	-	-	-	-	-	179,991	40,910	220,901
<b>Total</b>	<b>\$ 10,423,091</b>	<b>\$ 2,400,173</b>	<b>\$ 5,106,225</b>	<b>\$ 678,366</b>	<b>\$ 4,250</b>	<b>\$ 1,743,056</b>	<b>\$ 179,991</b>	<b>\$ 40,910</b>	<b>\$ 20,576,062</b>

	2006								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	
Instruction	\$ 4,613,608	\$ 1,109,669	\$ 1,370,452	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,093,729
Research	161,134	39,870	64,676	-	-	-	-	-	265,680
Public service	167,150	30,007	47,510	-	-	-	-	-	244,667
Academic support	806,141	201,277	441,834	-	-	-	-	-	1,449,252
Student services	629,247	146,081	395,516	-	-	-	-	-	1,170,844
General institutional support	1,888,499	502,978	789,507	-	-	-	-	-	3,180,984
Operations and maintenance of plant	603,850	153,350	602,033	507,045	-	-	-	-	1,866,278
Student financial aid	-	-	-	-	3,700	-	-	-	3,700
Auxiliary enterprises	51,477	11,156	389,526	-	-	-	-	-	452,159
Depreciation	-	-	-	-	-	728,074	-	-	728,074
Other	-	-	-	-	-	-	2,865	35,650	38,515
<b>Total</b>	<b>\$ 8,921,106</b>	<b>\$ 2,194,388</b>	<b>\$ 4,101,054</b>	<b>\$ 507,045</b>	<b>\$ 3,700</b>	<b>\$ 728,074</b>	<b>\$ 2,865</b>	<b>\$ 35,650</b>	<b>\$ 16,493,882</b>



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

Governing Board  
West Virginia School of Osteopathic Medicine  
Lewisburg, West Virginia

We have audited the financial statements of West Virginia School of Osteopathic Medicine (WVSOM) 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 in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered WVSOM'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 WVSOM's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of WVSOM'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 WVSOM'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 West Virginia School of Osteopathic Medicine Governing Board, management of WVSOM, and West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

*Buttle L Stalnaker, PLLC*

Charleston, West Virginia  
October 8, 2007