

# ***West Virginia State University***

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

# WEST VIRGINIA STATE UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

To the Governing Board of  
West Virginia State University:

We have audited the accompanying combined statements of net assets of West Virginia State University (the "University") as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of the West Virginia State University Research and Development Corporation (a component unit of the University) for the year ended June 30, 2007, which statements reflects total assets, total net assets, and total revenues constituting approximately 8%, 11%, and 20%, respectively, of the University. We also did not audit the discretely presented financial statements of The West Virginia State University Foundation, Incorporated (the "Foundation") (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the West Virginia State University Research and Development Corporation and the Foundation, is solely based on the reports of such auditors.

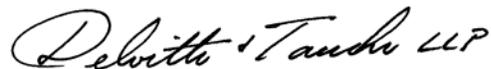
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements,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

In our opinion, based on our audits and the reports of the other auditors, such combined financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2007 and 2006, and the results of its operations and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2007, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

October 19, 2007

**West Virginia State University**  
**West Virginia State Community and Technical College**  
**West Virginia State University Foundation**  
**Management's Discussion and Analysis (Unaudited)**  
**For the Years ended June 30, 2007 and 2006**

**MISSION STATEMENT**

Founded in 1891, **West Virginia State University** is a public, land-grant, historically black university, which has evolved into a fully accessible, racially integrated, and multi-generational institution. The University, "a living laboratory of human relations," is a community of students, staff, and faculty committed to academic growth, service, and preservation of the racial and cultural diversity of the institution. Our mission is to meet higher education and economic development needs of the state and region through innovative teaching and applied research.

The undergraduate education at the University offers comprehensive and distinguished baccalaureate and associate degree programs in business, liberal arts, professional studies, sciences, and social sciences. In addition, the University provides opportunities for graduate education.

West Virginia State University offers encouragement and education through flexible course offerings in traditional classrooms, in non-traditional education settings, and through distance learning technologies. With the goal of improving the quality of our students' lives, as well as the quality of life for West Virginia's citizens, the University forges mutually beneficial relationships with other educational institutions, businesses, cultural organizations, governmental agencies, and agricultural and extension partners.

The following values guide our decisions and behavior:

- academic excellence;
- academic freedom;
- advancement of knowledge through teaching, research, scholarship, creative endeavor, and community service;
- a core of student learning that includes effective communication, understanding and analysis of the interconnections of knowledge, and responsibility for one's own learning;
- lifelong growth, development, and achievement of our students;
- development of human capacities for integrity, compassion, and citizenship;
- our rich and diverse heritage;
- personal and professional development of our faculty and staff; and
- accountability through shared responsibility and continuous improvement.

West Virginia State University is a vibrant community in which those who work, teach, live, and learn do so in an environment that reflects the diversity of America. Our comprehensive campus, which includes the West Virginia State Community and Technical College, provides numerous educational opportunities for our students. We take great pride in our accomplishments and envision building upon associate degree programs, baccalaureate education, graduate offerings, and excellence in teaching, research, and service.

## **OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

West Virginia State University (the “University”) is pleased to present the combined Financial Statements for the years ended June 2007 and 2006. The combined information also includes the administratively linked West Virginia State Community and Technical College (“WVSCTC”) and the West Virginia State University Research and Development Corporation (the “Corporation”). And for the third year the West Virginia State University Foundation is included as a discretely presented component unit.

There are three combined financial statements presented: the combined Statement of Net Assets; the combined Statement of Revenues, Expenses and Changes in Net Assets; and the combined Statement of Cash Flows.

The required supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal years ended June 30, 2007 and 2006, with the focus on 2007.

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

## **COMBINED STATEMENT OF NET ASSETS**

The purpose of the University’s Combined Statement of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net assets of the University as of June 30, 2007 and 2006.

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

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

Net assets are divided into three major types:

- Invested in Capital Assets, Net of Debt = net book value of the University’s capital assets less any related debt

- Restricted Net Assets = restricted assets categorized as:
  - a. Nonexpendable
  - b. Expendable

The University does not have any nonexpendable restricted net assets since most net assets of this type have been directed to the University's related Foundation.

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

- Unrestricted Net Assets = assets available to the institution to utilize for any lawful purpose. The University has a decrease in net assets for each of the past two years, but has sufficient assets to meet its total liabilities.

#### Condensed Combined Statements of Net Assets

	2007	2006	Difference	2005
Current Assets:				
Total current assets	\$9,269,521	\$11,294,957	\$(2,025,436)	\$11,565,794
Total noncurrent assets	<u>27,277,914</u>	<u>27,964,774</u>	<u>(686,860)</u>	<u>27,878,799</u>
Total Assets	<u>36,547,435</u>	<u>39,259,731</u>	<u>(2,712,296)</u>	<u>39,444,593</u>
 CURRENT LIABILITIES:				
Total current liabilities	6,022,848	6,543,358	(520,510)	5,006,513
Total noncurrent liabilities	<u>12,199,914</u>	<u>12,977,188</u>	<u>(777,274)</u>	<u>13,044,516</u>
Total Liabilities	<u>18,222,762</u>	<u>19,520,546</u>	<u>(1,297,784)</u>	<u>18,051,029</u>
 NET ASSETS:				
Invested in capital assets—net of related debt	17,292,204	17,395,595	(103,391)	16,681,982
Restricted nonexpendable	-	-	-	34,742
Restricted expendable:	1,351,141	1,033,890	317,251	750,610
Unrestricted net assets (deficit)	<u>(318,672)</u>	<u>1,309,700</u>	<u>(1,628,372)</u>	<u>3,926,230</u>
Total net assets	<u>18,324,673</u>	<u>19,739,185</u>	<u>(1,414,512)</u>	<u>21,393,564</u>
 TOTAL	 <u>\$36,547,435</u>	 <u>\$39,259,731</u>	 <u>\$(2,712,296)</u>	 <u>\$39,444,593</u>

Assets totaled \$36.5 million, a decrease of \$2.7 million from 2006, compared to a decrease of \$0.7 million the prior year. The decrease in current assets from 2006 is due primarily to a decrease in cash and cash equivalents of \$1.5 million and a decrease in accounts receivable-net of \$0.5 million. Continuing Education conducted a one-time program for Verizon which created a large receivable in fiscal year 2006. The decrease in noncurrent assets is due primarily to a decrease in capital assets-net of \$0.7 million. This decrease was primarily caused by depreciation and disposals of \$0.5 million in excess of 2007 additions. Assets had remained relatively unchanged from 2005 to 2006.

Liabilities totaled \$18.2 million, a decrease of \$1.3 million from 2006, which is comparable to the \$1.5 million increase the prior year. The decrease in liabilities is attributable to a decrease in current liabilities

of \$0.5 million. This change is primarily due to a decrease in accounts payable of \$0.5 million. The decrease in noncurrent liabilities of \$0.7 million was caused by decreases in compensated absences of \$0.1 million, debt obligations to the Commission of \$0.3 million and bonds payable of \$0.2 million.

Net assets totaled \$18.3 million, a decrease of \$1.4 million from 2006 which was similar to the \$1.7 million decrease in the prior year. These changes in net assets are explained in the statement of revenues, expenses and changes in net assets.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

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

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

### Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets

	2007	2006	Difference	2005
Total operating revenues	\$40,361,392	\$39,563,183	\$ 798,209	\$34,794,826
Total operating expenses	<u>56,644,108</u>	<u>54,300,605</u>	<u>2,343,503</u>	<u>47,285,787</u>
Operating loss	(16,282,716)	(14,737,422)	(1,545,294)	(12,490,961)
Net nonoperating revenues	<u>14,195,282</u>	<u>11,864,895</u>	<u>2,330,387</u>	<u>13,039,143</u>
Income (loss) before other revenues, expenses, gains or losses	(2,087,434)	(2,872,527)	785,093	548,182
Capital projects and bond proceeds from the Commission	401,693	852,273	(450,580)	250,000
Capital grants and gifts	<u>271,229</u>	<u>365,875</u>	<u>(94,646)</u>	<u>267,815</u>
Increase (decrease) in net assets	(1,414,512)	(1,654,379)	239,867	1,065,997
Net assets - beginning of year	<u>19,739,185</u>	<u>21,393,564</u>	<u>(1,654,379)</u>	<u>20,327,567</u>
Net assets—end of year	<u>\$18,324,673</u>	<u>\$19,739,185</u>	<u>\$(1,414,512)</u>	<u>21,393,564</u>

Total operating revenues increased by \$1.7 million over 2006, compared to an increase of \$4.8 million in 2006 over 2005. The 2007 increase was due primarily by an increase of student tuition and fees, net of scholarship allowance of \$0.7 million. The University and the WVSCTC were allowed to raise tuition and fees by 7.5 % and 4.5% for 2007, compared to 9.5% and 0.0% for 2006, respectively. This increase in State grants of \$1.4 million was made possible by a significant increase in the level of State appropriated funds by the State's Legislature to satisfy and comply with matching requirements of its

federally appropriated funds to conduct its Land-Grant research and extension activities. Private grants increased by \$0.7 million and auxiliary enterprise revenue, net of scholarship allowance increased by \$0.4 million, while, federal grants decreased by \$0.6 million and miscellaneous-net decreased by \$0.9 million over 2006. Total operating revenues for the year ended June 30, 2006 increased \$4.7 million over fiscal 2005, and covered almost all sources except State appropriations which decreased \$1.2 million.

Total operating expenses increased by \$2.3 million over 2006, compared to an increase of 7.0 million in 2006 over 2005. Salaries and wages increased by \$1.5 million due to raises being approved by the Board of Governors and given to University and CTC faculty and staff. Supplies and other services increased by \$1.5 million and student financial aid-scholarships and fellowship increased by \$0.3 million. Benefits decreased by \$0.8 million from the prior year. The reason for this decrease in benefits is because the rates that the sick and annual leave portion of compensated absences are calculated on, were reduced from the previous year. Total operating expenses for the year ended June 30, 2006 increased \$7.0 million over fiscal 2005.

Net nonoperating revenues increased by \$2.3 million over 2006 primarily due to State appropriations which increased by \$2.1 million. The 2006 nonoperating revenues decreased \$1.2 million because of a decrease in State appropriations from fiscal 2005.

## **STATEMENT OF CASH FLOWS**

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

Condensed Combined Statements of Cash Flows

	2007	2006	Difference	2005
Cash Flows From Operating Activities:				
Net cash used in operating activities	\$(15,069,175)	\$(10,370,906)	\$(4,698,269)	\$(11,898,175)
Cash Flows From Noncapital Financing Activities:				
Net cash provided by noncapital financing activities	14,195,010	12,083,120	2,111,890	13,323,790
Cash Flows From Capital Financing Activities:				
Net cash used in capital financing activities	(1,066,055)	(1,656,134)	590,079	(2,066,096)
Cash Flows From Investing Activity—				
Cash provided by investing activities	<u>415,333</u>	<u>329,914</u>	<u>85,419</u>	<u>180,943</u>
(Decrease) Increase in Cash and Cash Equivalents	(1,524,887)	385,994	(1,910,881)	(459,538)
Cash and Cash Equivalents—Beginning of year	<u>9,073,876</u>	<u>8,687,882</u>	<u>385,994</u>	<u>9,147,420</u>
Cash and Cash Equivalents—End of year	<u>\$7,548,989</u>	<u>\$9,073,876</u>	<u>\$(1,524,887)</u>	<u>\$8,687,882</u>

Net cash used in operating activities increased by \$4.6 million over 2006 compared to a decline of \$1.5 million in 2006 from 2005. The increase was due to a net difference caused by a increase in payments to and on behalf of employees of \$1.8 million, to an increase in payments to suppliers of \$3.4 million, to an increase in payments for scholarships and fellowships of \$1.6 million, to an increase in student tuition and fees of \$0.6 million, to an increase in contracts and grants of \$1.5 million and to an increase in auxiliary enterprises charges of \$0.4 million over 2006. Fiscal 2006 had a reduction in cash used by \$1.5 million.

Net cash provided by noncapital financing activities increased by \$2.1 million over 2006 compared to a decline of \$1.2 million in 2006 from 2005. As discussed above, these changes were due to changes in State appropriations. Fiscal 2006 had a reduction in cash provided of \$1.2 million as the result of reduced State appropriations of \$1.2 million.

Net cash used in capital financing activities decreased by \$0.6 million over 2006. The decrease was mainly due to two factors, decreases in purchases of capital assets of \$1.0 million and a decrease in capital grants and gifts received of \$0.4 million. Fiscal 2006 has a similar decrease of \$0.4 million.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

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

Several projects took place over campus. Some examples were the continuation of comprehensive elevator upgrades in Wallace Hall; office and study-meeting renovations and door improvements in Sullivan Hall; electrical loop upgrading around Sullivan Hall; and further development of nursing labs in Cole Complex. Improvements were made to two science classrooms and a meeting room in Hamlin Hall; property acquisitions were made to fulfill the institutional mission and capacity needs such as on Barron Drive for expanded parking at the northwest side of campus; historical properties were obtained for the West Virginia State University Booker T. Washington Institute to help meet the University mission for heritage preservation and community outreach; there was development of special academic advising areas for the four colleges of the University to include office areas for Deans, creating One-Stop Academic Shop service areas; and improvement to several classrooms on campus was accomplished. In addition, the University partnered with Kanawha County to offer several outdoor activities for students and the community at Shawnee Park, meeting the community service and Land-Grant missions of the University.

Improvements were made to interior and exterior lighting on campus for energy efficiency and added security; several campus sidewalks and walkways were repaired and upgraded in different locations on campus; other campus grounds improvements were done to include a new, controlled entry mechanism for the south end of campus, fencing improvements, and safety monitoring equipment purchases. Cameras were added in a few strategic locations to include, but were not limited to the security systems in Fleming Hall and the McNeil Facilities building. There was a Fleming Hall gym upgrade to include a flooring material for protection of leg injuries. Also, athletic fields were upgraded and tennis courts were resurfaced. A major chemical removal was done from science facilities and there were planning activities for a new ten-year campus master plan. Also, a new computer server was purchased for the University to upgrade infrastructure needs. There were motor vehicle purchases as well. Efforts in general helped improve the learning environment and address infrastructure needs to facilitate learning.

## **ECONOMIC OUTLOOK**

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

In spite of the decline of graduating high school students in West Virginia, the University and the CTC are situated between the two major metropolitan areas (Charleston and Huntington) of the State to be able to attract non-traditional students. Coupled with current growth of State and local economies, the University has managed to sustain a moderate increase of its level of funding. In addition to major federal entitlements such as formula funds, facilities, capacity building, research, and outreach funding streams, the University now receives State support for its Land-Grant programs. All funding streams captured by the University currently have a great impact on the economic development, research capacity, and expansion of educational facilities of the University and the State of West Virginia. It is expected

that this expansion in funds will continue steadily as the University gradually increases the participation of its faculty, students, and staff in instruction, research, and public service

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

A deficit in the unrestricted net assets as of June 30, 2007 was primarily caused by the Legislature separating the CTC from the University and not properly funding the University for the additional services required by the CTC. Additionally, the CTC Council did not allow the WVSCTC to increase their fees for the 2007 academic year.

One way the University is going to counteract the deficit created, is by an additional new appropriation from the Legislature of \$0.7 million starting with the 2008 fiscal year. Another way will be with the new appropriation that the WVSCTC is receiving because they were not allowed to increase their fees in 2008. These State appropriations changes will help elevate some problems that are resulting from the unintended consequences of legislative actions that impacted the University and WVSCTC.

The first \$0.7 million starting in 2008 fiscal year, will help to pay for services that the University had to take on this fiscal year without federal support as the University's Title III-B funding was cut by over \$0.7 million as a result of no longer being able to use the census information in the same way for the funding coming from the Historically Black College and University status. This will have a major impact on improving next year's financial results.

Although not sufficient to cover the entire services for which the WVSCTC cannot currently pay at full cost, the additional appropriation will help to increase the percentage of services paid to the University, although still at a reduced rate rather than at actual cost.

Over the next two years, the University is laying groundwork for a baccalaureate degree in nursing as a host program for the abundance of WVSCTC associate degree graduates which should act as a natural enrollment feeder. In addition, other two-plus-two programs and possibly graduate programs are being developed with the enrollment management and academic programming that will provide natural pathways into the University.

There may be some added enrollments for both institutions due to the passing of legislation for the table games at the Nitro Dog Track which will likely result in greater employment training, education, and certification needs. This has been evidenced already. Early advertisements for jobs have indicated that there will likely be some career ladder, more professional-type positions necessary to manage the large enterprise that is developing, thus impacting the enrollment of both institutions.

In conclusion, it is forecasted that there will be a continuing upward enrollment trend for both institutions with increasing campus space capacity and program marketing due to a positive economic environment of which both institutions are a part.

# WEST VIRGINIA STATE UNIVERSITY

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

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	2007	2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 7,548,989	\$ 9,073,876
Accounts receivable — net	1,088,980	1,594,085
Loans to students — current portion	92,923	128,057
Inventories	421,930	386,233
Prepaid expenses	<u>116,699</u>	<u>112,706</u>
Total current assets	<u>9,269,521</u>	<u>11,294,957</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	638,404	649,909
Loans to students, net of allowance of \$197,067 and \$228,925 in 2007 and 2006, respectively	499,945	465,231
Deferred finance costs — net	37,419	39,914
Capital assets — net	<u>26,102,146</u>	<u>26,809,720</u>
Total noncurrent assets	<u>27,277,914</u>	<u>27,964,774</u>
TOTAL	<u>\$36,547,435</u>	<u>\$39,259,731</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

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

	<b>2007</b>	<b>2006</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,066,009	\$ 2,614,973
Due to Commission	11,727	18,171
Accrued liabilities	2,025,176	2,053,436
Compensated absences — current portion	976,466	900,132
Deferred revenue	315,060	336,103
Debt obligation to the Commission — current portion	314,486	311,882
Bonds payable — current portion	220,000	215,000
Notes payable — current portion	93,924	93,661
	<u>6,022,848</u>	<u>6,543,358</u>
Total current liabilities		
<b>NONCURRENT LIABILITIES:</b>		
Deposits	106,435	91,685
Compensated absences	3,295,406	3,472,885
Debt obligation to the Commission	1,175,255	1,489,741
Bonds payable	4,240,958	4,453,689
Notes payable	2,802,738	2,890,066
Advances from federal sponsors	579,122	579,122
	<u>12,199,914</u>	<u>12,977,188</u>
Total noncurrent liabilities		
Total liabilities	<u>18,222,762</u>	<u>19,520,546</u>
<b>NET ASSETS (DEFICIT):</b>		
Invested in capital assets — net of related debt	17,292,204	17,395,595
Restricted for:		
Expendable:		
Sponsored projects	620,245	317,126
Loans	129,021	124,271
Debt service	601,875	592,493
	<u>1,351,141</u>	<u>1,033,890</u>
Total restricted		
Unrestricted net (deficit) assets	<u>(318,672)</u>	<u>1,309,700</u>
Total net assets	<u>18,324,673</u>	<u>19,739,185</u>
<b>TOTAL</b>	<u>\$ 36,547,435</u>	<u>\$ 39,259,731</u>

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

## THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENTS OF NET ASSETS JUNE 30, 2007 AND 2006

	2007	2006
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash	\$ 402,333	\$ 595,484
Other receivables	166,503	15,306
Investments — fair value	3,590,785	3,111,826
Beneficial interest in trusts	114,442	108,529
Property and improvements:		
Land	166,000	166,000
Buildings and improvements	1,276,425	1,276,425
Furniture and equipment	<u>46,448</u>	<u>43,643</u>
	1,488,873	1,486,068
Less accumulated depreciation	<u>451,979</u>	<u>415,625</u>
Total current assets	1,036,894	1,070,443
OTHER ASSETS	<u>6,852</u>	<u>7,060</u>
TOTAL	<u>\$5,317,809</u>	<u>\$4,908,648</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ <u>13,634</u>	\$ <u>44,072</u>
Total current liabilities	<u>13,634</u>	<u>44,072</u>
NET ASSETS:		
Unrestricted	470,600	345,336
Temporarily restricted	1,120,089	1,291,825
Permanently restricted	<u>3,713,486</u>	<u>3,227,415</u>
Total net assets	<u>5,304,175</u>	<u>4,864,576</u>
TOTAL	<u>\$5,317,809</u>	<u>\$4,908,648</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

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

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	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$3,544,740 and \$3,610,876 in 2007 and 2006, respectively	\$ 11,663,451	\$ 10,921,482
Contracts and grants:		
Federal	14,889,799	16,441,650
State	5,698,071	4,230,819
Private	1,715,240	1,015,700
Sales and services of educational activities	176,793	172,120
Auxiliary enterprise revenue, net of scholarship allowance of \$1,878,154 and \$1,889,624 in 2007 and 2006, respectively	6,107,782	5,715,370
Miscellaneous — net	<u>110,256</u>	<u>1,066,042</u>
 Total operating revenues	 <u>40,361,392</u>	 <u>39,563,183</u>
OPERATING EXPENSES:		
Salaries and wages	24,284,925	22,834,478
Benefits	5,885,906	6,656,733
Supplies and other services	17,733,587	16,271,479
Utilities	1,954,585	1,875,262
Student financial aid — scholarships and fellowships	5,179,463	4,907,918
Depreciation and amortization	1,423,071	1,576,461
Fees assessed by the Commission for operations	<u>182,571</u>	<u>178,274</u>
 Total operating expenses	 <u>56,644,108</u>	 <u>54,300,605</u>
 OPERATING LOSS	 <u>(16,282,716)</u>	 <u>(14,737,422)</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

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

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	2007	2006
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 14,296,580	\$ 12,197,610
Investment income	415,333	329,914
Interest on indebtedness	(405,904)	(489,922)
Loss on fixed asset disposal	(9,157)	(58,217)
Fees assessed by the Commission for debt service and reserves	<u>(101,570)</u>	<u>(114,490)</u>
Net nonoperating revenues	<u>14,195,282</u>	<u>11,864,895</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(2,087,434)	(2,872,527)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	401,693	852,273
CAPITAL GRANTS AND GIFTS	<u>271,229</u>	<u>365,875</u>
DECREASE IN NET ASSETS	(1,414,512)	(1,654,379)
NET ASSETS — Beginning of year	<u>19,739,185</u>	<u>21,393,564</u>
NET ASSETS — End of year	<u>\$ 18,324,673</u>	<u>\$ 19,739,185</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY  
 FOUNDATION, INCORPORATED, A COMPONENT  
 UNIT OF WEST VIRGINIA STATE UNIVERSITY  
 STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Grants and donations	\$ 356,158	\$ 433,896	\$ 117,183	\$ 907,237
Rental income	11,142			11,142
Investment income	11,053		206,360	217,413
Administrative fees (expenses)	69,262	(21,050)	(48,212)	
Total revenues, gain, and other support	447,615	412,846	275,331	1,135,792
EXPENSES:				
Salaries and wages	105,420			105,420
Taxes and licenses	23,726			23,726
Professional fees	42,460		13,308	55,768
Supplies	14,379			14,379
Maintenance	8,967			8,967
Travel	19,472			19,472
Telephone	3,581			3,581
Office expense	3,386			3,386
Printing	16,681			16,681
Meeting expense	32,710			32,710
Conference/seminar fees	1,150			1,150
Scholarships and grants	15,907			15,907
Depreciation	2,167	34,187		36,354
Miscellaneous	558			558
Program expenses		582,284	64,274	646,558
Total expenses	290,564	616,471	77,582	984,617
NET INCREASE	157,051	(203,625)	197,749	151,175
CHANGE IN VALUE OF SPLIT INTEREST AGREEMENT				
CHANGE IN VALUE OF PERPETUAL TRUSTS				
			5,913	5,913
UNREALIZED GAIN ON INVESTMENTS				
			282,511	282,511
RECLASSIFICATIONS				
	(31,787)	31,889	(102)	
CHANGE IN NET ASSETS				
	125,264	(171,736)	486,071	439,599
NET ASSETS — Beginning of year	345,336	1,291,825	3,227,415	4,864,576
NET ASSETS — End of year	\$ 470,600	\$ 1,120,089	\$ 3,713,486	\$ 5,304,175

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY  
 FOUNDATION, INCORPORATED, A COMPONENT  
 UNIT OF WEST VIRGINIA STATE UNIVERSITY  
 STATEMENT OF ACTIVITIES  
 YEAR ENDED JUNE 30, 2006

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS, AND OTHER SUPPORT:				
Grants and donations	\$ 399,097	\$ 664,539	\$ 74,315	\$ 1,137,951
Rental income	16,383			16,383
Investment income	10,477	102	252,108	262,687
Miscellaneous	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total revenues, gain, and other support	<u>425,957</u>	<u>664,641</u>	<u>326,423</u>	<u>1,417,021</u>
EXPENSES:				
Salaries and wages	95,240			95,240
Taxes and licenses	22,182			22,182
Professional fees	41,790		19,551	61,341
Supplies	12,546			12,546
Maintenance	4,185			4,185
Travel	12,325			12,325
Telephone	4,484			4,484
Office expense	2,859			2,859
Printing	5,092			5,092
Meeting expense	30,824			30,824
Conference/seminar fees	5,297			5,297
Scholarships and grants	81,640			81,640
Depreciation	1,606	34,187		35,793
Miscellaneous	6,050			6,050
Program expenses	<u>          </u>	<u>500,502</u>	<u>82,463</u>	<u>582,965</u>
Total expenses	<u>326,120</u>	<u>534,689</u>	<u>102,014</u>	<u>962,823</u>
NET INCREASE	99,837	129,952	224,409	454,198
CHANGE IN VALUE OF SPLIT INTEREST AGREEMENT			23,773	23,773
CHANGE IN VALUE OF PERPETUAL TRUSTS			(4,991)	(4,991)
UNREALIZED GAIN ON INVESTMENTS			8,842	8,842
RECLASSIFICATIONS	<u>34,797</u>	<u>(41,468)</u>	<u>6,671</u>	<u>          </u>
CHANGE IN NET ASSETS	134,634	88,484	258,704	481,822
NET ASSETS — Beginning of year	<u>210,702</u>	<u>1,203,341</u>	<u>2,968,711</u>	<u>4,382,754</u>
NET ASSETS — End of year	<u>\$ 345,336</u>	<u>\$ 1,291,825</u>	<u>\$ 3,227,415</u>	<u>\$ 4,864,576</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 12,168,556	\$ 11,535,218
Contracts and grants	22,303,110	21,688,169
Payments to and on behalf of employees	(30,300,236)	(28,447,991)
Payments to suppliers	(18,312,943)	(14,856,223)
Payments to utilities	(1,954,585)	(1,875,262)
Payments for scholarships and fellowships	(5,179,463)	(4,907,918)
Loans issued to students	(157,675)	(139,216)
Collection of loans to students	189,954	154,867
Sales and service of educational activities	176,793	172,120
Auxiliary enterprise charges	6,122,532	5,723,171
Fees retained by the Commission	(182,571)	(178,274)
Other receipts — net	57,353	760,433
	<u>(15,069,175)</u>	<u>(10,370,906)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	14,311,363	12,209,633
FFELP lending receipts	16,330,530	15,587,445
FFELP lending payments	(16,345,313)	(15,599,468)
Fees assessed by the Commission for debt service and reserves	(101,570)	(114,490)
	<u>14,195,010</u>	<u>12,083,120</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	271,229	365,875
Capital projects proceeds from the Commission	401,693	852,273
Purchases of capital assets	(714,890)	(1,750,275)
Principal paid on payable to the Commission	(311,882)	(307,975)
Principal paid on notes and bonds	(294,796)	(303,963)
Interest paid on notes, bonds, and leases	(405,904)	(489,922)
Decrease in restricted cash and cash equivalents	(11,505)	(22,147)
	<u>(1,066,055)</u>	<u>(1,656,134)</u>
CASH FLOWS FROM INVESTING ACTIVITY —		
Interest on investments	415,333	329,914
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,524,887)	385,994
CASH AND CASH EQUIVALENTS — Beginning of year	<u>9,073,876</u>	<u>8,687,882</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 7,548,989</u>	<u>\$ 9,073,876</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

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

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	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (16,282,716)	\$ (14,737,422)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,432,228	1,634,678
Changes in assets and liabilities:		
Receivables — net	505,105	613,736
Loans to students — net	419	(62)
Prepaid expenses	(3,993)	57,241
Inventories	(35,697)	(20,532)
Accounts payable and accrued liabilities	(577,083)	1,784,626
Compensated absences	(101,145)	578,924
Deferred revenue	(21,043)	(289,896)
Deposits held in custody for others	14,750	7,801
	<u>14,750</u>	<u>7,801</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (15,069,175)</u>	<u>\$ (10,370,906)</u>

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

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

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### 1. ORGANIZATION

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

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

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.

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

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation (the “Research and Development Corporation”), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University’s ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation. Their related organizations, West Virginia State University Foundation and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB Statement No. 14, *The Financial Reporting Entity*.

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

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

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

The West Virginia State Legislature (“State Legislature”), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

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

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

***Basis of Accounting*** — For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’s combined 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 expenses are reported when materials or services are received. All interinstitution accounts and transactions have been eliminated.

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia 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 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 investment fund which consists of five investment pools and participant-directed accounts, in which the State and local governmental agencies invest. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Consolidated Fund participants. Consolidated Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI’s investment operations pools can be found in its annual report. A copy of that annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvbt.com>.

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

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

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

***Capital Assets*** — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University's threshold for capitalizing capital assets is \$5,000. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. The financial statements reflect all adjustments required by GASB Statement No. 42 as of June 30, 2007.

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

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

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

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

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

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

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

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

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and third-party insurers, the University 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, the University has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

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

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

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

**Federal Financial Assistance Programs** — The University makes loans to students under the Federal Family Education Loan Program (FFELP). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University’s combined statements of net assets as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2007 and 2006, the University received and disbursed approximately \$16.3 million and \$15.6 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the years ended June 30, 2007 and 2006, the University received and disbursed approximately \$6.8 million and \$6.8 million, respectively, under these federal student aid programs.

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

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

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

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

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

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

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

**Recent Statements Issued by the Governmental Accounting Standards Board** — The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit

expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University is required to participate in this multiple employer cost-sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

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

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

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

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

### 3. CASH AND CASH EQUIVALENTS

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

	<u>2007</u>		
	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$6,351,401	\$ -	\$6,351,401
In escrow		638,404	638,404
In bank	<u>1,197,588</u>		<u>1,197,588</u>
	<u>\$7,548,989</u>	<u>\$ 638,404</u>	<u>\$8,187,393</u>

	<b>2006</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer	\$ 8,182,009	\$ -	\$ 8,182,009
Municipal Bond Commission	2,007		2,007
In escrow		649,909	649,909
In bank	<u>889,860</u>	<u>        </u>	<u>889,860</u>
	<u>\$ 9,073,876</u>	<u>\$ 649,909</u>	<u>\$ 9,723,785</u>

Cash designated as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the University's bond trust indenture. This account was closed during fiscal year 2007. Cash shown above as cash in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 9 is paid in full.

The combined carrying amounts of cash in the bank at June 30, 2007 and 2006, were \$1,197,588 and \$889,860, respectively, compared with the combined bank balance of \$1,638,584 and \$1,871,016, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2007 and 2006, \$745,682 and \$874,869, respectively, was covered by Federal Depository Insurance Corporation while \$1,531,304 and \$996,147, respectively, was uninsured and uncollateralized.

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

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

### **Cash Liquidity Pool**

#### **Credit Risk**

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

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

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

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

At June 30, 2007 and 2006, the University's ownership represents .22% and 0.77%, respectively, of these amounts held by the BTI.

## Government Money Market Pool

### Credit Risk

The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating		2007		2006	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	\$ 67,620	29.46 %	\$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			<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, the University's ownership represents .07% and 0.18%, respectively, of these amounts held by the BTI.

## Enhanced Yield Pool

### Credit Risk

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

Security Type	Credit Rating		2007		2006	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	\$ 42,122	18.40 %	\$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	1,667	0.73	2,448	0.92
	Aa3	AA	7,857	3.43		
	Aa3	A	3,905	1.70		
	Aa2	AA	950	0.41		
	Aa2	A	2,177	0.95		
	Aa1	AA	6,431	2.81		
	A3	A	6,958	3.04		
	A2	AA	747	0.33		
	A2	A	8,188	3.58		
	A1	AA	3,034	1.32		
	A1	A	10,706	4.68		
	Aa	AA			3,790	1.43
	Aa	A			15,660	5.90
	A	AA			3,048	1.15
	A	A			46,847	17.65
			52,620	22.98	71,793	27.05
U.S. agency bonds	Aaa	AAA	46,075	20.13	87,215	32.86
U.S. Treasury bills	Aaa	AAA			58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41		
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13		
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA			1,346	0.51
U.S. agency notes	Aaa	AAA	20,485	8.95		
			<u>20,485</u>	<u>8.95</u>	<u>1,346</u>	<u>0.51</u>
			<u>\$ 228,920</u>	<u>100 %</u>	<u>\$ 265,384</u>	<u>100.00 %</u>

At June 30, 2007 and 2006, the University's ownership represents .12% and 2.63%, respectively, of these amounts held by the BTI.

### Interest Rate Risk

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

The overall weighted-average 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:

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

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

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

### Other Investment Risks

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

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

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

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

### Deposits

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of

deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at \$50,000,000, which represents 2.41% of the pool's assets. The BTI does not have a deposit policy for custodial credit risk.

#### 4. ACCOUNTS RECEIVABLE

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

	<b>2007</b>	<b>2006</b>
Student tuition and fees, net of allowance for doubtful accounts of \$838,525 and \$563,833	\$ 423,116	\$ 354,438
Grants and contracts receivable	590,430	546,985
Due from the Commission	56,241	39,306
Due from other State agencies	588	7,003
Other accounts receivable	<u>18,605</u>	<u>646,353</u>
	<u>\$ 1,088,980</u>	<u>\$ 1,594,085</u>

#### 5. DEFERRED FINANCE COSTS

The following is a summation of deferred finance costs transactions for the years ended June 30, 2007 and 2006, as follows:

<b>2007</b>	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>9,980</u>	<u>2,495</u>	<u>          </u>	<u>12,475</u>
Deferred finance costs — net	<u>\$ 39,914</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 37,419</u>
	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
<b>2006</b>				
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>7,485</u>	<u>2,495</u>	<u>          </u>	<u>9,980</u>
Deferred finance costs — net	<u>\$ 42,409</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 39,914</u>

## 6. CAPITAL ASSETS

Summary of capital asset transactions for the University for the years ended June 30, 2007 and 2006, are as follows:

	2007			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,374,855	\$ 68,500	\$ -	\$ 1,443,355
Construction in progress	<u>139,022</u>	<u>          </u>	<u>(139,022)</u>	<u>          </u>
Total capital assets not being depreciated	<u>\$ 1,513,877</u>	<u>\$ 68,500</u>	<u>\$ (139,022)</u>	<u>\$ 1,443,355</u>
Other capital assets:				
Land improvements	\$ 1,438,275	\$ -	\$ -	\$ 1,438,275
Infrastructure	3,441,300			3,441,300
Buildings	37,448,263	274,115		37,722,378
Equipment	8,068,805	418,743	(275,027)	8,212,521
Motor vehicles	365,758			365,758
Software	340,069			340,069
Library books	<u>4,183,338</u>	<u>92,554</u>	<u>          </u>	<u>4,275,892</u>
Total other capital assets	<u>55,285,808</u>	<u>785,412</u>	<u>(275,027)</u>	<u>55,796,193</u>
Less accumulated depreciation for:				
Land improvements	568,795	33,368		602,163
Infrastructure	3,002,100	12,280		3,014,380
Buildings	15,884,359	702,414		16,586,773
Equipment	6,327,978	459,496	(265,870)	6,521,604
Motor vehicles	295,611	29,472		325,083
Software	339,778	291		340,069
Library books	<u>3,571,344</u>	<u>175,986</u>	<u>          </u>	<u>3,747,330</u>
Total accumulated depreciation	<u>29,989,965</u>	<u>1,413,307</u>	<u>(265,870)</u>	<u>31,137,402</u>
Other capital assets — net	<u>\$ 25,295,843</u>	<u>\$ (627,895)</u>	<u>\$ (9,157)</u>	<u>\$ 24,658,791</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,513,877	\$ 68,500	\$ (139,022)	\$ 1,443,355
Other capital assets	<u>55,285,808</u>	<u>785,412</u>	<u>(275,027)</u>	<u>55,796,193</u>
Total cost of capital assets	56,799,685	853,912	(414,049)	57,239,548
Less accumulated depreciation	<u>29,989,965</u>	<u>1,413,307</u>	<u>(265,870)</u>	<u>31,137,402</u>
Capital assets — net	<u>\$ 26,809,720</u>	<u>\$ (559,395)</u>	<u>\$ (148,179)</u>	<u>\$ 26,102,146</u>

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,217,405	\$ 157,450	\$ -	\$ 1,374,855
Construction in progress	<u>226,476</u>	<u>139,022</u>	<u>(226,476)</u>	<u>139,022</u>
Total capital assets not being depreciated	<u>\$ 1,443,881</u>	<u>\$ 296,472</u>	<u>\$ 226,476</u>	<u>\$ 1,513,877</u>
Other capital assets:				
Land improvements	\$ 1,438,275	\$ -	\$ -	\$ 1,438,275
Infrastructure	3,441,300	1,141,357		4,582,657
Buildings	36,306,906	411,086	(971,913)	35,746,079
Equipment	8,629,632	10,591		8,640,223
Motor vehicles	355,167			355,167
Software	342,318		(2,249)	340,069
Library books	<u>4,087,284</u>	<u>96,054</u>	<u>                    </u>	<u>4,183,338</u>
Total other capital assets	<u>54,600,882</u>	<u>1,659,088</u>	<u>(974,162)</u>	<u>55,285,808</u>
Less accumulated depreciation for:				
Land improvements	535,427	33,368		568,795
Infrastructure	2,977,540	24,560		3,002,100
Buildings	15,200,002	684,357		15,884,359
Equipment	6,719,322	497,265	(888,609)	6,327,978
Motor vehicles	235,101	60,510		295,611
Software	274,251	65,527		339,778
Library books	<u>3,397,570</u>	<u>201,110</u>	<u>(27,336)</u>	<u>3,571,344</u>
Total accumulated depreciation	<u>29,339,213</u>	<u>1,566,697</u>	<u>(915,945)</u>	<u>29,989,965</u>
Other capital assets — net	<u>\$25,261,669</u>	<u>\$ 92,391</u>	<u>\$ (58,217)</u>	<u>\$25,295,843</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,443,881	\$ 296,472	\$ (226,476)	\$ 1,513,877
Other capital assets	<u>54,600,882</u>	<u>1,659,088</u>	<u>(974,162)</u>	<u>55,285,808</u>
Total cost of capital assets	56,044,763	1,955,560	(1,200,638)	56,799,685
Less accumulated depreciation	<u>29,339,213</u>	<u>1,566,697</u>	<u>(915,945)</u>	<u>29,989,965</u>
Capital assets — net	<u>\$26,705,550</u>	<u>\$ 388,863</u>	<u>\$ (284,693)</u>	<u>\$26,809,720</u>

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

Title for certain real property is with the Municipal Bond Commission.

## 7. NONCURRENT LIABILITIES

Summary of noncurrent obligation transactions for the University for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 2,983,727	\$ -	\$ 87,065	\$ 2,896,662	\$ 93,924
Bonds payable	4,668,689	7,269	215,000	4,460,958	220,000
Payable to the Commission	1,801,623		311,882	1,489,741	314,486
Other noncurrent liabilities:					
Accrued compensated absences	4,373,017	117,359	218,504	4,271,872	976,466
Advances from Federal Sponsors	579,122			579,122	
Deposits held in custody for others	<u>91,685</u>	<u>14,750</u>		<u>106,435</u>	
Total noncurrent liabilities	<u>\$ 14,497,863</u>	<u>\$ 139,378</u>	<u>\$ 832,451</u>	<u>\$ 13,804,790</u>	
	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 3,084,959	\$ -	\$ 101,232	\$ 2,983,727	\$ 93,661
Bonds payable	4,871,420	7,269	210,000	4,668,689	215,000
Payable to the Commission	2,109,598		307,975	1,801,623	311,882
Other noncurrent liabilities:					
Accrued compensated absences	4,220,326	152,691		4,373,017	900,132
Advances from Federal Sponsors	579,122			579,122	
Deposits held in custody for others	<u>83,884</u>	<u>7,801</u>		<u>91,685</u>	
Total noncurrent liabilities	<u>\$ 14,949,309</u>	<u>\$ 167,761</u>	<u>\$ 619,207</u>	<u>\$ 14,497,863</u>	

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

## 8. BONDS PAYABLE

On August 1, 2002, the University issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds mature in intervals through June 1, 2022, and bear interest ranging from 2.0% to 6.2%. As of June 30, 2007 and 2006, the University had outstanding \$4,460,958 and \$4,668,689, respectively, net of an unamortized discount of \$109,042 and \$116,311, respectively.

Principal maturities for the years ending after June 30, 2007, are as follows:

2008	\$ 220,000
2009	230,000
2010	240,000
2011	245,000
2012	255,000
2013–2017	1,475,000
2018–2022	<u>1,905,000</u>
 Total	 4,570,000
 Less unamortized discount	 <u>(109,042)</u>
Total	<u>\$4,460,958</u>

## 9. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories. As of June 30, 2007 and 2006, the University had outstanding \$2,896,662 and \$2,983,728, respectively. At an interest of approximately 6.3%, current monthly principal and interest payments of \$21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the years ending after June 30, 2007, are as follows:

2008	\$ 93,924
2009	92,407
2010	97,367
2011	103,055
2012	107,499
2013–2017	649,404
2018–2022	862,118
2023–2026	<u>890,888</u>
 Total	 <u>\$2,896,662</u>

## 10. COMPENSATED ABSENCES LIABILITY

Compensated absences liability composition at June 30, 2007 and 2006, is as follows:

	<b>2007</b>	<b>2006</b>
Health or life insurance benefits	\$2,885,224	\$3,108,931
Accrued vacation leave	<u>1,386,648</u>	<u>1,264,086</u>
 Total	 <u>\$4,271,872</u>	 <u>\$4,373,017</u>

For the years ended June 30, 2007 and 2006, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled \$45,480 and \$48,718, respectively. As of June 30, 2007 and 2006, there were 28 and 32 retirees, respectively, currently eligible for these benefits.

## 11. OPERATING LEASES

Future annual minimum lease payments for years subsequent to June 30, 2007, are as follows:

2008	\$ 525,436
2009	521,077
2010	<u>130,030</u>
Total	<u>\$1,176,543</u>

Total rental expense for the years ended June 30, 2007 and 2006, was \$505,706 and \$494,238, respectively.

## 12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2007 and 2006, the University paid \$311,882 and \$307,975, respectively, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2007, is \$1,489,741.

During the year ended June 30, 2005, the Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive \$1,350,000 of these funds. The University has drawn approximately \$1.3 million through June 30, 2007. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

### 13. UNRESTRICTED NET ASSETS

The University unrestricted net assets (deficit) include certain obligated net assets at June 30, 2007 and 2006, as follows:

	2007	2006
Designated for auxiliaries	\$ -	\$ 495,232
Undesignated	<u>(318,672)</u>	<u>814,468</u>
Total unrestricted net (deficit) assets	<u>\$ (318,672)</u>	<u>\$ 1,309,700</u>

### 14. RETIREMENT PLANS

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

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

Total contributions to the Educators Money 401(a) for the year ended June 30, 2007 and 2006, were \$19,478 and \$23,850, which consisted of \$6,595 and \$5,334 from the University, respectively, and \$12,883 and \$18,516, respectively, from the covered employees. As of June 30, 2005, zero employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined-benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University accrued and paid its contribution to the STRS at the rate of 15% 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 6% 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 five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2007, 2006, and 2005 were \$348,493 and \$364,230, and \$414,653, respectively, which consisted of \$248,325, \$259,612, and \$295,578 from the

University, respectively, and \$100,168, \$104,618, and \$118,985, respectively, from the covered employees.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2007, 2006, and 2005, were \$2,774,377, \$2,530,346, and \$2,213,612, respectively, which consisted of contributions of \$1,180,238 from the University and \$1,594,139 from the covered employees in 2007, \$1,085,141 from the University and \$1,445,205 from the covered employees in 2006, and \$920,857 from the University and \$1,292,755 from the covered employees in 2005.

The University's total payroll for the year ended June 30, 2007, was \$22,043,944; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were \$1,683,360, \$109,917 and \$19,670,628, respectively. The University's total payroll for the year ended June 30, 2006, was \$16,640,280; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were \$1,756,489, \$88,895, and \$14,794,896, respectively.

## **15. COOPERATIVE AGREEMENT**

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal year 2007 were \$250,527 and \$233,852, respectively. Total receipts and expenses during fiscal year 2006 were \$137,507 and \$202,227, respectively. RCPI is not entirely or almost entirely for the benefit of the University and is therefore not a GASB Statement No. 39 component unit.

## **16. FOUNDATION**

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "...to aid, strengthen and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employ management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's combined financial statements in accordance with

GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2007 and 2006, the Foundation's net assets (including unrealized gains) totaled \$5,304,175 and \$4,864,576, respectively, on the accrual basis of accounting.

During the years ended June 30, 2007 and 2006, the Foundation contributed \$15,907 and \$81,640, respectively, to the University for scholarships.

## **17. AFFILIATED ORGANIZATION**

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

## **18. CONTINGENCIES**

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

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

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

## **19. SEGMENT INFORMATION**

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

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

On August 1, 2002, the University issued \$5,500,000 of College Facilities Revenue Bonds, 2002 Series A (the "2002 Bonds"). The 2002 Bonds were issued under the authority contained in Chapter 18,

Article 23 of the Code of West Virginia, 1931, as amended, and the 2002 Bonds will be secured pursuant to the Indenture and Security Agreement (the “Indenture”) dated as of August 1, 2002, by and between the Board and Huntington National Bank (the “Trustee”). The 2002 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2002 Bonds are being used to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the University Union, (2) establishing a debt service reserve fund, and (3) paying the costs of issuance of the 2002 Bonds and related costs.

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

	<b>State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds</b>	
	<b>2007</b>	<b>2006</b>
<b>Condensed Statement of Net Assets as of June 30,</b>		
<b>ASSETS:</b>		
Current assets	\$ 323,947	\$ 348,269
Noncurrent assets	<u>5,935,386</u>	<u>6,079,390</u>
<b>TOTAL</b>	<u><b>\$ 6,259,333</b></u>	<u><b>\$ 6,427,659</b></u>
<b>LIABILITIES:</b>		
Current liabilities	\$ 260,316	\$ 230,959
Noncurrent liabilities	<u>4,251,492</u>	<u>4,462,911</u>
Total liabilities	<u>4,511,808</u>	<u>4,693,870</u>
<b>NET ASSETS:</b>		
Invested in capital assets	976,950	910,654
Restricted:		
Debt service	497,478	500,047
Unrestricted	<u>273,097</u>	<u>323,088</u>
Total net assets	<u>1,747,525</u>	<u>1,733,789</u>
<b>TOTAL</b>	<u><b>\$ 6,259,333</b></u>	<u><b>\$ 6,427,659</b></u>

	<b>West Virginia State University, Student Union Revenue Bonds</b>	
<b>Condensed Statements of Revenues, Expenses, and Changes in Net Assets as of June 30,</b>	<b>2007</b>	<b>2006</b>
<b>OPERATING:</b>		
Operating revenues	\$ 899,675	\$ 901,872
Operating expenses	<u>(688,278)</u>	<u>(564,308)</u>
Net operating income	211,397	337,564
<b>NONOPERATING:</b>		
Nonoperating revenues	27,339	17,673
Nonoperating expenses	<u>(225,000)</u>	<u>(230,775)</u>
<b>INCREASE IN NET ASSETS</b>	13,736	124,462
<b>NET ASSETS — Beginning of year</b>	<u>1,733,789</u>	<u>1,609,327</u>
<b>NET ASSETS — End of year</b>	<u><u>\$1,747,525</u></u>	<u><u>\$1,733,789</u></u>
<b>Condensed Statements of Cash Flows</b>		
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	\$ 390,860	\$ 497,625
<b>NET CASH USED BY CAPITAL AND RELATED FINANCING</b>	<u>(415,182)</u>	<u>(452,553)</u>
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(24,322)	45,072
<b>CASH AND CASH EQUIVALENTS — Beginning of year</b>	<u>348,269</u>	<u>303,197</u>
<b>CASH AND CASH EQUIVALENTS — End of year</b>	<u><u>\$ 323,947</u></u>	<u><u>\$ 348,269</u></u>

## **20. COMPONENT UNIT DISCLOSURES**

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

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. Summary of significant accounting policies:

A. Organization:

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

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

B. Basis of accounting:

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

C. Consolidation policy:

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

D. Basis of presentation:

The Foundation presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* – Net assets not subject to donor-imposed stipulations.

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. Summary of significant accounting policies (Cont'd):

D. Basis of presentation (Cont'd):

- *Temporarily restricted net assets* – Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- *Permanently restricted net assets* – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

E. Cash equivalents:

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

F. Investments:

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

G. Property and equipment:

The Foundation capitalizes all expenditures in excess of \$500 for property and equipment at cost. Property and equipment are stated at cost. All donated assets are stated at the fair market value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

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

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. Summary of significant accounting policies (Cont'd):

H. Contributions:

Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

I. Outstanding legacies:

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

J. Beneficial interest in trusts:

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

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. Summary of significant accounting policies (Cont'd):

K. In-kind contributions:

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

L. Spending policy:

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

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

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

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

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

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

1. Summary of significant accounting policies (Cont'd):

M. Use of estimates:

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

N. Advertising and promotional expenses:

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

2. Concentrations of credit risk:

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

The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At June 30, 2007 and 2006, the Foundation held \$178,468 and \$33,523 in excess of the insured limit.

3. Receivables:

All pledges are due in less than one year. Receivables at June 30, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Pledge receivable - unrestricted	\$ 144,561	\$ 10,306
Pledge receivable - temporarily restricted	15,535	-
Pledge receivable - restricted	1,407	-
Matching pledge receivable	<u>5,000</u>	<u>5,000</u>
	<u>\$ 166,503</u>	<u>\$ 15,306</u>

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

4. Investments:

Investments are carried at market value at June 30, 2007 as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Government obligations and agencies	\$ 748,601	\$ 741,313	\$( 7,288)
Common stock	771,490	1,057,014	285,524
Preferred stock	125,003	126,285	1,282
Mutual funds	1,152,953	1,409,336	256,383
Corporate obligations	111,793	104,957	( 6,836)
Cash equivalents	<u>151,880</u>	<u>151,880</u>	<u>-</u>
	<u>\$ 3,061,720</u>	<u>\$ 3,590,785</u>	<u>\$ 529,065</u>

Investments are carried at market value at June 30, 2006 as follows:

	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized Appreciation (Depreciation)</u>
U.S. Government obligations and agencies	\$ 748,604	\$ 729,886	\$( 18,718)
Common stock	794,307	942,126	147,819
Preferred stock	-	-	-
Mutual funds	861,438	1,001,651	140,213
Corporate obligations	329,765	307,005	( 22,760)
Cash equivalents	<u>131,158</u>	<u>131,158</u>	<u>-</u>
	<u>\$ 2,865,272</u>	<u>\$ 3,111,826</u>	<u>\$ 246,554</u>

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

5. Property and equipment:

A summary of property and equipment as of June 30, 2007 and 2006 is as follows:

	<u>2007</u>	<u>2006</u>
Land	\$ 166,000	\$ 166,000
Buildings and improvements	1,276,425	1,276,425
Furniture and equipment	<u>46,448</u>	<u>43,643</u>
	1,488,873	1,486,068
Less accumulated depreciation	<u>451,979</u>	<u>415,625</u>
	<u>\$ 1,036,894</u>	<u>\$ 1,070,443</u>

6. Federal income taxes:

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

7. Retirement plan:

All eligible employees of the Foundation are included in the West Virginia State University's retirement plan.

WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007 and 2006

8. Restrictions and limitations on net asset balances:

Temporarily restricted:

Temporarily restricted net assets at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Athletic participation	\$ 2,286	\$ 107,966
Students' special projects	3,616	8,233
Academic programs	124,327	174,012
General scholarships	118,095	218,997
WVSU Foundation programs	185,816	62,496
Properties	<u>685,949</u>	<u>720,121</u>
	<u>\$ 1,120,089</u>	<u>\$ 1,291,825</u>

Permanently restricted:

Permanently restricted net assets at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Scholarship endowments income	\$ 681,890	\$ 320,451
Scholarship endowments principal	<u>3,031,596</u>	<u>2,906,964</u>
	<u>\$ 3,713,486</u>	<u>\$ 3,227,415</u>

## 21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

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

	2007							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Fees Assessed by the Commission	
Instruction	\$10,357,238	\$2,347,071	\$ 1,748,776	\$ 77,754	\$ 241,290	\$ -	\$ -	\$14,772,129
Research	1,468,052	353,302	1,939,918	17,449	22,660			3,801,381
Public service	848,907	183,581	2,210,132	18,949				3,261,569
Academic support	1,022,733	147,414	582,648	98,056				1,850,851
Student services	1,537,370	389,972	1,097,924	14,213	5,951			3,045,430
General institutional support	5,328,864	1,268,301	2,755,912	34,416	69,230			9,456,723
Operations and maintenance of plant	1,927,207	654,643	2,128,609	1,159,565	7,000			5,877,024
Scholarship and fellowship					4,828,819			4,828,819
Auxiliary enterprises	1,794,554	541,622	5,269,668	534,183	4,513			8,144,540
Depreciation and amortization expense						1,423,071		1,423,071
Tuition and fees retained by the Commission							182,571	182,571
<b>Total</b>	<u>\$24,284,925</u>	<u>\$5,885,906</u>	<u>\$17,733,587</u>	<u>\$1,954,585</u>	<u>\$5,179,463</u>	<u>\$1,423,071</u>	<u>\$182,571</u>	<u>\$56,644,108</u>

	2006							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Fees Assessed by the Commission	
Instruction	\$11,291,475	\$2,982,538	\$ 2,676,026	\$ 46,124	\$ 209,609	\$ -	\$ -	\$17,205,772
Research	1,242,380	309,364	1,676,188	20,575	19,750			3,268,257
Public service	719,751	177,375	1,739,065	25,993				2,662,184
Academic support	1,169,002	351,883	580,714	118,725	16,141			2,236,465
Student services	1,513,165	485,526	960,720	17,247	4,522			2,981,180
General institutional support	3,498,620	1,084,694	2,266,646	40,808	64,360			6,955,128
Operations and maintenance of plant	1,828,636	632,028	1,505,646	1,128,412	7,000			5,101,722
Scholarship and fellowship		200,107			4,270,138			4,470,245
Auxiliary enterprises	1,571,449	433,218	4,866,474	475,378	318,398			7,664,917
Depreciation and amortization expense						1,576,461		1,576,461
Tuition and fees retained by the Commission							178,274	178,274
<b>Total</b>	<u>\$22,834,478</u>	<u>\$6,656,733</u>	<u>\$16,271,479</u>	<u>\$1,873,262</u>	<u>\$4,909,918</u>	<u>\$1,576,461</u>	<u>\$178,274</u>	<u>\$54,300,605</u>

\* \* \* \* \*

## **ADDITIONAL INFORMATION**

# WEST VIRGINIA STATE UNIVERSITY

## SCHEDULE OF NET ASSETS INFORMATION AS OF JUNE 30, 2007

### ALL FUNDS

ASSETS	Community and Technical College	Four-Year and Other Components	Total Institution
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	\$ 1,808,938	\$ 5,740,051	\$ 7,548,989
Accounts receivable — net	174,344	914,636	1,088,980
Loans to students — current portion		92,923	92,923
Inventories		421,930	421,930
Prepaid expenses		116,699	116,699
Total current assets	<u>1,983,282</u>	<u>7,286,239</u>	<u>9,269,521</u>
<b>NONCURRENT ASSETS:</b>			
Restricted cash and cash equivalents		638,404	638,404
Loans to students — net		499,945	499,945
Deferred finance costs — net		37,419	37,419
Capital assets — net	50,936	26,051,210	26,102,146
Total noncurrent assets	<u>50,936</u>	<u>27,226,978</u>	<u>27,277,914</u>
<b>TOTAL</b>	<u>\$ 2,034,218</u>	<u>\$ 34,513,217</u>	<u>\$ 36,547,435</u>
<b>LIABILITIES AND NET ASSETS</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 216,450	\$ 1,849,559	\$ 2,066,009
Due to Commission	7,090	4,637	11,727
Accrued liabilities	350,009	1,675,167	2,025,176
Compensated absences — current portion	73,741	902,725	976,466
Deferred revenue	119,943	195,117	315,060
Debt obligation to Commission — current portion		314,486	314,486
Bonds payable — current portion		220,000	220,000
Notes payable — current portion		93,924	93,924
Total current liabilities	<u>767,233</u>	<u>5,255,615</u>	<u>6,022,848</u>
<b>NONCURRENT LIABILITIES:</b>			
Deposits		106,435	106,435
Compensated absences	298,992	2,996,414	3,295,406
Debt obligation to Commission		1,175,255	1,175,255
Bonds payable		4,240,958	4,240,958
Notes payable		2,802,738	2,802,738
Advances from federal sponsors		579,122	579,122
Total noncurrent liabilities	<u>298,992</u>	<u>11,900,922</u>	<u>12,199,914</u>
Total liabilities	<u>1,066,225</u>	<u>17,156,537</u>	<u>18,222,762</u>
<b>NET ASSETS:</b>			
Invested in capital assets — net of related debt	50,936	17,241,268	17,292,204
Restricted for:			
Expendable:			
Sponsored projects		620,245	620,245
Loans		129,021	129,021
Debt service		601,875	601,875
Total restricted		1,351,141	1,351,141
Unrestricted net assets (deficit)	917,057	(1,235,729)	(318,672)
Total net assets	<u>967,993</u>	<u>17,356,680</u>	<u>18,324,673</u>
<b>TOTAL</b>	<u>\$ 2,034,218</u>	<u>\$ 34,513,217</u>	<u>\$ 36,547,435</u>

See note to schedules.

# WEST VIRGINIA STATE UNIVERSITY

## SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2007

### ALL FUNDS

	Community and Technical College	Four-Year and Other Components	Total Institution
OPERATING REVENUES:			
Tuition and fees — net	\$ 3,007,463	\$ 8,655,988	\$ 11,663,451
Contracts and grants:			
Federal	4,612	14,885,187	14,889,799
State/net	917,636	4,780,435	5,698,071
Private	265,660	1,449,580	1,715,240
Sales and services of educational activities		176,793	176,793
Auxiliary enterprise revenue		6,107,782	6,107,782
Miscellaneous — net	<u>18,847</u>	<u>91,409</u>	<u>110,256</u>
Total operating revenues	<u>4,214,218</u>	<u>36,147,174</u>	<u>40,361,392</u>
OPERATING EXPENSES:			
Salaries and wages	3,126,685	21,158,240	24,284,925
Benefits	890,829	4,995,077	5,885,906
Supplies and other services	2,166,110	15,567,477	17,733,587
Utilities	274,782	1,679,803	1,954,585
Student financial aid — scholarships and fellowships	487,668	4,691,795	5,179,463
Depreciation and amortization	19,040	1,404,031	1,423,071
Fees assessed by the Commission for operations	<u>55,514</u>	<u>127,057</u>	<u>182,571</u>
Total operating expenses	<u>7,020,628</u>	<u>49,623,480</u>	<u>56,644,108</u>
OPERATING LOSS	<u>(2,806,410)</u>	<u>(13,476,306)</u>	<u>(16,282,716)</u>
NONOPERATING REVENUES (EXPENSES):			
State appropriations	3,074,167	11,222,413	14,296,580
Investment income	113,576	301,757	415,333
Interest on indebtedness		(405,904)	(405,904)
Loss on disposal of fixed assets		(9,157)	(9,157)
Fees assessed by the Commission for debt reserves service		<u>(101,570)</u>	<u>(101,570)</u>
Net nonoperating revenues	<u>3,187,743</u>	<u>11,007,539</u>	<u>14,195,282</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	381,333	(2,468,767)	(2,087,434)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION		401,693	401,693
CAPITAL GRANTS AND GIFTS		<u>271,229</u>	<u>271,229</u>
INCREASE (DECREASE) IN NET ASSETS	381,333	(1,795,845)	(1,414,512)
NET ASSETS — Beginning of year	<u>586,660</u>	<u>19,152,525</u>	<u>19,739,185</u>
NET ASSETS — End of year	<u>\$ 967,993</u>	<u>\$ 17,356,680</u>	<u>\$ 18,324,673</u>

See note to schedules.

# WEST VIRGINIA STATE UNIVERSITY

## SCHEDULE OF CASH FLOW INFORMATION FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College	Four-Year and Other Components	Combined Institution
CASH FLOWS FROM OPERATING ACTIVITIES:			
Student tuition and fees	\$ 3,564,885	\$ 8,603,671	\$ 12,168,556
Contracts and grants	1,187,908	21,115,202	22,303,110
Payments to and on behalf of employees	(4,243,808)	(26,056,428)	(30,300,236)
Payments to suppliers	(2,755,995)	(15,556,948)	(18,312,943)
Payments to utilities	(274,782)	(1,679,803)	(1,954,585)
Payments for scholarships and fellowships	(487,668)	(4,691,795)	(5,179,463)
Loans issued to students		(157,675)	(157,675)
Collection of loans to students		189,954	189,954
Sales and service of educational activities		176,793	176,793
Auxiliary enterprise charges		6,122,532	6,122,532
Fees retained by the Commission	(55,514)	(127,057)	(182,571)
Other receipts — net	59,223	(1,870)	57,353
	<u>(3,005,751)</u>	<u>(12,063,424)</u>	<u>(15,069,175)</u>
Net cash used in operating activities			
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
State appropriations	3,074,167	11,237,196	14,311,363
FFELP lending receipts		16,330,530	16,330,530
FFELP lending payments		(16,345,313)	(16,345,313)
Fees assessed by the Commission for debt service and reserves		(101,570)	(101,570)
	<u>3,074,167</u>	<u>11,120,843</u>	<u>14,195,010</u>
Net cash provided by noncapital financing activities			
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Capital grants and gifts received		271,229	271,229
Capital projects proceeds from the Commission		401,693	401,693
Purchases of capital assets		(714,890)	(714,890)
Principal paid on payable to the Commission		(311,882)	(311,882)
Principal paid on notes and bonds		(294,796)	(294,796)
Interest paid on notes and bonds		(405,904)	(405,904)
Decrease (increase) in noncurrent cash and cash equivalents		(11,505)	(11,505)
	<u>-</u>	<u>(1,066,055)</u>	<u>(1,066,055)</u>
Net cash provided by (used in) capital financing activities			
CASH FLOWS FROM INVESTING ACTIVITY —			
Interest on investments	113,576	301,757	415,333
	<u>113,576</u>	<u>301,757</u>	<u>415,333</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			
	181,992	(1,706,879)	(1,524,887)
CASH AND CASH EQUIVALENTS — Beginning of year			
	<u>1,626,946</u>	<u>7,446,930</u>	<u>9,073,876</u>
CASH AND CASH EQUIVALENTS — End of year			
	<u>\$ 1,808,938</u>	<u>\$ 5,740,051</u>	<u>\$ 7,548,989</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

## SCHEDULE OF CASH FLOW INFORMATION YEAR ENDED JUNE 30, 2007

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	Community and Technical College	Four-Year and Other Components	Combined Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:			
Operating loss	\$ (2,806,410)	\$ (13,476,306)	\$ (16,282,716)
Adjustments to reconcile net operating loss to net cash used in operating activities:			
Depreciation and amortization expense	19,040	1,413,188	1,432,228
Changes in assets and liabilities:			
Receivables — net	557,422	(52,317)	505,105
Loans to students — net		419	419
Prepaid expenses		(3,993)	(3,993)
Inventories		(35,697)	(35,697)
Accounts payable and accrued liabilities	(746,389)	169,306	(577,083)
Compensated absences	(69,790)	(31,355)	(101,145)
Deferred revenue	40,376	(61,419)	(21,043)
Deposits held in custody for others		14,750	14,750
	<u>                    </u>	<u>                    </u>	<u>                    </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (3,005,751)</u>	<u>\$ (12,063,424)</u>	<u>\$ (15,069,175)</u>

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

## ADDITIONAL INFORMATION — COMPONENT FINANCIAL DATA NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS FOR THE YEAR ENDED JUNE 30, 2007

	Community and Technical College							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Fees Assessed by Commission	Total
Instruction	\$ 1,797,478	\$ 518,509	\$ 1,349,246	\$ 2,575	\$ 16,103	\$ -	\$ -	\$ 3,683,911
Research								
Public service	142,086	20,439	105,825	140				268,490
Academic support	261,270	73,442	228,205	21,434				584,351
Student services	259,566	77,501	55,307	2,508				394,882
General institutional support	401,821	100,297	213,827	4,363				720,308
Operations and maintenance of plant	264,464	100,641	213,700	243,762	1,470			824,037
Scholarship and fellowship					470,095			470,095
Tuition and fees retained by the Commission							55,514	55,514
Depreciation and amortization expenses						19,040		19,040
<b>Total</b>	<b>\$ 3,126,685</b>	<b>\$ 890,829</b>	<b>\$ 2,166,110</b>	<b>\$ 274,782</b>	<b>\$ 487,668</b>	<b>\$ 19,040</b>	<b>\$ 55,514</b>	<b>\$ 7,020,628</b>

	Four Year and Other Components							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Fees Assessed by Commission	Total
Instruction	\$ 8,559,760	\$1,828,562	\$ 399,530	\$ 75,179	\$ 225,187	\$ -	\$ -	\$11,088,218
Research	1,468,052	353,302	1,939,918	17,449	22,660			3,801,381
Public service	706,821	163,142	2,104,307	18,809				2,993,079
Academic support	761,463	73,972	354,443	76,622				1,266,500
Student services	1,277,804	312,471	1,042,617	11,705	5,951			2,650,548
General institutional support	4,927,043	1,168,004	2,542,085	30,053	69,230			8,736,415
Operations and maintenance of plant	1,662,743	554,002	1,914,909	915,803	5,530			5,052,987
Scholarship and fellowship					4,358,724			4,358,724
Auxiliary enterprises	1,794,554	541,622	5,269,668	534,183	4,513			8,144,540
Depreciation and amortization expenses						1,404,031		1,404,031
Tuition and fees retained by the Commission							127,057	127,057
<b>Total</b>	<b>\$21,158,240</b>	<b>\$4,995,077</b>	<b>\$15,567,477</b>	<b>\$1,679,803</b>	<b>\$4,691,795</b>	<b>\$1,404,031</b>	<b>\$127,057</b>	<b>\$49,623,480</b>

# WEST VIRGINIA STATE UNIVERSITY

## NOTE TO ADDITIONAL INFORMATION — WVSCTC FINANCIAL DATA FOR THE YEAR ENDED JUNE 30, 2007

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### 1. WEST VIRGINIA STATE COMMUNITY AND TECHNICAL COLLEGE

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

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

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

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

The enrollment percentage utilized for the 2007 fiscal year is 30% for WVSCTC and 70% for the University. The 30% of the total full time equivalent number of students (FTE) has been reported by the West Virginia State University Research and Development Corporation Office of Institutional Research to the Commission. In analyzing the percentage trend over a three-year period, the WVSCTC percentage of enrollment of 30% in fiscal year 2007 is indicative of the enrollment percentage pattern over the last few years.

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

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

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

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

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

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

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

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

To the West Virginia State University Governing Board:

We have audited the combined financial statements of West Virginia State University (the "University") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 19, 2007, which states reliance on other auditors for West Virginia State University Research and Development Corporation and 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 audit of the University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University's internal control over financial reporting as a basis for designing auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University'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 University'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 University's combined financial statements that is more than inconsequential will not be prevented or detected by the University's internal control.

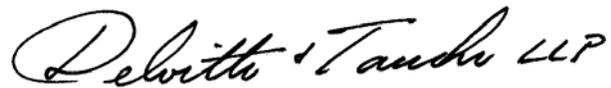
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the University's internal control.

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

## Compliance and Other Matters

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

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

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

October 19, 2007