Glenville State College

Combined Financial Statements for the Year Ended June 30, 2002 and Independent Auditors' Reports

GLENVILLE STATE COLLEGE

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200 High Street
Glenville, WV 26351

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Overview of the Financial Statements and Financial Analysis

Glenville State College (the "College") is pleased to present its financial statements for fiscal year 2002. The Governmental Accounting Standards Board ("GASB") issued GASB 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, which change the presentation of college and university financial statements effective for fiscal year 2002. The emphasis of discussions about these statements will be on current year data. The previous reporting format presented financial balances and activities by fund groups. The new format places emphasis on the overall economic resources of the College. Depreciation of capital assets is now included as an expense and State appropriations are reflected as non-operating revenue. This is the first fiscal year for this new reporting format.

There are three 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. This management discussion and analysis of the College's combined financial statements provides an overview of its financial activities for the year and is required supplemental information.

Financial Highlights

The implementation of GASB 35 resulted in a restatement decrease of $17.5 million to the July 1, 2001 net assets. This cumulative effect of changes in accounting principle is primarily the result of the adoption of depreciation on capital assets and reclassification of a federal loan program. At June 30, 2002, the College's total net assets decreased from the previous year by $2.3 million primarily as a result of a $2.9 million allocation of the College's portion of system-wide debt from the West Virginia Higher Education Policy Commission ("HEPC").

Combined Statement of Net Assets

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the College as of the end of the fiscal year. The purpose of the Combined Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. The Combined Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets

(Assets minus Liabilities). The difference between current and noncurrent assets and liabilities is discussed in the footnotes to the combined financial statements.

The Combined Statement of Net Assets provides a way to measure the financial position of the College. It provides a picture of the net assets and their availability for expenditure by the College. From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much is owed to employees, vendors and lending institutions.

Net assets are divided into three major categories. The first category, invested in capital assets, accounts for equity in the property, plant and equipment owned by the College, with title held by the HEPC. The next asset category is restricted net assets, which is divided into two categories: nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Included in restricted expendable net assets are balances that have been designated for specific purposes in West Virginia State Code. This category includes auxiliary enterprise balances as well as certain student fee funds that are designated within state code for specific general purposes such as housing operations or library operations. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of the College.

Net Assets
June 30, 2002

Assets:	
Current assets	$ 4,411,161
Non-current assets	952,597
Capital assets, net	16,978,794
Total Assets	$ 22,342,552
Liabilities	
Current Liabilities	$ 2,098,744
Non-current Liabilities	9,676,030
Total Liabilities	11,774,774
Net Assets (Deficit)	
Invested in capital assets	8,795,621
Restricted – expendable	2,144,795
Unrestricted	(372,638)
Total Net Assets	10,567,778
Total Liabilities and Net Assets	$ 22,342,552

An indicator of short-term financial condition is the ratio of current assets to current liabilities, or current ratio. At June 30, 2002, the current ratio of 2.1 indicates that the College has sufficient available resources to meet its current obligations.

Significant Changes in Net Assets

GASB Statements 34 and 35 have been fully implemented by the College as of June 30, 2002. The adoption of GASB 35 is accounted for as a cumulative effect of change in accounting principle and has resulted in depreciation of capital assets, the capitalization of infrastructure, and the reclassification of a federal loan program. GASB 35 does not require inclusion of prior year's financial statements during the implementation year. Comparative information will be provided in the future.

The new GASB accounting standards resulted in a restatement decrease of $17.5 million to beginning net assets. This decrease is made up of accumulated depreciation ($17.1 million) and reclassification of a federal loan program ($0.7 million), offset by an increase in infrastructure ($0.3 million) .

At June 30, 2002, the College's total net assets decreased from the previous year by $2.3 million primarily as a result of a $2.9 million allocation of the College's portion of system-wide debt from the HEPC. The principal payment on this debt for the fiscal year ended June 30, 2003, will amount to $211,388 and is reported as a current liability as Higher Education Policy Commission Debt Payable on the Combined Statement of Net Assets of the College.

- Current cash and cash equivalents increased by approximately $490 thousand primarily as a result of two items: (1) a shift in HEPC investment strategy, and (2) a planned budgetary strategy to increase total assets. First, a shift in HEPC investment strategies was recommended by the Investment Committee of the West Virginia Association of Higher Education Fiscal Officers. Investments in the enhanced yield pool of the investment portfolio were increased to take advantage of higher dividend earnings. These investments represented over 60% of the total investment portfolio. Due to changes in market conditions subsequent to year end, this strategy has been reversed to invest more in the cash liquidity pool to protect against the risk of sharp increases in interest rates. Second, a planned budgetary strategy was developed to increase total assets. An operational budget reduction was imposed on spending units and savings from vacant positions were realized. These actions generated a savings of $540,000. This strategy was put in place in an effort to bring current expenditures in line with current revenue projections and make provisions to increase net assets.

- Non-current assets increased by $206,452 primarily as a result of major capital projects which will be explained in greater detail under the Combined Statement of Cash Flows.

Combined Statement of Revenues, Expenses and Changes in Net Assets

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

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. 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 West Virginia Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues.

Revenues, Expenses and Changes in Net Assets
For Year Ended June 30, 2002

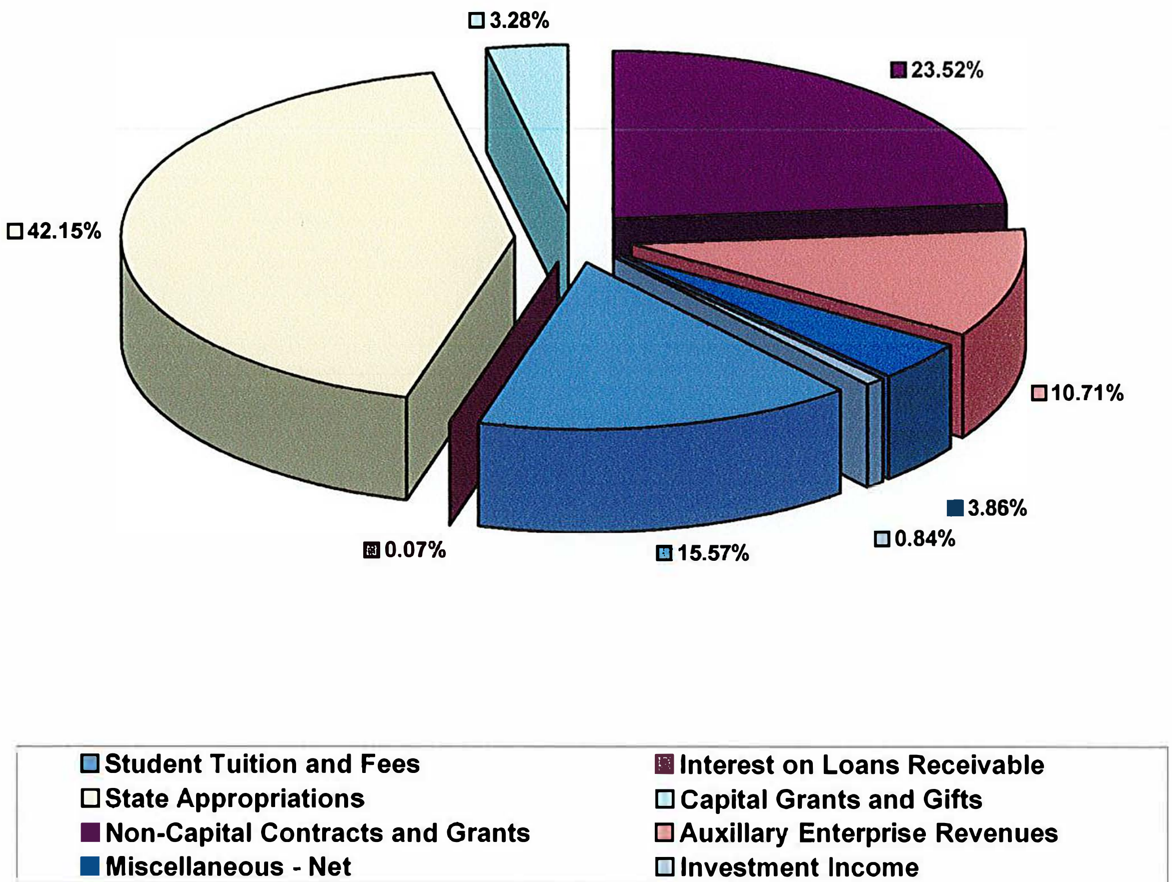
Operating revenues	$ 10,729,537
Operating expenses	18,673,391
Operating loss	(7,943,854)
Net Non-operating revenues and expenses	7,868,718
Income before other revenues, expenses, gains or losses	(75,136)
Capital Grants and Gifts	655,000
Transfer of liability from HEPC	(2,868,593)
Decrease in net assets	(2,288,729)
Net assets, beginning of year (as restated)	12,856,507
Net assets, end of year	$ 10,567,778

An analysis of the individual revenue and expense categories that contributed to the overall decrease in net assets reveals the following:

Revenues:

Program revenues (by major source)	
Tuition & fees before allowances	$5,035,245
Less: scholarship discounts & allowances	(1,924,820)
Research grants & contracts	4,696,470
Auxiliary enterprise sales & services, net	2,139,219
Miscellaneous	783,423
General revenues (by major source)	
State appropriations	8,416,070
Investment income	167,547
Capital grants and gifts	655,000
Total Revenues	$19,968,154

FY 2002 Revenues



- Student tuition and fees (net of scholarship allowance) made up 29% of the College's operating revenues and, as the pie chart shows, 15.57% of total revenues. Tuition and fee revenues increased over the previous year because resident and non-resident tuition and fees were increased by 3.98% and 7.73%, respectively.

- Other operating revenues such as noncapital contracts and grants, auxiliary enterprise revenue, interest on loans receivable, and miscellaneous – net revenues comprised 71% of the College's operating revenues and, as the pie chart shows, 38.16% of total revenues.

- State appropriations consisted mainly of State appropriated general revenue funds ($8.2 million) and a small amount of appropriated Lottery Special Revenue funds ($200 thousand). These State appropriations accounted for 42.15% of total revenues in FY 2002. These funds are used to pay salaries and benefits in support of the operations of the College.

- Investment income made up 0.84% of total revenues in FY 2002. The College participates in the investment pool managed by the State.

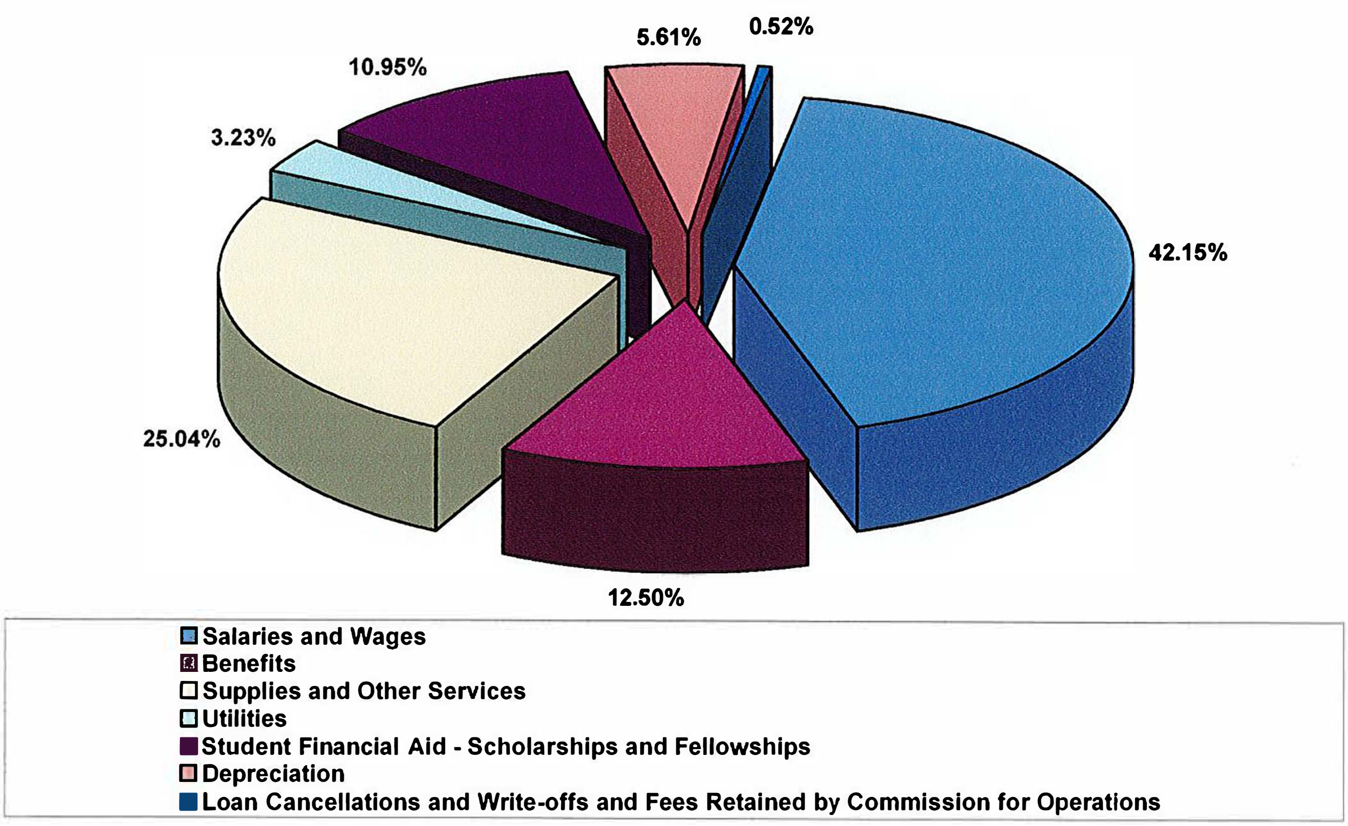
- Capital grants and gifts made up the remaining balance of 3.28% of total revenues. This revenue source consists of a private donation of $655,000 for an artificial playing surface at Morris Stadium.

Operating and Non-operating Expenses:

The operating expenses of the College by natural classification are as follows:

Salaries and wages	$7,871,238
Benefits	2,335,367
Supplies and other services	4,674,906
Utilities	602,631
Student financial aid, scholarships and fellowships	2,045,576
Depreciation	1,047,127
Loan cancellations and write-offs	14,355
Fees retained by Commission for operations	82,191
Total Operating Expenses	$18,673,391

FY 2002 Operating Expenses



- Salaries and wages, and employee benefits made up approximately 54.65% of the operating expenses of the College.

Non-operating expenses, consisting primarily of interest on indebtedness ($319,130) and fees assessed by the HEPC for system-wide debt service ($395,291), made up 4% of the total operating and non-operating expenses of the College.

Transfer of Liability From Policy Commission

The $2,868,593 transfer of liability from the Policy Commission represents a "one time" transfer of accumulated debt that had not been included in the College's financial statements in prior years. This is a nonrecurring item and is further explained in Note 11 of the Combined Financial Statements.

Combined Statement of Cash Flows

The Combined Statement of Cash Flows presents detailed information about the cash activities of the College during the year. The statement is divided into five sections. The first section deals with operating cash flows and shows the net cash used in the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNA. Overall, cash and cash equivalents increased approximately $490 thousand for the fiscal year. GASB 35 does not require restatement of prior year cash flows in the implementation year. This is a completely new statement for FY 2002 and there is no prior year data available for comparative purposes.

Cash Flows
For Year Ended June 30, 2002

Cash provided by (used in):	
Operating activities	$ (6,411,074)
Non capital financing activities	8,106,633
Capital financing activities	(1,378,066)
Investing activities	172,599
Increase in cash and cash equivalents	490,092
Cash and cash equivalents, beginning of year	2,430,352
Cash and cash equivalents, end of year	$ 2,920,444

Capital Asset and Debt Administration

The College had several renovation and new construction projects completed or started during FY 2002. These projects were funded from a variety of sources including federal and private grants, capital debt, and College funds.

- October 2001, marked the grand opening of our state of the art residence hall facilities, Pioneer Village. This $5M residence facility provides modern accommodations for 156 students in ten separate units. This facility, which includes a commons area, lounge, and laundry facilities, was funded by thirty-year revenue bonds.

- Morris Stadium received a facelift in the form of an artificial playing surface. The cost of this project was $600,000. In addition, $55,000 of paving was completed on parking areas at the stadium. These projects were made possible by the generous gift of Ike and Sue Morris, for whom the stadium is named.

- Capital improvements were made to several other areas on campus. These include; layout and access renovations to Pickens Hall, electrical service upgrade to Heflin Student Center, the Dora Heflin Garden (in recognition and honor of all former first ladies of the College), new signage at the north entrance, additional parking spaces, and traffic control and beautification of Pioneer Way. The tuition and registration fee revenues deposited in the Capital Building/Land Improvement account are dedicated for these types of projects.

- The College completed several information technology projects during the year. They include rewiring the Main Distribution Frame, Cat V cabling at the Nicholas County Center, installation of a 16 station computer lab in the Science Hall, computer lab at the Lewis County Center, and wiring to Wagner Wing and Williams Wing of Pickens Hall. In FY 2003, the College will complete two new 30 station computer labs funded by a special FIPSE (Fund for the Improvement of Post Secondary Education) award.

Economic Outlook

The College's financial position is largely dependent upon the economy of the State of West Virginia and its local service area. State appropriations contribute approximately 42% of all revenues. FY2003 budgets were developed on the assumption of no change in enrollment and fee increases for in-state and out-of-state students of 8.52% and 5.88%, respectively. However, a reduction in State Appropriations resulted in a $273 thousand budget reduction. This reduction was made up through the elimination of two administrative positions, four staff positions, moving two positions to grant funds, and a deferral on filling non-critical vacant positions.

All State agencies have been directed to plan for a 10% reduction in the base state appropriated budgets for FY2004. This will result in some major cuts in personnel and operational budgets. In addition, we are planning for significant increases in premiums for Board of Risk Insurance Management and employee health insurance. For FY 2004 the College is projecting a stable enrollment and fee increases of 9.5% for in-state and 6% for out-of-state students to help offset these increases.

The majority of the College's enrollment comes from the local ten county service area. The demographics of this area reflect a declining number of high school graduates and an overall aging population. Many of these students require financial assistance to enable them to attend college. The College has historically been attractive for offering a quality education at an affordable price. Competitive tuition rates and a continued emphasis on recruitment should provide the College with a marginal growth in enrollment. No major fluctuations in enrollment over the past few years and a slight increase for the Fall 2002 semester support that position.

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INDEPENDENT AUDITORS' REPORT

To the Glenville State College Governing Board:

We have audited the accompanying combined financial statements of Glenville State College (the "College") as of June 30, 2002 and for the year then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audit.

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. 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the College at June 30, 2002, and the combined changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) on pages 1 to 9 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. Supplemental information has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2002, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Deloitte & Touche LLP

October 11, 2002

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 2,920,444
Appropriations due from Primary Government	750,907
Accounts receivable—net	321,160
Loans to students—current portion	330,592
Prepaid expenses	196
Inventories	87,862
Total current assets	4,411,161
NONCURRENT ASSETS:	
Cash and cash equivalents	589,568
Loans to students—net of allowance of $498,936	363,029
Capital assets—net	16,978,794
Total noncurrent assets	17,931,391
TOTAL ASSETS	$ 22,342,552

(Continued)

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	$ 229,459
Accrued liabilities	993,640
Due to the Commission	97,639
Compensated absences—current portion	361,764
Deferred revenue	82,201
Note payable—current portion	5,000
Capital lease obligations—current portion	47,653
Bonds payable—current portion	70,000
Higher Education Policy Commission Debt Payable—current portion	211,388
Total current liabilities	2,098,744
NONCURRENT LIABILITIES	9,676,030
Total liabilities	11,774,774
NET ASSETS:	
Invested in capital assets—net of related debt	8,795,621
Restricted for:	
Expendable:	
Scholarships	3,011
Loans	145,476
Capital projects	959,397
Debt service	122,653
Other	914,258
Unrestricted	(372,638)
Total net assets	10,567,778
TOTAL LIABILITIES AND NET ASSETS	$ 22,342,552

(Concluded)

See notes to combined financial statements

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowance of $1,924,820)	$ 3,110,425
Contracts and grants:	
Federal	3,431,520
State	1,230,221
Private	34,729
Interest on student loans receivable	12,987
Sales and services of educational activities	758,163
Auxiliary enterprise revenue (net of scholarship allowance of $667,475)	2,139,219
Miscellaneous—net	12,273
Total operating revenues	10,729,537
OPERATING EXPENSES:	
Salaries and wages	7,871,238
Benefits	2,335,367
Supplies and other services	4,674,906
Utilities	602,631
Student financial aid—scholarships and fellowships	2,045,576
Depreciation	1,047,127
Loan cancellations and write-offs	14,355
Fees retained by Commission for operations	82,191
Total operating expenses	18,673,391
OPERATING LOSS	(7,943,854)

(Continued)

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 8,416,070
Investment income	167,547
Interest on indebtedness	(319,130)
Other nonoperating expense—net	(478)
Fees assessed by Commission for debt service	(395,291)
Net nonoperating revenues	7,868,718
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(75,136)
CAPITAL GRANTS AND GIFTS	655,000
INCREASE IN NET ASSETS BEFORE TRANSFERS	579,864
TRANSFER OF LIABILITY FROM POLICY COMMISSION	2,868,593
DECREASE IN NET ASSETS	(2,288,729)
NET ASSETS—Beginning of year (as restated)	12,856,507
NET ASSETS—End of year	$ 10,567,778

(Concluded)

See notes to combined financial statements

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 2,724,196
Contracts and grants	4,707,785
Payments to and on behalf of employees	(9,919,697)
Payments to suppliers	(4,580,141)
Payments to utilities	(467,965)
Payments for scholarships and fellowships	(2,045,576)
Loans issued to students	(368,612)
Collection of loans to students	277,255
Sales and service of educational activities	758,163
Auxiliary enterprise charges	2,019,530
Fees retained by/from Commission	395,291
Other receipts and payments—net	88,697
Net cash used in operating activities	(6,411,074)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	8,106,633
William D. Ford direct lending receipts	3,822,112
William D. Ford direct lending payments	(3,822,112)
Net cash provided by noncapital financing activities	8,106,633
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Purchases of capital assets	(1,624,843)
Debt service paid to Commission	(395,291)
Principal paid on notes, bonds and leases	(101,366)
Interest paid on notes, bonds and leases	(318,089)
Decrease in noncurrent cash and cash equivalents	1,061,523
Net cash used in capital financing activities	(1,378,066)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	172,599
Net cash provided by investing activities	172,599
INCREASE IN CASH AND CASH EQUIVALENTS	490,092
CASH AND CASH EQUIVALENTS—Beginning of year	2,430,352
CASH AND CASH EQUIVALENTS—End of year	$ 2,920,444

(Continued)

GLENVILLE STATE COLLEGE

COMBINED STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (7,943,854)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	1,047,127
Changes in assets and liabilities:	
Accounts receivable—net	(16,457)
Loans to students, net	(54,129)
Prepaid expenses	774
Inventories	(26,924)
Accounts payable	9,724
Accrued liabilities	270,113
Compensated absences	355,601
Deferred revenue	(15,424)
Advances from Federal Sponsors	(37,625)
NET CASH USED IN OPERATING ACTIVITIES	$ (6,411,074)
NONCASH TRANSACTIONS:	
Transfer in of Commission Debt	$ 2,868,593
Capital gifts of equipment and stadium turf	$ 655,000
Accretion of bond discount into bonds payable	$ 1,519

(Concluded)

See notes to combined financial statements.

1. ORGANIZATION

Glenville State College (the "College") is governed by the Glenville State College Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Directors of the College System of West Virginia effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board was granted all powers, duties, and authorities of the Board of Directors and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Directors.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Boards of each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

a. *Reporting Entity*—The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The College is a separate entity which, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing ("WVNET"), 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 College, including its component units, Glenville State College Research Corporation (the "Corporation"), which was formed on December 10, 1990 as a non-profit, non-stock corporation and Glenville State College Housing Corporation (the "Housing Corporation"), which received tax-exempt status on June 11, 1973 as a non-profit corporation. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities. A related Foundation and Alumni Association of the College are not part of the College reporting entity and are not included in the accompanying combined financial statements as the College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the Foundation and Alumni Association.

b. *Financial Statement Presentation*—During fiscal 2002, the College adopted GASB Statement No. 35, Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statements No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

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

   - *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia 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 Code. These restrictions are primarily for the following: debt service; graduate or branch colleges; off campus instruction; student unions; public interest research group; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2002.

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

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on an entity-wide basis. The provisions of Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances, as previously reported, to the restated net asset balances for the same date:

	June 30, 2001
Combined fund balances, as previously reported	$ 30,355,577
Accumulated depreciation	(17,059,378)
Infrastructure capitalization	286,390
Reclassification of federal loan programs (Perkins)	(726,082)
Combined fund balances, restated as net assets	$ 12,856,507

c. *Basis of Accounting*—For financial reporting purposes, the College is considered a special-purpose government engaged only in business-type activities. Accordingly, the College's 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 expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

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

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

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

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

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

h. *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.

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

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

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 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 College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

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

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

l. *Classification of Revenues*—The College has classified its revenues as either operating or non-operating 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 (excluding portion for capital improvements), 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, (4) Federal appropriations, and (5) sales and services of educational activities.

- *Nonoperating Revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that Use Proprietary Fund Accounting and GASB No. 34, such as state appropriations and investment income. Nonoperating revenues also exclude student fees which were billed for capital improvements.

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

n. *Federal Financial Assistance Programs*—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2002, the College received and disbursed approximately $3,822,112 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statement of revenues, expenses and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2002, the College received and disbursed approximately $3,129,466 under these federal student aid programs.

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

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

p. *Gifts and Pledges*—The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that an immaterial amount of pledges are outstanding at June 30, 2002.

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

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

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

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

u. *Recent Statements Issued By the Government Accounting Standards Board*—The GASB issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, an amendment of GASB Statement 14. This statement is effective for periods beginning after June 15, 2003. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the College's financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
College	$2,229,801	$468,497	$2,698,298
Cash in bank	690,643	121,071	811,714
	$2,920,444	$589,568	$3,510,012

Cash held by the State Treasurer includes $1,854,319 of restricted cash for student housing, student activities, faculty improvement and federal grants among others.

The combined carrying amounts of cash in the bank at June 30, 2002 was $811,714, as compared with the combined bank balance of $850,659. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Cash on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

Student tuition and fees, net of allowance for doubtful accounts of $333,299	$ 118,713
Due from the Commission	15,448
Due from other State agencies	38,273
Other accounts receivable—net of allowance for doubtful accounts of $800	148,726
	$ 321,160

5. CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2002:

	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	$ 462,913	$ -	$ -	$ -	$ 462,913
Construction in progress	3,626,416	1,132,618		(4,759,034)	
Total capital assets not being depreciated	$ 4,089,329	$1,132,618	$ -	$(4,759,034)	$ 462,913
Other capital assets:					
Land improvements	$ 1,231,283	$ 68,682	$ -	$ -	$ 1,299,965
Infrastructure	1,291,103	55,000			1,346,103
Buildings	20,584,205	133,930		4,759,034	25,477,169
Equipment	3,952,715	854,984			4,807,699
Library books	1,656,821	34,629	(203,938)		1,487,512
Total other capital assets	28,716,127	1,147,225	(203,938)	4,759,034	34,418,448
Less accumulated depreciation for:					
Land improvements	391,777	49,315			441,092
Infrastructure	593,215	94,524			687,739
Buildings	12,529,027	501,774			13,030,801
Equipment	2,115,731	329,422			2,445,153
Library books	1,429,628	72,092	(203,938)		1,297,782
Total accumulated depreciation	17,059,378	1,047,127	(203,938)	-	17,902,567
Other capital assets—net	$11,656,749	$ 100,098	$ -	$ 4,759,034	$16,515,881
Capital asset summary:					
Capital assets not being depreciated	$ 4,089,329	$1,132,618	$ -	$(4,759,034)	$ 462,913
Other capital assets	28,716,127	1,147,225	(203,938)	4,759,034	34,418,448
Total cost of capital assets	32,805,456	2,279,843	(203,938)	-	34,881,361
Less accumulated depreciation	17,059,378	1,047,127	(203,938)		17,902,567
Capital assets—net	$15,746,078	$1,232,716	$ -	$ -	$16,978,794

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

Title for certain real property is with the Commission.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Revenue bonds payable net of discount, including unexpended funds of $121,071 at June 30, 2002	$ 4,990,565	$ 1,519	$ 45,000	$ 4,947,084	$ 70,000
Capital lease obligations	403,862		51,366	352,496	47,653
Note payable	20,000		5,000	15,000	5,000
Commission Debt Payable		2,868,593		2,868,593	211,388
Total bonds, capital leases, and note payable	5,414,427	2,870,112	101,366	8,183,173	334,041
Other noncurrent liabilities:					
Accrued compensated absences	1,144,604	457,198	101,597	1,500,205	361,764
Advances from Federal Sponsors	726,082		37,625	688,457	
Total noncurrent liabilities	$ 7,285,113	$ 3,327,310	$ 240,588	$ 10,371,835	$ 695,805

7. BONDS PAYABLE

Bonds payable consisted of the following at June 30, 2002:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
Student Housing Bonds:			
Series 2000 A, mature various dates through October 1, 2030	5.0%-6.2%	Various	$ 4,990,000
Total bonds payable			$ 4,990,000

The following is a schedule by year of future annual minimum payments required under the Series 2000 A bonds existing at June 30, 2002:

Year Ending June 30	Principal	Interest	Total
2003	$ 70,000	$ 297,568	$ 367,568
2004	75,000	293,886	368,886
2005	80,000	289,875	369,875
2006	85,000	285,564	370,564
2007	85,000	281,080	366,080
2008 - 2012	510,000	1,328,365	1,838,365
2013 - 2017	675,000	1,155,963	1,830,963
2018 - 2022	905,000	919,279	1,824,279
2023 - 2027	1,225,000	594,988	1,819,988
2027 and Thereafter	1,280,000	164,920	1,444,920
Total	$4,990,000	$5,611,488	$10,601,488

8. CAPITAL LEASE OBLIGATIONS

The College leases various equipment. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2002:

Year Ending June 30	Principal	Interest	Total
2003	$47,653	$ 15,152	$ 62,805
2004	49,882	12,923	62,805
2005	52,215	10,590	62,805
2006	54,657	8,148	62,805
2007	57,213	5,592	62,805
Thereafter	90,876	3,330	94,206
Less interest			55,735
			$ 352,496

9. NOTE PAYABLE

Note payable consisted of the following at June 30, 2002:

	Interest Rate	Annual Principal Installment Due	Principal Amount Outstanding
Real Estate Purchase:			
$35K promissory note collateralized by 1st lien on purchased Lot 35, Gilmer County, West Virginia	8.0%	$5,000 every January 1 through 2005	$15,000

The following is a schedule by year of future annual minimum payments required under the note existing at June 30, 2002:

Year Ending June 30	Principal	Interest	Total
2003	$ 5,000	$ 1,200	$ 6,200
2004	5,000	800	5,800
2005	5,000	400	5,400
Total			17,400
Less portion representing interest			2,400
			$ 15,000

10. COMPENSATED ABSENCES LIABILITY

The composition of the compensated absences liability was as follows at June 30, 2002:

Health or life insurance benefits	$ 1,064,239
Accrued vacation leave	435,966
	$ 1,500,205

For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled $52,006. As of June 30, 2002, there were 27 retirees currently eligible for these benefits.

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2001. The amount allocated to the College during the year ended June 30, 2002 was $2,868,593.

12. RETIREMENT PLANS

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

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 College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salaries out of the last 15 years) multiplied by the number of years of service.

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

Total contributions to the STRS for the years ended June 30, 2002, 2001 and 2000, were $511,808, $563,854, and $583,539, respectively, which consisted of $365,575, $402,754, and $416,813 from the College in 2002, 2001 and 2000, respectively, and $146,233, $161,100, and $166,726 from the covered employees in 2002, 2001 and 2000, respectively.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2002, 2001 and 2000, were \$592,546, \$563,758, and \$543,398, respectively, which consisted of equal contributions from the College and covered employees in 2002, 2001 and 2000 of \$296,273, \$281,879, and \$271,699, respectively.

The College's total payroll for the years ended June 30, 2002, was \$7,871,238; total covered employees' salaries in the STRS and TIAA-CREF were \$2,437,167 and \$4,918,905 in 2002, respectively.

13. FOUNDATION (UNAUDITED)

The Glenville State College Foundation, Inc. (the "Foundation") is a separate nonprofit organization incorporated in the State and has as its purpose, ". . . to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations . . . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employ management, form policy and maintain fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying combined financial statements.

Contributions to the Foundation, which are not reflected in the accompanying combined financial statements, totaled \$669,065 for the year ended June 30, 2002. During the year ended June 30, 2002, the Foundation contributed \$260,269 to the College for scholarships.

14. AFFILIATED ORGANIZATION

The College has a separately incorporated affiliated organization, the Glenville State College Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying combined financial statements.

15. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not seriously impact the financial status of the institution.

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

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

16. SEGMENT INFORMATION (UNAUDITED)

The College issued 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.

The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds (Glenville State College Housing Corporation Project (the "Corporation")), Series 2000A

In September 2001, the Corporation sold $4,990,000 of Revenue Bonds, 2000 Housing Facilities Series A Bonds (the "Bonds"). The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of September 27, 2001, by and between the Interim Governing Board and United National Bank, Charleston, WV (the "Trustee"). The bonds are secured by and payable from the revenues of the student housing facilities and certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to pay all or part of the cost of constructing ten two-story apartment buildings, each containing four four-bedroom units to be used as student housing and (2) paying a portion of the cost of issuing the bonds.

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

The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds (Glenville State College Housing Corporation Project), Series 2000A

Condensed Statement of Net Assets (Unaudited)

Assets:	
Current assets	$ 360,159
Capital assets	6,121,378
Total assets	$ 6,481,537
Liabilities:	
Accounts payable	$ 45,000
Bond indebtedness	4,947,084
Other note	15,000
Total liabilities	5,007,084
Net Assets:	
Invested in capital assets—net of related debt	1,114,294
Restricted:	
Debt service	126,071
Unrestricted	234,088
Total net assets and liabilities	$ 6,481,537

The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds (Glenville State College Housing Corporation Project), Series 2000A

Condensed Statement of Revenues, Expenses and Changes in Net Assets (Unaudited)

Operating:	
Operating revenues	$ 532,690
Operating expenses	(168,179)
Net operating income	364,511
Nonoperating:	
Nonoperating revenues	16,989
Nonoperating expenses	(306,236)
Changes in net assets	75,264
Net assets—beginning of year	1,399,189
Net assets—end of year	$ 1,474,453

Condensed Statement of Cash Flows (Unaudited)

Net cash provided by operating activities	$ 451,922
Net cash used by capital and related financing	(1,425,346)
Net (decrease) in cash	(973,424)
Cash—beginning of year	1,333,583
Cash—end of year	$ 360,159

17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Services	Utilities	Scholarships and Fellowships	Depreciation	Cancellations and Write-offs	Fees Retained by Commission for Operations	Total
Instruction	$ 3,960,009	$ 912,771	$ 633,338	$ -	$ -	$ -	$ -	$ -	$ 5,506,118
Academic support	465,517	130,450	494,276	20,311					1,110,554
Student services	831,228	236,378	506,142	639					1,574,387
General institutional support	1,456,481	460,265	901,600	7,104					2,825,450
Operations and maintenance of plant	624,987	291,504	290,925	302,159					1,509,575
Student financial aid					2,045,576				2,045,576
Auxiliary enterprises	533,016	303,999	1,848,625	272,418					2,958,058
Depreciation						1,047,127			1,047,127
Fees retained by Commission for operations								82,191	82,191
Other							14,355		14,355
Total	$ 7,871,238	$ 2,335,367	$ 4,674,906	$ 602,631	$ 2,045,576	$ 1,047,127	$ 14,355	$ 82,191	$ 18,673,391

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

To the Glenville State College Governing Board:

We have audited the combined financial statements of Glenville State College (the "College") as of and for the year ended June 30, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities.* 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.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the combined financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we considered to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College in a separate letter dated October 11, 2002.

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

Deloitte & Touche LLP

October 11, 2002