

***Board of Governors of West Liberty
State College Dormitory Revenue
Bonds, 2003 Series A; College Union
Revenue Bonds, 2003 Series B; and
Capital Improvement Bonds, 2003
Series C***

*Combined Special Purpose Financial Statements as
of and for the Years Ended June 30, 2007 and 2006,
and Independent Auditors' Report*

INDEPENDENT AUDITORS' REPORT

West Virginia Higher Education Policy Commission
Charleston, West Virginia

We have audited the accompanying combined special purpose statements of assets, liabilities and fund balance (deficit) — modified cash basis of the Board of Governors of West Liberty State College Dormitory Revenue Bonds, 2003 Series A; College Union Revenue Bonds, 2003 Series B; and Capital Improvement Bonds, 2003 Series C (the “Bonds”) as of June 30, 2007 and 2006, and the related combined special purpose statements of revenues collected, expenses and costs paid, and changes in fund balance (deficit) — modified cash basis for the years then ended. These combined special purpose financial statements are the responsibility of West Liberty State College’s management. Our responsibility is to express an opinion on these combined special purpose financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control over financial reporting. Accordingly, we express no such opinion. 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 audits provide a reasonable basis for our opinion.

As discussed in Note 1, the accompanying combined special purpose financial statements were prepared in connection with the related bond agreements and are intended to present only the selected assets, liabilities, fund balances, revenues, and expenses of the West Liberty State College required to be presented under these agreements. These combined special purpose financial statements are prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. These combined special purpose financial statements are not intended to be a complete presentation of West Liberty State College.

In our opinion, such combined special purpose financial statements present fairly, in all material respects, the combined assets, liabilities, and fund balance (deficit) of the Bonds, as of June 30, 2007 and 2006, and its combined revenues collected, expenses and cost paid, and changes in fund balance (deficit) for the years then ended, on the basis of accounting described in Note 1.

This report is intended solely for the information and use of the West Virginia Higher Education Policy Commission, the Board of Governors of the West Liberty State College, managements of West Liberty State College and the West Virginia Higher Education Policy Commission, and the bondholders and is not intended to be, and should not be, used by anyone other than these specified parties.

August 13, 2007

**DORMITORY REVENUE BONDS, 2003 SERIES A; COLLEGE UNION
REVENUE BONDS, 2003 SERIES B; AND CAPITAL IMPROVEMENT
REVENUE BONDS, 2003 SERIES C**

**COMBINED SPECIAL PURPOSE STATEMENTS OF ASSETS, LIABILITIES, AND
FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS
AS OF JUNE 30, 2007 AND 2006**

	2007					2006				
	Revenue Fund	Construction Fund	Bond Fund	Debt Service Reserve Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Debt Service Reserve Fund	Combined
ASSETS										
DEPOSITS WITH THE TRUSTEE BANK	\$ -	\$366,612	\$1,528	\$1,113,266	\$ 1,481,406	\$ -	\$1,796,957	\$1,115	\$1,113,340	\$ 2,911,412
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF WEST LIBERTY STATE COLLEGE	<u>1,384,296</u>				<u>1,384,296</u>	<u>1,163,716</u>				<u>1,163,716</u>
TOTAL	<u>\$ 1,384,296</u>	<u>\$366,612</u>	<u>\$1,528</u>	<u>\$1,113,266</u>	<u>\$ 2,865,702</u>	<u>\$ 1,163,716</u>	<u>\$1,796,957</u>	<u>\$1,115</u>	<u>\$1,113,340</u>	<u>\$ 4,075,128</u>
LIABILITIES AND FUND BALANCE (DEFICIT)										
LIABILITIES — Bond indebtedness	\$ 12,640,000	\$ -	\$ -	\$ -	\$12,640,000	\$ 13,005,000	\$ -	\$ -	\$ -	\$13,005,000
FUND BALANCE (DEFICIT)	<u>(11,255,704)</u>	<u>366,612</u>	<u>1,528</u>	<u>1,113,266</u>	<u>(9,774,298)</u>	<u>(11,841,284)</u>	<u>1,796,957</u>	<u>1,115</u>	<u>1,113,340</u>	<u>(8,929,872)</u>
TOTAL	<u>\$ 1,384,296</u>	<u>\$366,612</u>	<u>\$1,528</u>	<u>\$1,113,266</u>	<u>\$ 2,865,702</u>	<u>\$ 1,163,716</u>	<u>\$1,796,957</u>	<u>\$1,115</u>	<u>\$1,113,340</u>	<u>\$ 4,075,128</u>

See notes to combined special purpose modified cash basis financial statements.

**BOARD OF GOVERNORS OF WEST LIBERTY STATE COLLEGE
DORMITORY REVENUE BONDS, 2003 SERIES A; COLLEGE UNION
REVENUE BONDS, 2003 SERIES B; AND CAPITAL IMPROVEMENT
REVENUE BONDS, 2003 SERIES C**

**COMBINED SPECIAL PURPOSE STATEMENTS OF REVENUES COLLECTED, EXPENSES AND COSTS PAID, AND
CHANGES IN FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006**

	2007					2006				
	Revenue Fund	Construction Fund	Bond Fund	Debt Service Reserve Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Debt Service Reserve Fund	Combined
REVENUES COLLECTED:										
Room and board	\$ 1,319,460	\$ -	\$ -	\$ -	\$ 1,319,460	\$ 1,271,216	\$ -	\$ -	\$ -	\$ 1,271,216
Income from investments		36,827	413	56,839	94,079		135,470	761	45,523	181,754
Total revenues collected	<u>1,319,460</u>	<u>36,827</u>	<u>413</u>	<u>56,839</u>	<u>1,413,539</u>	<u>1,271,216</u>	<u>135,470</u>	<u>761</u>	<u>45,523</u>	<u>1,452,970</u>
EXPENSES AND COSTS PAID:										
Salaries and employee benefits	3,602				3,602					
Equipment and supplies	4,779				4,779					
Professional services						20,415				20,415
Repairs and alterations						10,131				10,131
Construction		1,524,085			1,524,085		3,671,281			3,671,281
Interest expense			725,499		725,499			738,812		738,812
Total expenses and costs paid	<u>8,381</u>	<u>1,524,085</u>	<u>725,499</u>	<u>-</u>	<u>2,257,965</u>	<u>30,546</u>	<u>3,671,281</u>	<u>738,812</u>	<u>-</u>	<u>4,440,639</u>
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENSES AND COSTS PAID	1,311,079	(1,487,258)	(725,086)	56,839	(844,426)	1,240,670	(3,535,811)	(738,051)	45,523	(2,987,669)
RETIREMENT OF BONDS	365,000		(365,000)		-	355,000		(355,000)		-
TRANSFER TO (FROM) — For payment of current debt service requirements	(1,090,499)	56,913	1,090,499	(56,913)	-	(1,093,812)	44,495	1,093,812	(44,495)	-
FUND BALANCE (DEFICIT):										
Beginning of year	<u>(11,841,284)</u>	<u>1,796,957</u>	<u>1,115</u>	<u>1,113,340</u>	<u>(8,929,872)</u>	<u>(12,343,142)</u>	<u>5,288,273</u>	<u>354</u>	<u>1,112,312</u>	<u>(5,942,203)</u>
End of year	<u>\$ (11,255,704)</u>	<u>\$ 366,612</u>	<u>\$ 1,528</u>	<u>\$ 1,113,266</u>	<u>\$ (9,774,298)</u>	<u>\$ (11,841,284)</u>	<u>\$ 1,796,957</u>	<u>\$ 1,115</u>	<u>\$ 1,113,340</u>	<u>\$ (8,929,872)</u>

See notes to combined special purpose modified cash basis financial statements.

BOARD OF GOVERNORS OF WEST LIBERTY STATE COLLEGE DORMITORY REVENUE BONDS, 2003 SERIES A; COLLEGE UNION REVENUE BONDS, 2003 SERIES B; AND CAPITAL IMPROVEMENT REVENUE BONDS, 2003 SERIES C

NOTES TO COMBINED SPECIAL PURPOSE MODIFIED CASH BASIS FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — West Liberty State College (the “College”) is governed by the Board of Governors of West Liberty State College (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 the public higher education in West Virginia.

The Board’s 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 College, the duty to develop a master plan for the College, the power to prescribe the specific functions and College’s budget request, the duty to review, at least every five years, all academic programs offered at the College, and the power to fix tuition and other fees for different classes or categories of students enrolled in 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.

Basis of Presentation — The General Resolution requires that the College is to maintain certain accounts and funds related to the Bonds, and that the College is to prepare annual financial statements that set forth the balances and activity in the specified funds. The following is a description of the funds that the College is required to maintain and to present in the form of financial statements:

Revenue Fund — The revenue fund accounts for pledged revenues and expenses and costs paid related thereto, and outstanding bonds.

Construction Fund — The construction fund accounts for the proceeds of revenue bonds and subsequent disbursements thereof for their intended purpose.

Bond Fund — The bond fund accounts for the proceeds of refunding bonds and subsequent disbursements thereof for their intended purpose and the payment of bond principal and interest.

Debt Service Reserve Fund — The debt service reserve fund accounts for the required debt service reserve activity.

These financial statements do not constitute a complete presentation of the assets, liabilities, net assets, revenues, and expenses of the College, but present only the funds the College is required to present in the special purpose financial statements pursuant to the provisions of the General Resolution.

In accordance with requirements of the Bond Indenture (the “Indenture”), accounting records for the Bonds are maintained on the modified cash receipts and disbursements basis. Consequently, certain revenues and the related assets are recognized when received rather than when earned and certain expenses and costs are recognized when paid rather than when the obligation is incurred. The principal modification to the cash basis of accounting is the recording of bond indebtedness, which is an other comprehensive basis of accounting as required by the Indenture.

Deposits with WesBanco Bank, Inc. (the “Trustee”) as of June 30, 2007 and 2006, include \$1,481,406 and \$2,911,412, respectively, invested in a money market fund sponsored by an investment company, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities.

Deposits with the state treasurer have been pooled for maximization of investment income. These deposits are combined with deposits of various other funds. Investment income on these deposits is allocated to the various funds based on the balance of these deposits at the end of the month in which the income was earned.

Fixed assets are not included in the special purpose financial statements because they do not represent financial resources available for expenditure, but are items for which financial resources have been used. Fixed assets are capitalized in the financial statements of the College.

2. BOARD OF GOVERNORS OF WEST LIBERTY STATE COLLEGE DORMITORY REVENUE BONDS, 2003 SERIES A; COLLEGE UNION REVENUE BONDS, 2003 SERIES B; AND CAPITAL IMPROVEMENT BONDS, 2003 SERIES C

In September 2003, \$8,870,000 of Dormitory Revenue Bonds, 2003 Series A (“2003 Series A Bonds”), \$1,145,000 of College Union Revenue Bonds, 2003 Series B (“2003 Series B Bonds”) and \$3,890,000 of Capital Improvement Bonds, 2003 Series C (“2003 Series C Bonds”) (collectively the “Bonds”) were sold. 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 the Indenture dated as of September 3, 2003, by and between the Board and the Trustee. The proceeds of the 2003 Series A Bonds are being used (1) to finance certain capital improvements consisting of repairs and renovations to the College’s existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture, and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) pay costs of issuance of the 2003 Series A Bonds and related costs. The proceeds of the 2003 Series B Bonds are being used (1) to finance certain capital improvements consisting of improvements to the College’s existing student union building located on the campus of the College known as the “College Union,” including improvements to existing offices and meeting areas, the upgrading of entry ways and facades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) pay costs of issuance of the 2003 Series B Bonds and related costs. The proceeds of the 2003 Series C Bonds are being used (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College’s Hall of Fine Arts, and to make certain improvements to roads, sidewalks, and parking areas on the College’s campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) pay costs of issuance of the 2003 Series C Bonds and related costs.

The 2003 Series A, 2003 Series B, and 2003 Series C Bonds outstanding at June 30, 2007, consist of \$855,000, \$940,000, and \$670,000 Serial Bonds, respectively, with varying interest rates from 4.125% to 5.625% and mature serially from June 1, 2008 through June 1, 2018, and Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
2003 Series A Bonds		
\$ 215,000	June 1, 2008	3.750 %
965,000	June 1, 2012	4.800
1,020,000	June 1, 2018	5.700
2,140,000	June 1, 2023	6.000
2,895,000	June 1, 2028	6.125
2003 Series B Bonds		
\$ 70,000	June 1, 2008	3.750 %
2003 Series C Bonds		
\$ 95,000	June 1, 2008	3.750 %
430,000	June 1, 2012	4.700
1,090,000	June 1, 2023	5.875
1,255,000	June 1, 2028	6.000

The Term Bonds are subject to mandatory redemption prior to maturity. The redemption prices are 100% of the principal amount plus accrued interest.

The Bonds are special obligations of the College and are secured by and payable from certain pledged revenues of the dormitories, union fees, and capital improvement fees. The Bonds shall not be deemed to be general obligations or a debt of the State of West Virginia (the "State") within the meaning of the Constitution of the State and the credit or taxing power of the State or College shall not be pledged therefore. The Bonds are fully insured as to principal and interest by Federal Guaranty Insurance Company.

The Bond covenants require that the schedules of rent, charges and fees shall at all times be adequate to produce revenues sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created hereunder, and that such schedule or schedules of rents, charges and fees that shall be revised from time to time to provide for all reasonable operating expenses and leave net revenues, when combined with other monies legally available, including the debt service reserve funds, to be used for such purposes, each year equal to at least 100% of the maximum annual debt service of each series of Bonds.

- For the years ended June 30, 2007 and 2006, the College collected net revenues, when combined with other monies legally available, including the debt service reserve funds, that approximated 278% and 269%, respectively, of the maximum annual debt service of the 2003 Series A Bonds. Additionally, the debt service reserve fund had deposits totaling \$695,358 and \$694,851, as of June 30, 2007 and 2006, respectively, which is in excess of the \$692,481 as required by the 2003 Series A Bonds Indenture.

- For the years ended June 30, 2007 and 2006, the College collected net revenues, when combined with other monies legally available, including the debt service reserve funds, that approximated 329% and 301%, respectively, of the maximum annual debt service of the 2003 Series B Bonds. Additionally, the debt service reserve fund had deposits totaling \$114,936 and \$114,972 as of June 30, 2007 and 2006, respectively, which is in excess of the \$114,500 as required by the 2003 Series B Bonds Indenture.
- For the years ended June 30, 2007 and 2006, the College collected net revenues, when combined with other monies legally available, including the debt service reserve funds, that approximated 413% and 373%, respectively, of the maximum annual debt service of the 2003 Series C Bonds. Additionally, the debt service reserve fund had deposits totaling \$302,972 and \$303,517 as of June 30, 2007 and 2006, respectively, which is in excess of the \$302,100 as required by the 2003 Series C Bonds Indenture.

A summary of annual aggregate principal, interest and sinking fund payments for is as follows:

Years Ending June 30	2003 Series A Bonds		2003 Series B Bonds		2003 Series C Bonds		Total Principal	Total Interest	Grand Total
	Principal Payments	Interest (Due November 1 and May 1)	Principal Payments	Interest (Due November 1 and May 1)	Principal Payments	Interest (Due November 1 and May 1)			
2008	\$ 215,000	\$ 463,166	\$ 70,000	\$ 50,266	\$ 95,000	\$ 198,379	\$ 380,000	\$ 711,811	\$ 1,091,811
2009	225,000	455,104	75,000	47,641	100,000	194,816	400,000	697,561	1,097,561
2010	235,000	444,304	80,000	44,548	105,000	190,116	420,000	678,968	1,098,968
2011	245,000	433,024	80,000	41,028	110,000	185,181	435,000	659,233	1,094,233
2012	260,000	421,264	85,000	37,228	115,000	180,011	460,000	638,503	1,098,503
2013	270,000	408,784	90,000	33,063	120,000	174,606	480,000	616,453	1,096,453
2014	285,000	394,946	95,000	28,563	125,000	168,606	505,000	592,115	1,097,115
2015	300,000	379,984	100,000	23,694	135,000	162,200	535,000	565,878	1,100,878
2016	325,000	363,859	105,000	18,444	140,000	155,113	570,000	537,416	1,107,416
2017	340,000	345,334	110,000	12,800	150,000	147,588	600,000	505,722	1,105,722
2018	355,000	325,954	120,000	6,750	155,000	139,338	630,000	472,042	1,102,042
2019	380,000	305,719			165,000	130,231	545,000	435,950	980,950
2020	400,000	282,919			175,000	120,538	575,000	403,457	978,457
2021	425,000	258,919			185,000	110,256	610,000	369,175	979,175
2022	455,000	233,419			200,000	99,388	655,000	332,807	987,807
2023	480,000	206,119			210,000	87,638	690,000	293,757	983,757
2024	510,000	177,319			220,000	75,300	730,000	252,619	982,619
2025	545,000	146,081			235,000	62,100	780,000	208,181	988,181
2026	575,000	112,700			250,000	48,000	825,000	160,700	985,700
2027	615,000	77,481			265,000	33,000	880,000	110,481	990,481
2028	650,000	39,813			285,000	17,100	935,000	56,913	991,913
Total outstanding	8,090,000	6,276,212	1,010,000	344,025	3,540,000	2,679,505	12,640,000	9,299,742	21,939,742
Cumulative Bonds retired and interest paid through June 30, 2007	780,000	1,797,744	135,000	204,738	350,000	771,065	1,265,000	2,773,547	4,038,547
	<u>\$8,870,000</u>	<u>\$8,073,956</u>	<u>\$1,145,000</u>	<u>\$548,763</u>	<u>\$3,890,000</u>	<u>\$3,450,570</u>	<u>\$13,905,000</u>	<u>\$12,073,289</u>	<u>\$25,978,289</u>

3. OTHER TRANSACTIONS

Certain purchasing, accounting, and other administrative services are provided by other State agencies to the College.

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