

***West Virginia Council for
Community and Technical
College Education***

***(A Component Unit of the West Virginia
Higher Education Fund)***

*Combined Financial Statements and Additional
Information as of and for the Year Ended June 30,
2005, and Independent Auditors' Reports*

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
(A Component Unit of the West Virginia Higher Education Fund)**

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INDEPENDENT AUDITORS' REPORT

West Virginia Council for Community
and Technical College Education:

We have audited the accompanying combined statement of net assets of the West Virginia Council for Community and Technical College Education (the "Council") as of June 30, 2005, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year then ended. These combined financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these combined financial statements based on our audit. We did not audit the financial statements of New River Community and Technical College, Southern West Virginia Community and Technical College, and West Virginia Northern Community College (not presented separately herein), whose financial statements reflect total assets, total net assets and total revenues constituting approximately 59%, 64%, and 36%, respectively, of the Council's combined financial statements. Such financial statements were audited by other auditors as stated in their respective reports included herein and our opinion, insofar as it relates to the amounts included for the Council for the year ended June 30, 2005, is based solely on the reports of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined 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 Council'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 audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Council as of June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 3 to 12 is not a required part of the combined financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Council's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2005, on our consideration of the Council'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 result 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.

Delwitte & Tander LLP

December 22, 2005

INDEPENDENT AUDITORS' REPORT

To the Governing Board
West Virginia Council for Community and Technical College Education

We have audited the statements of net assets of Southern West Virginia Community and Technical College and New River Community and Technical College (the "Colleges") as of June 30, 2005 and the related statements of revenues, expenses and changes in net assets, and of cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the Colleges' managements. Our responsibility is to express an opinion on these financial statements based on our audits. The financial statements of the Colleges represent approximately 33%, 36%, and 24% of the combined totals of the total assets, total net assets, and total revenues, respectively, of the West Virginia Council of Community and Technical College Education.

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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Colleges as of June 30, 2005, and the changes in their net assets and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Suttle & Stalnaker, PLLC

December 2, 2005

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INDEPENDENT AUDITORS' REPORT

To the Governing Board
West Virginia Council for Community and Technical College Education

We have audited the statement of net assets of West Virginia Northern Community College (the "College") as of June 30, 2005 and the related statements of revenues, expenses and changes in net assets and of cash flows for the year then ended (not presented separately herein). These financial statements are the responsibility of the College's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of the College represent approximately 26%, 28%, and 12% of the combined totals of the total assets, total net assets and total revenues, respectively, of the West Virginia Council for Community and Technical College Education.

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 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 College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the College at June 30, 2005, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Costanzo & Associates

Wheeling, WV

September 19, 2005

West Virginia Council for Community & Technical College Education Management's Discussion and Analysis Fiscal Year 2005

Overview of the Combined Financial Statements and Financial Analysis

Senate Bill 448, passed during the 2004 legislative session, gave the West Virginia Council for Community and Technical College Education (the "Council") the statutory authority for coordinating the delivery of community and technical college education in the State of West Virginia. The Council is comprised of 13 persons appointed by the Governor with the advice and consent of the Senate. There are ten public community and technical colleges and one administrative unit. The Council, combined with the West Virginia Higher Education Policy Commission (the "Commission") collectively comprise the West Virginia Higher Education Fund (the "Fund"), which is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the Council is responsible for the development and implementation of a higher education policy agenda. Fiscal Year 2005 is the first year of issuance of the Council Combined Financial Statements. Comparative and prior year information is not available.

The Governmental Accounting Standards Board ("GASB") has issued directives for presentation of college and university financial statements. GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, is an amendment to GASB Statement No. 14. The Council does not have any significant entities that are entirely or almost entirely for the benefit of the community and technical colleges reporting to the Council. There are, however, six community and technical colleges who share administratively-linked relationships with their four-year institutions who may have Foundations that indeed support both the community and technical college as well as the four-year institution.

The following discussion and analysis of the Council's Combined Financial Statements provides an overview of its financial activities for Fiscal Year 2005 and is required supplemental information. 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.

Combined Statement of Net Assets

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Council and is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Council. The Combined Statement of Net Assets presents end-of-year financial information on Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

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 Council. They are also able to determine how much the Council owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Council.

Net assets are divided into three major categories as follows:

(1) Invested in Capital Assets, Net of Related Debt, which provides the Council's equity in property, plant and equipment owned by the Council.

(2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Council. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.

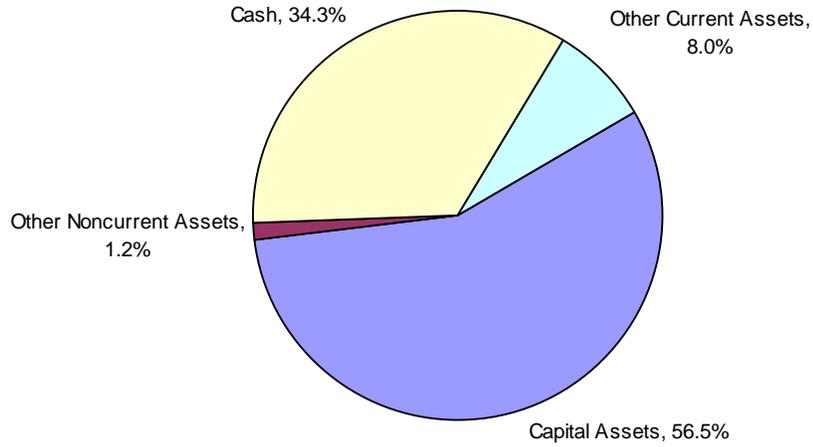
(3) Unrestricted net assets are available for expenditure and can be used for any lawful purpose of the Council.

Combined Net Assets
(In thousands of dollars)

	June 30
	2005
Assets	
Current Assets	\$ 36,496
Capital Assets, net	48,749
Other Noncurrent Assets	<u>1,016</u>
Total Assets	<u>\$ 86,261</u>
Liabilities	
Current Liabilities	\$ 10,661
Noncurrent Liabilities	<u>8,914</u>
Total Liabilities	<u>19,575</u>
Net Assets	
Invested in Capital Assets, net	46,388
Restricted-expendable	3,912
Restricted-nonexpendable	50
Unrestricted	<u>16,336</u>
Total Net Assets	<u>66,686</u>
Total Liabilities and Net Assets	<u>\$ 86,261</u>

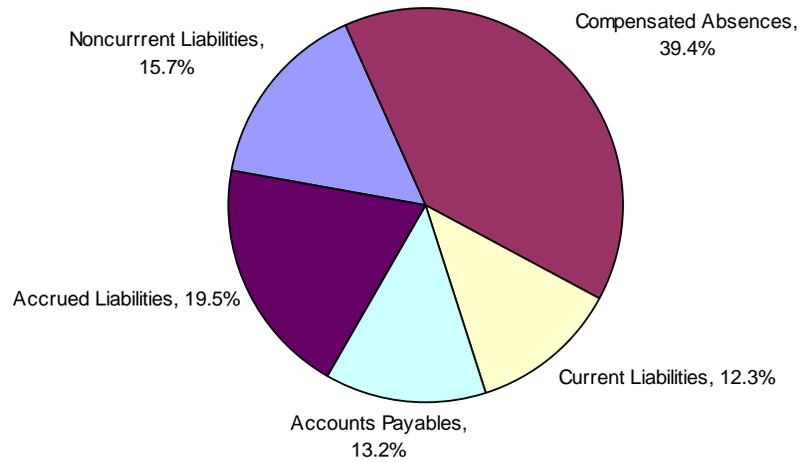
Asset Composition

For the Year Ended June 30, 2005



Liabilities

For the Year Ended June 30, 2005



Major items of note in the Combined Statement of Net Assets include:

- Total current assets of \$36.5 million exceeded total current liabilities of \$10.7 million as of June 30, 2005 for net working capital of \$25.8 million.
- The major components of current assets include cash and cash equivalents of \$29.6 million, net accounts receivable of \$2.6 million and amounts due from the Commission of \$2.3 million as of June 30, 2005. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer and the West Virginia Investment Management Board.
- The major components of current liabilities include \$2.6 million in accounts payable, \$3.8 million in accrued liabilities and \$1.9 million of compensated absences (current portion) as of June 30, 2005.
- Noncurrent assets total \$49.8 million and noncurrent liabilities total \$8.9 million as of June 30, 2005.
 - The primary noncurrent asset is \$48.7 million of net capital assets as of June 30, 2005.
 - Major components of noncurrent liabilities include accruals for compensated absences of \$5.8 million and debt service obligations payable to the Commission of \$1.7 million as of June 30, 2005.
- The net assets of the Council total \$66.7 million as of June 30, 2005.
 - Net assets invested in capital assets total \$46.4 million as of June 30, 2005.
 - Restricted net assets total \$4.0 million and is primarily restricted for sponsored projects.
 - Unrestricted net assets total \$16.3 million as of June 30, 2005, and represent net assets available to the Council for any lawful purpose of the Council.

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 activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Council, both operating and nonoperating, and the expenses of the Council, operating and nonoperating, and any other revenues, expenses, gains or losses of the Council.

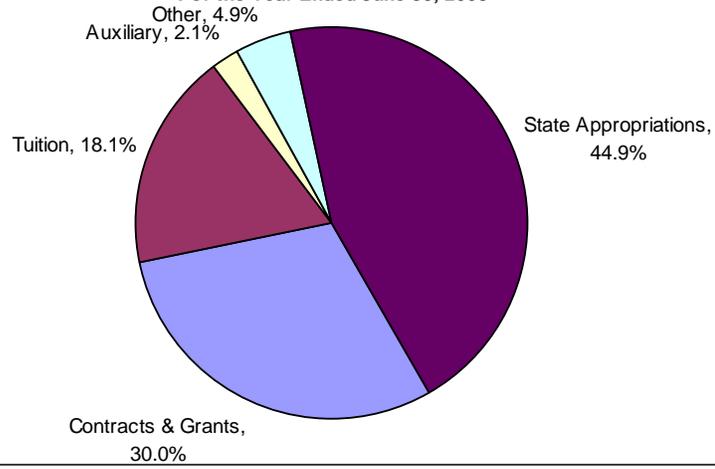
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Council, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Council. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Council without the Legislature directly receiving commensurate goods and services for those revenues.

**Combined Revenues, Expenses, and Changes in Net Assets
(In thousands of dollars)**

	FY 2005
Operating Revenues	\$ 63,288
Operating Expenses	<u>108,568</u>
Operating Loss	(45,280)
Net Nonoperating Revenues	<u>52,504</u>
Income Before Other Revenues, Expenses, Gains or Losses	7,224
Capital Projects & Bond Proceeds from the Commission	4,928
Capital Grants and Gifts-Net	<u>136</u>
Increase in Net Assets before Transfers	12,288
Transfer to Entities of the Commission	<u>(4,422)</u>
Increase in Net Assets	7,866
Transfer of Net Assets from Entities of the Commission	58,820
Net Assets-Beginning of Year	<u>-</u>
Net Assets-End of Year	\$ <u>66,686</u>

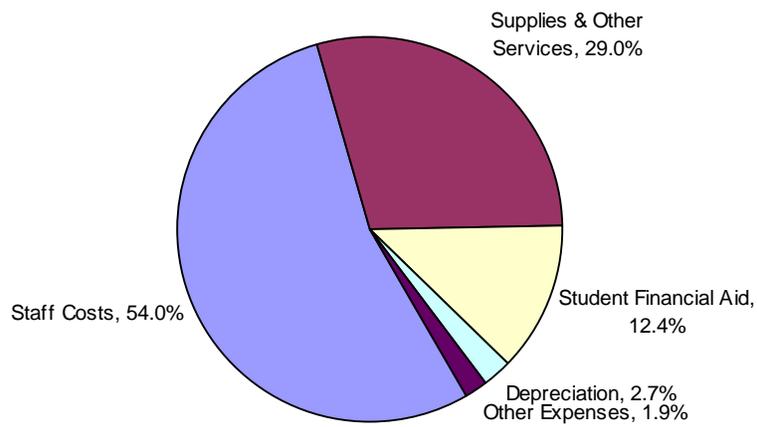
Total Revenue

For the Year Ended June 30, 2005



Operating Expenses

For the Year Ended June 30, 2005



Major items of note in the Combined Statement of Revenue, Expenses and Changes in Net Assets include:

- Operating Revenues of the Council totaled \$63.3 million in FY 2005
 - Student tuition and fees revenues totaled \$21.0 million. Tuition is reported net of scholarship allowances totaling \$14.1 million.
 - Federal grant and contracts totaled \$23.8 million. This reflects funding for sponsored research, Pell grants, and other miscellaneous federal programs.
 - State grants and contracts totaled \$9.5 million and private grants and contracts totaled \$1.3 million.
 - Auxiliary enterprises generated revenues of \$2.5 million, net of \$0.3 million of scholarship allowances.
- Operating expenses totaled \$108.6 million in FY 2005.
 - Staff costs including salaries and benefits totaled \$58.6 million.
 - Supplies and other services totaled \$31.5 million.
 - Scholarships and fellowships totaled \$13.5 million.
 - Depreciation on capital assets totaled \$2.9 million.
 - As reported on a functional expenditure basis, expenditures for Educational and General Expenses were \$90.7 million. Instruction expenses constitute 46.6% of total educational and general expenses. Institutional support constitute 18.8% of total educational and general expenses.

Functional Expenditure Comparisons
(In thousands of dollars)

	FY05 Total	% of E&G Total
Instruction	\$ 42,262	46.6%
Research	410	0.5%
Public Service	5,283	5.9%
Academic Support	9,465	10.4%
Student Services	7,180	7.9%
Plant Operations	9,023	9.9%
Institutional Support	<u>17,068</u>	<u>18.8%</u>
Total E & G Expenses	90,691	<u>100.0%</u>
Financial Aid	13,418	
Auxiliary Enterprises	1,467	
Depreciation	2,930	
Other	<u>62</u>	
Total Operating Expenses	<u>\$ 108,568</u>	

- The result from operations was a net operating loss of \$45.3 million for the year ended June 30, 2005, but excludes State appropriations of \$52.0 million, which are recorded as non-operating revenue.
- Net non-operating revenue totaled \$52.5 million for the year ended June 30, 2005
 - State general revenue and lottery appropriations totaled \$52.0 million.
 - Interest earned on investments totaled \$0.6 million.
- Other revenues consist of capital projects and bond proceeds from the Commission totaling \$4.9 million for the year ended June 30, 2005.
- The activity for FY 2005 resulted in an increase of net assets before transfers of \$12.3 million resulting in total net assets at the June 30, 2005 of \$66.7 million.

Combined Statement of Cash Flows

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

Combined Cash Flows
(In thousands of dollars)

	FY 2005
Cash Provided (Used) By:	
Operating Activities	\$ (41,230)
Noncapital Financing Activities	75,321
Capital and Related Financing Activities	(5,040)
Investing Activities	<u>561</u>
Increase in Cash and Cash Equivalents	<u>\$ 29,612</u>

Major items of note in the Combined Statement of Cash Flows include:

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$41.2 million for the year ended June 30, 2005, primarily due to the reporting of State appropriations as a noncapital financing activity. Primary sources of cash from Operating Activities during FY 2005, were Student tuition and fees of \$24.6 million and contracts and grants of \$34.9 million. Primary uses of cash for FY 2005, included Payments to and on behalf of employees of \$52.7 million; Payments to suppliers of \$25.3 million and Payments for scholarship and fellowships of \$18.2 million..
- Net cash provided from noncapital financing activities for FY 2005, totaled \$75.3 million, of which \$51.3 million was from State General Revenue and Lottery appropriations and \$26.1 million related to the transfer of cash from institutions offset by \$2.1 million of other nonoperating expenses.
- Net cash used in investing activities for FY 2005 was \$5.0 million and primarily resulted from purchases of capital assets and debt activity.
- Net cash of the Council at June 30, 2005 was \$29.6 million.

Capital Asset and Long-Term Debt Activity

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds from the Commission, capital lease financing, and other external financing arrangements. The six administratively linked community and technical colleges primarily utilize the facilities of their respective four year and post graduate counterpart. The Commission still maintains responsibility within the fund for real property acquisition and construction. As of June 30, 2005, the Commission has committed \$29.2 million to entities of the Council. Further details concerning the long-term liabilities of the Council are included in Notes 6 through 9 of the Notes to the Council Financial Statements.

Other Factors Impacting the Financial Position and Results of Operations of the Council

Target 2010 is the six year strategic planning initiative of the Council. Council initiatives are guided by five major goals reflecting the expectations of Senate Bill 448 passed by the WV legislature on March 13, 2004. They are as follows:

- I. Provide access to affordable comprehensive community and technical college education in all regions of West Virginia.
- II. Produce high quality graduates with the general education and technical skills to be successful in the workplace or subsequent education.
- III. Provide high quality workforce development programs that meet the demands of West Virginia's employers and enhance the economic development efforts of the State.
- IV. Collaborate with other providers in delivering education and training programs to the community and technical college district.
- V. Collaborate with the public secondary school system to increase the college going rate in West Virginia.

The State Appropriation for Community and Technical Colleges as they were included in the Fund for FY 2004 amounted to \$50.8 million while for FY 2005 was \$52.0 million. For fiscal year 2006, State appropriations for the Council for Community and Technical College institutions are relatively constant at \$51.1 million. Financial aid received increased funding for Promise, Higher Education Grant and HEAPS Scholarship Program. For fiscal year 2007 the Governor's Office instructed that budget requests are to be based on FY 2006 levels.

The demographics of the State of West Virginia also have an impact on the future operations of the Council. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the state. Increased attendance by non-resident students is another factor in the future financial stability of the Council. Although faced with difficult demographic trends, enrollment trends have been somewhat encouraging in recent periods, with a 1.1 % increase in headcount, however there was a 1.9% decrease in Fall 2005 headcount enrollment versus Fall 2004. Net student tuition and fees provide approximately 25% of the total revenues of the Council.

One of the key goals of the higher education system is to improve the economic environment of the State of West Virginia. The full impact of the current economic environment and the resulting impact on the future economic environment by various factors including the performance of the higher education system cannot be predicted with any certainty. The current financial condition of the Council will be beneficial in meeting the challenges that lie ahead.

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION**
(A Component Unit of the West Virginia Higher Education Fund)

COMBINED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

ASSETS:

Current assets:

Cash and cash equivalents	\$ 29,613,455
Appropriations due from Primary Government	893,321
Accounts receivable—net	2,628,497
Due from the Commission	2,309,066
Due from institutions of the Commission	214,964
Loans receivable—current portion	71,476
Inventories	719,670
Other current assets	<u>45,280</u>

Total current assets 36,495,729

Noncurrent assets:

Cash and cash equivalents	714,259
Loans receivable, net of allowance of \$453,831	301,886
Capital assets—net	<u>48,748,783</u>

Total noncurrent assets 49,764,928

TOTAL \$ 86,260,657

(Continued)

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION**
(A Component Unit of the West Virginia Higher Education Fund)

COMBINED STATEMENT OF NET ASSETS
AS OF JUNE 30, 2005

LIABILITIES:

Current liabilities:

Accounts payable	\$ 2,580,398
Accrued liabilities	3,821,802
Due to the Commission	87,969
Due to State and State agencies	47,521
Due to other governments	30,706
Due to institutions of the Commission	615,425
Deferred revenue	1,216,173
Compensated absences—current portion	1,860,690
Capital lease obligations—current portion	76,872
Debt service obligation payable to Commission—current portion	<u>323,000</u>

Total current liabilities 10,660,556

Noncurrent liabilities:

Advances from federal sponsors	455,695
Due to Bluefield State College	617,668
Notes payable	32,003
Compensated absences	5,848,018
Capital lease obligations	251,800
Debt service obligation payable to Commission	<u>1,709,090</u>

Total noncurrent liabilities 8,914,274

Total liabilities 19,574,830

NET ASSETS:

Invested in capital assets—net of related debt	46,388,021
Restricted for:	
Nonexpendable—other	50,000
Expendable:	
Scholarships	62,911
Sponsored projects	3,383,693
Other	<u>465,045</u>

Total restricted expendable 3,961,649

Unrestricted 16,336,157

Total net assets 66,685,827

TOTAL \$ 86,260,657

See notes to combined financial statements

(Concluded)

(A Component Unit of the West Virginia Higher Education Fund)

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2005**

OPERATING REVENUES:

Student tuition and fees, net of scholarship allowance of \$14,064,972	\$ 20,970,593
Contracts and grants:	
Federal	23,837,771
State	9,516,775
Private	1,339,418
Sales and services of educational activities	415,624
Auxiliary enterprise revenue, net of scholarship allowance of \$255,207	2,467,016
Other operating revenue	<u>4,741,259</u>
 Total operating revenues	 <u>63,288,456</u>

OPERATING EXPENSES:

Salaries and wages	47,017,867
Benefits	11,582,334
Supplies and other services	31,508,010
Utilities	1,960,928
Student financial aid—scholarships and fellowships	13,493,070
Depreciation	2,930,356
Loan cancellations and write-offs	57,928
Other operating expenses	<u>17,450</u>
 Total operating expenses	 <u>108,567,943</u>

OPERATING LOSS (45,279,487)

(Continued)

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION**
(A Component Unit of the West Virginia Higher Education Fund)

**COMBINED STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS**
FOR THE YEAR ENDED JUNE 30, 2005

NONOPERATING REVENUES (EXPENSES):	
State appropriations	\$51,965,196
Investment income	607,488
Other nonoperating expenses—net	<u>(68,499)</u>
Net nonoperating revenues	<u>52,504,185</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	7,224,698
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	4,927,598
CAPITAL GRANTS AND GIFTS	<u>135,500</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	12,287,796
TRANSFERS TO INSTITUTIONS OF THE COMMISSION	<u>(4,421,842)</u>
INCREASE IN NET ASSETS	7,865,954
NET ASSETS—Beginning of year	
TRANSFER OF NET ASSETS FROM ENTITIES OF THE COMMISSION	<u>58,819,873</u>
NET ASSETS—End of year	<u>\$66,685,827</u>
See notes to combined financial statements.	(Concluded)

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	\$ 24,578,604
Contracts and grants	34,862,471
Payments to and on behalf of employees	(52,666,583)
Payments to suppliers	(25,264,681)
Payments to utilities	(2,140,867)
Payments for scholarships and fellowships	(18,225,063)
Loans issued to students	(3,077,957)
Collection of loans to students	3,117,800
Auxiliary enterprise charges	2,331,093
Sales and service of educational activities	411,619
Assessments	(9,057,628)
Other receipts—net	<u>3,901,088</u>
Net cash used in operating activities	<u>(41,230,104)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	51,333,390
William D. Ford direct lending receipts	3,159,715
William D. Ford direct lending payments	(3,159,715)
Transfer from entities of the Commission	26,135,279
Other nonoperating payments—net	<u>(2,146,928)</u>
Net cash provided by noncapital financing activities	<u>75,321,741</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Purchases of capital assets	(5,015,488)
Bond proceeds from the Commission	3,070,944
Capital projects proceeds from the Commission	409,400
Increase in noncurrent cash and cash equivalents	(73,016)
Principal payment on debt obligation due Commission	(216,927)
Interest paid on obligation to Commission	(7,758)
Principal paid on leases	(248,935)
Interest paid on leases	(25,160)
Other—including other transfers	<u>(2,933,397)</u>
Net cash used in capital financing activities	<u>(5,040,337)</u>
CASH FLOWS FROM INVESTING ACTIVITIES—	
Investment income	<u>561,155</u>
Cash provided by investing activities	<u>561,155</u>
INCREASE IN CASH AND CASH EQUIVALENTS	29,612,455
CASH AND CASH EQUIVALENTS—Beginning of year	<u> </u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 29,612,455</u>

(Continued)

**WEST VIRGINIA COUNCIL FOR COMMUNITY
AND TECHNICAL COLLEGE EDUCATION
(A Component Unit of the West Virginia Higher Education Fund)**

**COMBINED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2005**

RECONCILIATION OF OPERATING LOSS TO NET CASH
USED IN OPERATING ACTIVITIES:

Operating loss	\$ (45,279,487)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,930,356
Changes in assets and liabilities:	
Receivables—net	(1,032,204)
Appropriations due from Primary Government	(61,237)
Due from Commission	(836,750)
Inventories	(110,531)
Accounts payable/amounts due	1,011,243
Accrued liabilities and deposits	1,477,098
Compensated absences	343,442
Deferred revenue	(132,477)
Advances from Federal Sponsors	372,687
Other—net	<u>87,756</u>

NET CASH USED IN OPERATING ACTIVITIES \$ (41,230,104)

SIGNIFICANT NONCASH TRANSACTIONS:

Donated capital assets	<u>\$ 135,500</u>
Transfers of net assets (exclusive of \$26,135,279 of cash)	<u>\$ 32,684,594</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA COUNCIL FOR COMMUNITY AND TECHNICAL COLLEGE EDUCATION

(A Component Unit of the West Virginia Higher Education Fund)

NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

1. ORGANIZATION

The West Virginia Council for Community and Technical College Education (the “Council”) is comprised of the following:

- Community and Technical College of Shepherd (“Shepherd”)
- Community and Technical College at West Virginia University Institute of Technology
- Council for Community and Technical College Education (administrative unit)
- Eastern West Virginia Community and Technical College (“Eastern”)
- Fairmont State Community and Technical College
- Marshall Community and Technical College
- New River Community and Technical College (“New River”)
- Southern West Virginia Community and Technical College (“Southern”)
- West Virginia Northern Community College (“Northern”)
- West Virginia State Community and Technical College
- West Virginia University at Parkersburg (“WVU Parkersburg”).

The Council is a component unit of the West Virginia Higher Education Fund. The Council (two year education) and the West Virginia Higher Education Policy Commission (the “Commission”) (four year and post graduate education) collectively comprise the West Virginia Higher Education Fund. Both the Council and the Commission were legislatively created under Senate Bill No. 448 and Senate Bill No. 653, respectively. Senate Bill No. 448 which was enacted in March 2004 requires a separate combined audit of the Council for the year ended June 30, 2005. The Council commenced separate stand alone fiscal operations on July 1, 2004 upon transfer of \$58,819,873 in net assets from the Commission to the Council.

The Council is responsible for developing, overseeing and advancing the State’s public policy agenda as it relates to community and technical college education. The Council is comprised of 13 persons appointed by the Governor with the advice and consent of the Senate.

Eastern, Northern and Southern are governed by their own Governing Boards, which are responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. WVU Parkersburg is not governed by a separate Governing Board. It is governed by the West Virginia University Board of Governors. However, WVU Parkersburg does have a separate stand alone cost structure. The remaining six entities are administratively linked to the Council. These six entities are charged fees for services provided to them by their related institution, based on an allocation in accordance with signed agreements, primarily based on proportionate full-time equivalents. Additionally, certain administrative services are provided by the Commission to the Council at no charge.

New River and Shepherd will be governed by their own Board of Governors beginning with the year ending June 30, 2006.

Effective July 1, 2004, the Council took responsibility for all the entities comprising the Council which resulted in a transfer of net assets of \$58,819,873 from the Commission to the Council. The transfer of net assets is summarized approximately as follows:

	(In millions)
Cash and cash equivalents	\$ 26
Capital assets—net	45
Current assets—net	1
Compensated absences	(8)
Other long-term liabilities	(5)
	\$ 59

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Council 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 accompanying combined financial statements present all entities under the authority of the Council under GASB Statement No. 14 *The Financial Reporting Entity*. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Council’s ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Council are not part of the Council’s reporting entity and are not included in the accompanying combined financial statements as the Council has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundations and other affiliates under GASB Statement No. 14.

Under GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14, the Council does not have any foundations or other affiliates which are required to be included in the combined financial statements as a discretely presented component unit, as they are either 1) insignificant or 2) have dual purpose (not entirely or almost entirely for the benefit of the Council).

Financial Statement Presentation—GASB Statement No. 35, *Basic Financial Statement—and Management’s Discussion and Analysis—for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management’s Discussion and Analysis—for State*

and Local Governments: Omnibus, and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the Council as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Council obligations. The Council's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This represents the Council'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 Council 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 State Code. House Bill 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Council. 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.
- *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 Council, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

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

Cash and Cash Equivalents—For purposes of the statement of net assets, the Council 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"). The State Treasurer's office is permitted by West Virginia Code § 12-1-12A to invest up to \$125 million in overnight repurchase agreements. 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 in accordance with West Virginia Code, policies set by the IMB, and by the provisions of bond indentures and trust agreements, when applicable. 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.

The IMB 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. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund and other funds. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org>.

Allowance for Doubtful Accounts—It is the Council'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 Council on such balances, and such other factors which, in the Council's judgment, require consideration in estimating doubtful accounts.

Amounts with Affiliates—The current amounts due to/from affiliates, including the Commission and institutions of the Commission, are noninterest bearing and payable on demand. The noncurrent amount due to Bluefield State College is payable in accordance with a written agreement.

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

Noncurrent Cash and Cash Equivalents—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets and (3) held for permanently restricted net assets, is classified as a noncurrent asset in the statement 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. There was no interest capitalized as part of the cost of assets for the year ended June 30, 2005. 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, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment.

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

Compensated Absences—The Council 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 Council'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 percent of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service 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 Council 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 Council for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

Risk Management—The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, to the Council and its employees. Such coverage may be provided to the Council 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 Council or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Council is currently charged by BRIM and the ultimate cost of that insurance based on the Council's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Council and the Council's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

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

- *Operating revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and*

Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting and GASB Statement No. 34, such as state appropriations and investment income.

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

Use of Restricted Net Assets—The Council 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 Council attempts to utilize restricted net assets first when practicable. Certain community and technical colleges (“CTCs”) have adopted a policy to utilize restricted net assets first.

Federal Financial Assistance Programs—The Council makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Council’s combined statements of net assets. In 2005, the Council received and disbursed, or awarded, approximately \$22,800,000, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The Council 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 2005, the Council received and disbursed approximately \$24,500,000, 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 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 Council, 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 is accounted for as a third-party payment (credited to the student’s account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts—Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Council 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 Council is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

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

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

Recent Statements Issued by the Governmental Accounting Standards Board—The GASB has issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires the Council to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of a capital asset. The Council has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 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. The Council has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

The GASB has also issued Statement No. 46, *Net Assets Restricted by Enabling Legislation* (an amendment of GASB Statement No. 34), effective for fiscal years beginning after June 15, 2005. This statement provides guidance clarifying the meaning of the phrase “legally enforceable” as it applies to restrictions imposed on net asset use by enabling legislation. The Council has not yet determined the effect, if any, that adoption of GASB Statement No. 46 may have on its financial statements.

The GASB has also issued Statement No. 47, *Accounting for Termination Benefits*, effective for fiscal years beginning after June 15, 2005. However, for termination benefits that affect defined benefit postemployment benefits other than pensions, GASB Statement No. 47 should be implemented simultaneously with GASB Statement No. 45. This statement provides recognition and measurement guidance related to benefits provided to employees that are terminated. The Council has not yet determined the effect, if any that adoption of GASB Statement No. 47 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows:

	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
Fund	\$ 29,153,311	\$ 610,192	\$ 29,763,503
Cash in bank	428,458	16,001	444,459
Cash on hand	<u>31,686</u>	<u>88,066</u>	<u>119,752</u>
	<u>\$ 29,613,455</u>	<u>\$ 714,259</u>	<u>\$ 30,327,714</u>

Cash held by the State Treasurer includes \$2,756,953 million of restricted cash at June 30, 2005.

The combined carrying amounts of cash in the bank at June 30, 2005 was \$444,459, as compared with the combined bank balance of \$1,033,913. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Cash on deposit with the State Treasurer as of June 30, 2005 is comprised of the following investment pools.

Cash Liquidity

Credit Risk—The IMB limits the exposure to credit risk in the Cash Liquidity pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percentage of Assets
Commerical paper	P1	A-1	\$ 598,241,394	37.9 %
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Coporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,995,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	<u>4,241,278</u>	<u>0.3</u>
Total rated investments			<u>\$ 1,437,998,293</u>	<u>91.2 %</u>

Unrated securities include repurchase agreements of \$141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The Council's ownership represents 0.13% of the net asset position of this pool.

Concentration of Credit Risk—West Virginia statutes prohibit the Cash Liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk—At June 30, 2005, the Cash Liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest Rate Risk—The weighted average maturity of the investments of the Cash Liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (“WAM”) for the various asset types in the Cash Liquidity pool.

Security Type	Carrying Value	WAM
Commerical paper	\$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Coporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	<u>4,241,278</u>	<u>1</u>
Total assets	<u>\$1,579,008,293</u>	<u>45</u>

Foreign Currency Risk—The Cash Liquidity pool has no securities that are subject to foreign currency risk.

Government Money Market

Credit Risk—The IMB 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. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard and Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The Council's ownership represents 1.36% of the net asset position of this pool.

Concentration of Credit Risk—West Virginia statutes prohibit the Government Money Market pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk—At June 30, 2005, the Government Money Market pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral

is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent's money market fund.

Interest Rate Risk—The weighted average maturity of the investments of the Government Money Market pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (“WAM”) for the various asset types in the Government Money Market pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	\$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U.S. Treasury bills	24,903,836	48
Money market funds	<u>985,190</u>	<u>1</u>
Total assets	<u>\$ 154,819,532</u>	<u>38</u>

Foreign Currency Risk—The Government Money Market pool has no securities that are subject to foreign currency risk.

Enhanced Yield

Credit Risk—The IMB limits the exposure to credit risk in the Enhanced Yield pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard and Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in United States Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	\$ 81,631,581	30.0 %
Agency bonds	Aaa	AAA	69,203,277	25.5
U.S. Treasury notes	Aaa	AAA	66,466,539	24.5
Corporate asset backed securities	Aaa	AAA	<u>49,990,408</u>	<u>18.4</u>
Total rated investments			<u>\$ 267,291,805</u>	<u>98.4 %</u>

Unrated securities include repurchase agreements of \$4,362,262. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The Council's ownership represent 2.13% of the net asset position of this pool.

Concentration of Credit Risk—West Virginia statutes prohibit the Enhanced Yield pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial Credit Risk—At June 30, 2005, the Enhanced Yield pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the Statement of Assets and Liabilities is invested in the lending agent’s money market fund.

Interest Rate Risk—The weighted average maturity of the investments of the Enhanced Yield pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (“WAM”) for the various asset types in the Enhanced Yield pool.

Security Type	Fair Value	WAM (years)
Corporate notes	\$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U.S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	<u>4,362,262</u>	<u>0.0</u>
Total assets	<u>\$ 271,654,067</u>	<u>1.7</u>

Foreign Currency Risk—The Enhanced Yield pool has no securities that are subject to foreign currency risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows:

Students, net of allowance of \$1,075,544	\$ 1,108,056
Grants and contracts	851,203
Due from State and State agencies	391,000
Other, net of allowance of \$10,000	<u>278,238</u>
	<u>\$ 2,628,497</u>

5. CAPITAL ASSETS

The following is a summary of capital assets transactions for the Council:

	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	\$ -	\$ 3,366,896	\$ 287,500	\$ -	\$ 3,654,396
Construction in progress		<u>1,331,057</u>	<u>3,502,868</u>	<u>825,559</u>	<u>4,008,366</u>
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ 4,697,953</u>	<u>\$ 3,790,368</u>	<u>\$ 825,559</u>	<u>\$ 7,662,762</u>
Other capital assets:					
Land improvements	\$ -	\$ 124,752	\$ -	\$ -	\$ 124,752
Infrastructure		2,585,559	58,600		2,644,159
Buildings		52,916,724	1,562,894		54,479,618
Equipment		13,515,258	1,559,227	823,168	14,251,317
Library books		<u>7,034,866</u>	<u>252,592</u>	<u>203,373</u>	<u>7,084,085</u>
Total other capital assets	<u>-</u>	<u>76,177,159</u>	<u>3,433,313</u>	<u>1,026,541</u>	<u>78,583,931</u>
Less accumulated depreciation for:					
Land improvements		91,346	1,857		93,203
Infrastructure		1,583,083	104,815		1,687,898
Buildings		18,788,358	1,099,728		19,888,086
Equipment		8,596,788	1,535,952	803,967	9,328,773
Library books		<u>6,525,319</u>	<u>188,004</u>	<u>203,373</u>	<u>6,509,950</u>
Total accumulated depreciation	<u>-</u>	<u>35,584,894</u>	<u>2,930,356</u>	<u>1,007,340</u>	<u>37,507,910</u>
Other capital assets—net	<u>\$ -</u>	<u>\$ 40,592,265</u>	<u>\$ 502,957</u>	<u>\$ 19,201</u>	<u>\$ 41,076,021</u>
Capital asset summary:					
Capital assets not being depreciated	\$ -	\$ 4,697,953	\$ 3,790,368	\$ 825,559	\$ 7,662,762
Other capital assets		<u>76,177,159</u>	<u>3,433,313</u>	<u>1,026,541</u>	<u>78,583,931</u>
Total cost of capital assets	-	80,875,112	7,223,681	1,852,100	86,246,693
Less accumulated depreciation		<u>35,584,894</u>	<u>2,930,356</u>	<u>1,007,340</u>	<u>37,507,910</u>
Capital assets—net	<u>\$ -</u>	<u>\$ 45,290,218</u>	<u>\$ 4,293,325</u>	<u>\$ 844,760</u>	<u>\$ 48,748,783</u>

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

Title for certain real property is with the Commission.

6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the Council:

	Beginning Balance	Transfers/ Additions	Reductions	Ending Balance	Current Portion
Capital leases and notes payable:					
Notes payable	\$ -	\$ 32,003	\$ -	\$ 32,003	\$
Capital leases payable		<u>577,607</u>	<u>248,935</u>	<u>328,672</u>	76,872
Total notes payable and capital leases	-	609,610	248,935	360,675	
Other noncurrent liabilities:					
Advances from Federal Sponsors		455,695		455,695	
Due to institutions of the Commission		1,233,093		1,233,093	615,425
Accrued compensated absences		8,354,126	645,418	7,708,708	1,860,690
Debt service obligation payable to Commission		<u>2,249,017</u>	<u>216,927</u>	<u>2,032,090</u>	323,000
Total long-term liabilities	<u>\$ -</u>	<u>\$ 12,901,541</u>	<u>\$ 1,111,280</u>	<u>\$ 11,790,261</u>	

7. DUE TO INSTITUTIONS OF THE COMMISSION

The noncurrent amount in Due to institutions of the Commission is due to Bluefield State College. The current and noncurrent amounts due from New River to Bluefield State College are a result of establishing New River under its own Board of Governors and are noninterest bearing and payable as follows:

Year Ending June 30	
2006	\$ 172,291
2007	172,291
2008	172,291
2009	136,543
2010	<u>136,543</u>
Total	<u>\$ 789,959</u>

8. COMPENSATED ABSENCES

The composition of the compensated absences liability was as follows:

Health or life insurance benefits	\$5,609,102
Accrued vacation leave	<u>2,099,606</u>
	<u>\$7,708,708</u>

For the year ended June 30, 2005, the amounts paid by the Council for extended health or life insurance benefits totaled approximately \$265,000. As of June 30, 2005, there were approximately 140 retirees, currently receiving these benefits.

9. LEASE OBLIGATIONS

Capital—The Council leases certain property, plant and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations:

Year Ending June 30	Total
2006	\$ 96,112
2007	96,112
2008	83,481
2009	24,591
2010	24,591
2011–2015	<u>58,607</u>
Future minimum lease payments	383,494
Less interest	<u>(54,822)</u>
Total	<u>\$ 328,672</u>

Operating—The Council had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2005 are as follows:

Year Ending June 30	
2006	\$ 678,947
2007	303,654
2008	187,439
2009	171,874
2010	<u>72,516</u>
Total	<u>\$ 1,414,430</u>

Total rent expense for these operating leases for the year ended June 30, 2005 was approximately \$571,000.

10. SYSTEM BONDS PAYABLE

The Council receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Council'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 within the Council. Financing for these facilities was provided through revenue bonds issued by various former governing boards which are now administered by the Commission.

The Commission has the authority to assess each institution of the Council for payment of debt service on these system bonds. The tuition and registration fees of the Institutions are generally pledged as collateral for the Commission’s bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain a capital obligation of the Commission. During 2005, the Council paid \$216,927 to the Commission against the debt obligation. The amount due to the Commission at June 30, 2005 is \$2,032,090.

11. UNRESTRICTED NET ASSETS

The Council’s unrestricted net assets include certain designated net assets as follows:

Designated for capital projects	\$ 1,228,572
Designated for auxiliaries	46,602
Undesignated	<u>15,060,983</u>
 Total unrestricted net assets	 <u>\$ 16,336,157</u>

12. RETIREMENT PLANS

Substantially all full-time employees of the Council 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. Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option of switch to the new Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. Contributions to and participation in the West Virginia Teachers’ Defined Contribution Plan and the Great West Retirement Services 401(a) plan by Council employees has not been significant to date.

The STRS is a cost sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The Council 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, 2005. Required employee contributions are at the rate of 6% of total annual salary for the year ended June 30, 2005. 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 percent of final average salary (the highest five years salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the year ended June 30, 2005 was \$958,000, which consisted of approximately \$683,000, from the Council in 2005, and approximately \$275,000, 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 institutions within the Fund. 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.

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

Total contributions to the TIAA-CREF for the year ended June 30, 2005, was approximately \$3,588,000, which consisted of approximately \$1,794,000, from the Council and from the covered employees.

The Council's total payroll for the year ended June 30, 2005 was approximately \$41,238,000, and total covered employees' salaries in the STRS and TIAA-CREF were approximately \$4,581,000 and \$30,202,000, respectively.

13. FOUNDATIONS

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose “. . . to aid, strengthen and further in every proper and useful way, the work and services of the (individual institutions within the Council), and their affiliated nonprofit organizations . . .” Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Council. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Accordingly, the financial statements of the foundations are not included in the accompanying financial statements under GASB No. 14 and they are not included in the accompanying financial statements under GASB No. 39 as discretely presented component units because they are not significant, except the West Virginia Northern Community College Foundation, Inc., which is material to Northern, but is not included in the Council's financial statements as it is not significant to the Council.

14. AFFILIATED ORGANIZATIONS

The Council has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Council. Accordingly, the financial statements of these organizations are not included in the Council's accompanying combined financial statements under GASB No. 14. They are not included in the Council's accompanying financial statements under GASB No. 39 as discretely presented component units because they are 1) not significant or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the Council).

15. CONTINGENCIES AND COMMITMENTS

Contingencies

The nature of the educational industry is such that, from time-to-time, claims will be presented against colleges and universities 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 Council would not impact seriously on the financial status of the Council.

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. Management believes disallowances, if any, would not have a significant financial impact on the Council's financial position.

The CTCs within the Council own various buildings that are known to contain asbestos. The CTCs are not required by Federal, State or Local Law to remove the asbestos from the buildings. The CTCs are required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The CTCs also address 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. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	\$27,117,408	\$ 5,391,079	\$ 9,555,727	\$ 98,163	\$ 100,366	\$ -	\$ -	\$ -	\$ 42,262,743
Research	47,827	48,000	314,038						409,865
Public service	2,351,302	497,584	2,413,702	5,866				14,450	5,282,904
Academic support	4,761,019	1,287,796	3,359,476	56,281					9,464,572
Student services	3,603,907	802,006	2,766,314	7,912					7,180,139
Operations and maintenance of plant	1,844,363	209,332	5,257,658	1,709,164	2,030				9,022,547
General institutional support	<u>6,983,549</u>	<u>3,309,229</u>	<u>6,688,936</u>	<u>83,542</u>				<u>3,000</u>	<u>17,068,256</u>
 Total education and general	 46,709,375	 11,545,026	 30,355,851	 1,960,928	 102,396	 -	 -	 17,450	 90,691,026
Student financial aid	26,476	892			13,390,674				13,418,042
Auxiliary enterprises	282,016	36,416	1,148,432						1,466,864
Depreciation						2,930,356			2,930,356
Loan cancellations and write-offs							57,928		57,928
Other			<u>3,727</u>						<u>3,727</u>
 Total	 <u>\$47,017,867</u>	 <u>\$11,582,334</u>	 <u>\$31,508,010</u>	 <u>\$1,960,928</u>	 <u>\$13,493,070</u>	 <u>\$2,930,356</u>	 <u>\$57,928</u>	 <u>\$17,450</u>	 <u>\$108,567,943</u>

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

West Virginia Council for Community
and Technical College Education:

We have audited the accompanying combined financial statements of the West Virginia Council for Community and Technical College Education (the "Council") as of June 30, 2005, and have issued our report thereon dated December 22, 2005, which indicates that other auditors audited approximately 59% of total assets, 64% of net assets and 36% of revenues. 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.

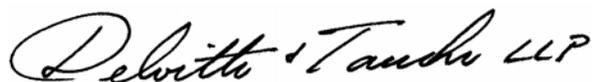
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Council's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the 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 weaknesses is a reportable 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 caused by error or fraud 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 internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

The report is intended solely for the information and use of the management of the Council, the State of West Virginia, the West Virginia Council for Community and Technical College Education, federal and state awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than the specified parties.



December 22, 2005