

West Virginia Council for Community and Technical College Education

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

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

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

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORTS	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	3-13
COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2007 AND 2006:	
Statements of Net Assets	14-15
Statements of Revenues, Expenses, and Changes in Net Assets	16-17
Statements of Cash Flows	18-19
Notes to Combined Financial Statements	20-42
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	43-44

INDEPENDENT AUDITORS' REPORT

To the West Virginia Council for Community
and Technical College Education:

We have audited the accompanying combined statements of net assets of the West Virginia Council for Community and Technical College Education (the "Council") as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the Council's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not separately 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 contain amounts not audited by us of total assets, total net assets, and total revenues constituting approximately 33%, 31%, and 36%, respectively, for the year ended June 30, 2007, and 39%, 38%, and 36%, respectively, for the year ended June 30, 2006, of the Council's combined financial statements. Such financial statements were audited by other auditors and our opinion, insofar as it relates to the specified amounts included for the Council for the years ended June 30, 2007 and 2006, is based solely on the reports of such other auditors.

We, and the other auditors, 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 combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits 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, 2007 and 2006, and the changes in its net assets and its cash flows for the years 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 3–13 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 January 2, 2008, 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.

Deloitte & Touche LLP

January 2, 2008

West Virginia Council for Community & Technical College Education Management's Discussion and Analysis Fiscal Year 2007 (Unaudited)

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 was the first year of issuance of the Council Combined Financial Statements. Comparative statements for the fiscal years ended June 30, 2007 and 2006 are being presented.

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. While three community and technical colleges do have Foundations which are included in their individual financial statements in 2007 as compared to two in 2006, these Foundations are not significant to the Council individually or in total. There are, however, three 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 Years 2007 and 2006 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 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.

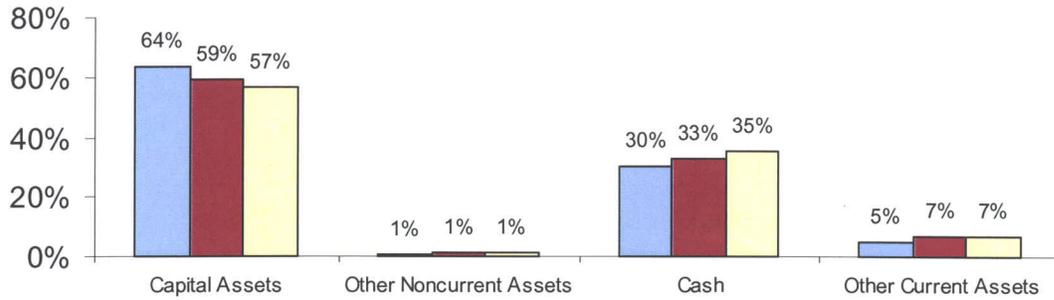
**Condensed Statements of Net Assets
(In thousands of dollars)**

	June 30 2007	June 30 2006	June 30 2005	Change From 2006 to 2007
Assets				
Current Assets	\$ 42,121	\$ 42,252	\$ 36,496	\$ (131)
Capital Assets, net	75,130	63,564	48,749	11,566
Other Noncurrent Assets	<u>622</u>	<u>1,199</u>	<u>1,016</u>	<u>(577)</u>
Total Assets	<u>\$ 117,873</u>	<u>\$ 107,015</u>	<u>\$ 86,261</u>	<u>\$ 10,858</u>
Liabilities				
Current Liabilities	\$ 12,704	\$ 13,949	\$ 10,661	\$ (1,245)
Noncurrent Liabilities	<u>7,821</u>	<u>8,942</u>	<u>8,914</u>	<u>(1,121)</u>
Total Liabilities	<u>20,525</u>	<u>22,891</u>	<u>19,575</u>	<u>(2,366)</u>
Net Assets				
Invested in Capital Assets, net	73,590	61,371	46,388	12,219
Restricted-expendable	2,309	4,789	3,912	(2,480)
Restricted-nonexpendable	50	50	50	-
Unrestricted	<u>21,399</u>	<u>17,914</u>	<u>16,336</u>	<u>3,485</u>
Total Net Assets	<u>97,348</u>	<u>84,124</u>	<u>66,686</u>	<u>13,224</u>
Total Liabilities and Net Assets	<u>\$ 117,873</u>	<u>\$ 107,015</u>	<u>\$ 86,261</u>	<u>\$ 10,858</u>

Asset Composition

As of June 30, 2007, 2006, & 2005

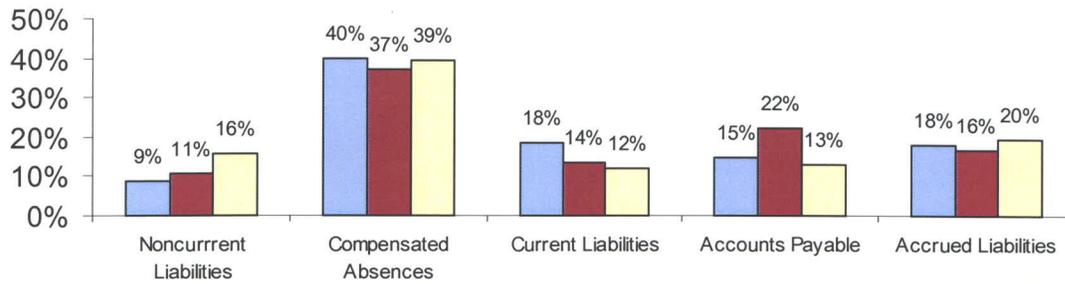
■ 2007
 ■ 2006
 ■ 2005



Liabilities

As of June 30, 2007, 2006, & 2005

■ 2007
 ■ 2006
 ■ 2005



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

- Total current assets of \$42.1 million exceeded total current liabilities of \$12.7 million as of June 30, 2007 for net working capital of \$29.4 million as compared to net working capital of \$28.4 million as of June 30, 2006 and \$25.8 million as of June 30, 2005. Current assets remained very comparable as the prior year, while current liabilities decreased by \$1.2 million.
- The major components of current assets include cash and cash equivalents of \$35.9 million and \$34.2 million and net accounts receivable of \$2.8 million and \$3.9 million as of June 30, 2007 and 2006, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer. The Treasurer invested with Board of Treasury Investments.
- The major components of current liabilities include \$3.0 million and \$5.0 million in accounts payable, \$3.7 million and \$3.8 million in accrued liabilities, deferred revenue of \$3.1 million and \$2.0 million, and \$2.2 million and \$2.0 million of compensated absences as of June 30, 2007 and 2006, respectively. The decrease in accounts payable is primarily result of timing of payments, and the increase in deferred revenue was from advance payments on new contracts.
- Noncurrent assets total \$75.8 million and \$64.8 million and noncurrent liabilities total \$7.8 million and \$8.9 million as of June 30, 2007 and 2006, respectively. Noncurrent assets increased by \$10.0 million over the prior year while noncurrent liabilities decreased by \$1.1 million over the prior year.
- The primary noncurrent asset is \$75.1 million and \$63.6 million of net capital assets as of June 30, 2007 and 2006, respectively. The increase is a result of capital additions as discussed in the capital activity and long-term debt activity section of this MD&A.
- Major components of noncurrent liabilities include accruals for compensated absences of \$6.0 million and \$6.5 million, debt service obligations payable to the Commission of \$1.0 million and \$1.4 million as of June 30, 2007 and 2006, respectively. The decrease in compensated absences was primarily attributable to a PEIA premium reduction for Medicare retirees. See footnote 8 to the financial statements.
- The net assets of the Council total \$97.3 million and \$84.1 million as of June 30, 2007 and 2006, respectively, an increase of \$13.2 million and \$17.4 million from the prior years.
- Net assets invested in capital assets total \$73.6 million and \$61.4 million as of June 30, 2007 and 2006, respectively.
- Restricted net assets total \$2.3 million and \$4.8 million as of June 30, 2007 and 2006, respectively and are primarily restricted for sponsored projects.
- Unrestricted net assets total \$21.4 million and \$17.9 million as of June 30, 2007 and 2006, respectively 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.

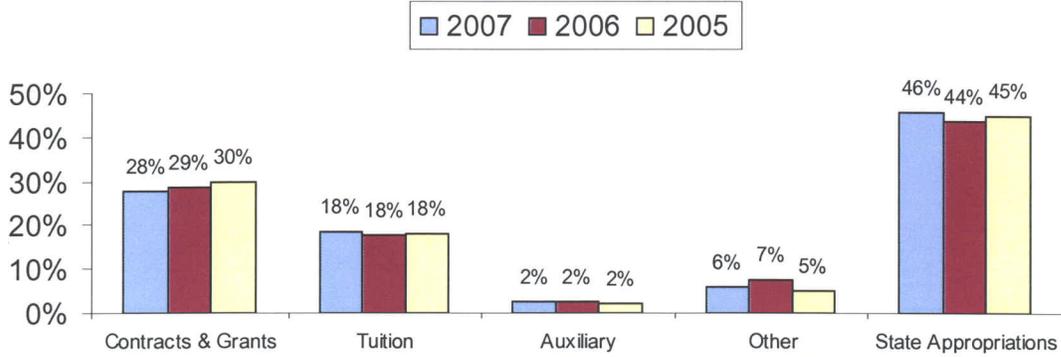
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Council, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses 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.

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

	FY 2007	FY 2006	FY 2005	Change From 2006 to 2007
Operating Revenues	\$ 64,679	\$ 65,539	\$ 63,289	\$ (860)
Operating Expenses	<u>115,246</u>	<u>110,826</u>	<u>108,568</u>	<u>4,420</u>
Operating Loss	(50,567)	(45,287)	(45,279)	(5,280)
Net Nonoperating Revenues	<u>57,617</u>	<u>53,215</u>	<u>52,504</u>	<u>4,402</u>
Income Before Other Revenues, Expenses, Gains or Losses	7,050	7,928	7,225	(878)
Capital Projects & Bond Proceeds from the Commission	9,484	10,273	4,928	(789)
Capital Grants and Gifts-Net	<u>292</u>	<u>1,886</u>	<u>135</u>	<u>(1,594)</u>
Increase in Net Assets before Transfers	16,826	20,087	12,288	(3,261)
Transfers to Entities of the Commission	<u>(3,602)</u>	<u>(2,649)</u>	<u>(4,422)</u>	<u>(953)</u>
Increase in Net Assets	13,224	17,438	7,866	(4,214)
Transfer of Net Assets from Entities of the Commission			58,820	-
Net Assets-Beginning of Year	<u>84,124</u>	<u>66,686</u>	<u>-</u>	<u>17,438</u>
Net Assets-End of Year	<u>\$ 97,348</u>	<u>\$ 84,124</u>	<u>\$ 66,686</u>	<u>\$ 13,224</u>

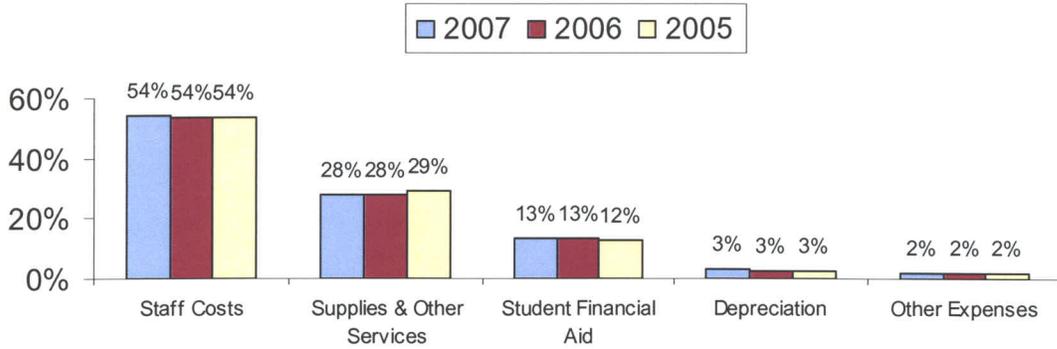
Total Revenue

For the Years Ended June 30, 2007, 2006, & 2005



Operating Expenses

For the Years Ended June 30, 2007, 2006, & 2005



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

- Operating Revenues of the Council totaled \$64.7 million in FY 2007 compared to \$65.5 million in FY 2006, a decrease of \$0.8 million.
 - Student tuition and fees revenues totaled \$22.4 million in FY 2007 compared to \$20.9 million in FY 2006, an increase of \$1.5 million. Tuition is reported net of scholarship allowances totaling \$15.8 million and \$14.3 million in FY 2007 and 2006, respectively.
 - Federal grant and contracts remained constant at \$22.3 million in both FY 2007 and FY 2006. This reflects the level funding for sponsored research, Pell grants, and other miscellaneous federal programs.
 - State grants and contracts totaled \$9.6 million in FY 2007 compared to \$10.2 million in FY 2006 and private grants and contracts totaled \$2.0 million in FY 2007 compared to \$1.5 million in FY 2006. These fluctuations represent normal grant activities.
 - Auxiliary enterprises generated revenues of \$2.8 million, net of \$0.2 million of scholarship allowances in FY 2007 basically unchanged from \$2.8 million, net of \$0.3 million of scholarship allowances in FY 2006.
 - Other operating revenues totaled \$5.0 million in FY 2007 compared to \$7.2 million in FY 2006, a decrease of \$2.2 million primarily attributed to a reduction in a conductor training program provided to CSX at Marshall University Community and Technical College in FY 2006. The training is now being provided directly by CSX.
- Operating expenses totaled \$115.2 million in FY 2007 compared to \$110.8 million in FY 2006, an increase of \$4.4 million.
 - Staff costs including salaries and benefits totaled \$62.5 million in FY 2007 compared to \$60.7 million in FY 2006, which basically reflects an inflationary increase.
 - Supplies and other services totaled \$32.4 million in FY 2007 compared to \$30.7 million in FY 2006, which is just a little above an inflationary increase.
 - Scholarships and fellowships totaled \$15.0 million in FY 2007 compared to \$14.4 million in FY 2006.
 - Depreciation on capital assets totaled \$3.3 million in FY 2007 compared to \$3.1 million in FY 2006.
 - As reported on a functional expenditure basis, expenditures for Educational and General Expenses were \$95.4 million and \$91.9 million in FY 2007 and FY 2006, respectively, an increase of \$3.5 million over FY 2006. Instruction expenses constitute 49.2% and 47.6% of total educational and general expenses and institutional support constitutes 18.3% and 20.4% of total educational and general expenses, in FY 2007 and FY 2006, respectively.

Functional Expenditure Comparisons
(In thousands of dollars)

	FY07 Total	% of E&G Total	FY06 Total	% of E&G Total	FY05 Total	% of E&G Total	Change From 2006 to 2007
Instruction	\$ 46,991	49.2%	\$ 43,708	47.5%	\$ 42,162	46.6%	\$ 3,283
Research	28	0.0%	56	0.1%	410	0.5%	(28)
Public Service	3,884	4.1%	3,753	4.2%	5,283	5.8%	131
Academic Support	8,966	9.4%	7,971	8.7%	9,465	10.4%	995
Student Services	9,210	9.7%	7,941	8.6%	7,180	7.9%	1,269
Plant Operations	8,864	9.3%	9,678	10.5%	9,021	10.0%	(814)
Institutional Support	17,483	18.3%	18,756	20.4%	17,068	18.8%	(1,273)
Total E& G Expenses	<u>95,426</u>	<u>100.0%</u>	<u>91,863</u>	<u>100.0%</u>	<u>90,589</u>	<u>100.0%</u>	<u>3,563</u>
Financial Aid	15,084		14,416		13,520		668
Auxiliary Enterprises	1,353		1,427		1,467		(74)
Depreciation	3,315		3,059		2,930		256
Other	68		61		62		7
Total Operating Expenses	<u>\$ 115,246</u>		<u>\$ 110,826</u>		<u>\$ 108,568</u>		<u>\$ 4,420</u>

- The result from operations was a net operating loss of \$50.6 million and \$45.3 million for the years ended June 30, 2007 and 2006, respectively, but excludes State appropriations of \$55.8 million and \$52.1 million for the years ended June 30, 2007 and 2006, respectively, which are recorded as non-operating revenue.
- Net non-operating revenue totaled \$57.6 million and \$53.2 million for the years ended June 30, 2007 and 2006, respectively, an increase of \$4.4 million from the prior year.
 - State general revenue and lottery appropriations totaled \$55.8 million and \$52.1 million for the years ended June 30, 2007 and 2006, reflecting additional support of \$3.7 million in FY 2007 compared to \$0.1 million increase in FY 2006.
 - Interest earned on investments totaled \$1.9 million and \$1.2 million for the years ended June 30, 2007 and 2006, respectively. The increase of \$0.7 million is attributed to higher yields on investment with the Board of Treasury Investments (BTI) in FY 2007.
- Other revenues consist of capital projects from the 2004 Series B Bond proceeds from the Commission totaling \$9.5 million and \$10.3 million for the years ended June 30, 2007 and 2006, respectively as discussed in the capital asset and long-term debt activity section of this MD&A.
- Capital grants and gifts in 2007 are entirely from a donated capital asset from the federal government for the Publishing Center for Newspaper Industry to the Community and Technical College at West Virginia University Institute of Technology of \$0.3 million. Capital grants and gifts in 2006 were entirely from a donated capital asset from the Greenbrier Community College Foundation, Inc. to New River Community and Technical College of \$1.9 million.
- The activity for FY 2007 resulted in an increase of net assets before transfers of \$16.9 million, as compared to the \$20.1 million increase in net assets during FY 2006 resulting in total net assets at the June 30, 2007 of \$97.3 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.

Condensed Statements of Cash Flows (In thousands of dollars)

	FY 2007	FY 2006	FY 2005	Change From 2006 to 2007
Cash Provided (Used) By:				
Operating Activities	\$ (46,358)	\$ (38,866)	\$ (41,230)	\$ (7,492)
Noncapital Financing Activities	55,071	51,099	75,322	3,972
Capital and Related Financing Activities	(8,929)	(8,848)	(5,040)	(81)
Investing Activities	1,892	1,235	561	657
Increase in Cash and Cash Equivalents	1,676	4,620	29,613	(2,944)
Cash and Cash Equivalents, beginning of year	34,233	29,613	-	4,620
Cash and Cash Equivalents, end of year	<u>\$ 35,909</u>	<u>\$ 34,233</u>	<u>\$ 29,613</u>	<u>\$ 1,676</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 \$46.4 million and \$38.9 million for the years ended June 30, 2007 and 2006, respectively, primarily because State appropriations are defined as a noncapital financing activity. Primary sources of cash from Operating Activities during FY 2007 and 2006 were Student tuition and fees of \$26.2 million and \$21.9 million and contracts and grants of \$34.9 million and \$34.5 million, respectively. Primary uses of cash for FY 2007 and 2006, respectively, included payments to and on behalf of employees of \$62.4 million and \$59.4 million; payments to suppliers of \$31.6 million and \$26.1 million and payments for scholarship and fellowships of \$17.4 million and \$16.0 million.
- Net cash provided from noncapital financing activities for FY 2007 and 2006, respectively, totaled \$55.1 million and \$51.1 million, of which \$55.0 million and \$51.1 million was from State General Revenue and Lottery appropriations. The increase of \$3.9 million is attributed to an increase of State General Revenue and Lottery appropriations.
- Net cash used in capital financing activities for FY 2007 and 2006, respectively, totaled \$8.9 million and \$8.8 million and primarily resulted from purchases of capital assets and debt activity.

- Net cash of the Council at June 30, 2007 was \$35.9 million compared to \$34.2 million at June 30, 2006, an increase of \$1.7 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 four 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 West Virginia Higher Education Fund for real property acquisition and construction. From the 2004B Bond issuance, the Commission had committed \$30.2 million to entities of the Council for a variety of campus capital projects. As of June 30, 2007, the Commission has transferred \$23.2 million to entities of the Council leaving a balance of \$7.0 million for the capital projects. Further details concerning capital assets are included in Note 5 and the long-term liabilities of the Council are included in Notes 6 through 10 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 2007 amounted to \$55.8 million while for FY 2006 was \$52.1 million. For fiscal year 2008, State appropriations for the Council for Community and Technical College institutions will increase \$7.6 million to \$63.4 million. Technical Program Development and Workforce Development funds were appropriated to develop programs to respond to the education and training needs of employers of West Virginia. For fiscal year 2009 the Governor's Office instructed that budget requests are to be based on FY 2008 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. Net student tuition and fees provide approximately 18% 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 STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS:		
Current assets:		
Cash and cash equivalents	\$ 35,908,565	\$ 34,233,056
Appropriations due from Primary Government	2,437,911	1,682,494
Accounts receivable — net	2,758,788	3,946,135
Due from the Commission	81,771	1,256,029
Due from institutions of the Commission		220,346
Loans receivable — current portion	52,796	55,615
Inventories	820,065	825,298
Other current assets	<u>61,305</u>	<u>33,609</u>
Total current assets	<u>42,121,201</u>	<u>42,252,582</u>
Noncurrent assets:		
Cash and cash equivalents	434,619	911,686
Loans receivable — net of allowance of \$518,711 and \$355,516, respectively	187,296	287,373
Capital assets — net	<u>75,129,436</u>	<u>63,563,640</u>
Total noncurrent assets	<u>75,751,351</u>	<u>64,762,699</u>
TOTAL	<u>\$ 117,872,552</u>	<u>\$ 107,015,281</u>

(Continued)

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

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

	2007	2006
LIABILITIES:		
Current liabilities:		
Accounts payable	\$ 3,038,554	\$ 5,039,439
Accrued liabilities	3,746,290	3,774,422
Due to the Commission	127,741	92,569
Due to State and State agencies	23,441	40,282
Due to institutions of the Commission	180,992	522,293
Deferred revenue	3,148,051	2,041,009
Compensated absences — current portion	2,104,934	2,023,186
Capital lease obligations — current portion	80,107	86,723
Debt service obligation payable to Commission — current portion	<u>253,665</u>	<u>329,598</u>
Total current liabilities	<u>12,703,775</u>	<u>13,949,521</u>
Noncurrent liabilities:		
Advances from federal sponsors	360,400	441,779
Due to Bluefield State College	273,086	445,377
Notes payable	36,072	33,976
Compensated absences	6,012,931	6,466,182
Capital lease obligations	95,916	175,389
Debt service obligation payable to Commission	<u>1,042,827</u>	<u>1,379,492</u>
Total noncurrent liabilities	<u>7,821,232</u>	<u>8,942,195</u>
Total liabilities	<u>20,525,007</u>	<u>22,891,716</u>
NET ASSETS:		
Invested in capital assets — net of related debt	73,589,847	61,370,436
Restricted for:		
Nonexpendable — other	50,000	50,000
Expendable:		
Scholarships	21,067	13,050
Sponsored projects	2,003,130	4,534,309
Other	<u>284,956</u>	<u>241,994</u>
Total restricted expendable	2,309,153	4,789,353
Unrestricted	<u>21,398,545</u>	<u>17,913,776</u>
Total net assets	<u>97,347,545</u>	<u>84,123,565</u>
TOTAL	<u>\$ 117,872,552</u>	<u>\$ 107,015,281</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)**

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

	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$15,755,292 and \$14,305,406, respectively	\$ 22,442,308	\$ 20,942,347
Contracts and grants:		
Federal	22,297,280	22,337,601
State	9,560,985	10,181,963
Private	1,981,392	1,549,536
Sales and services of educational activities	554,499	575,655
Auxiliary enterprise revenue, net of scholarship allowance of \$240,976 and \$334,655, respectively	2,839,613	2,775,538
Other operating revenue	<u>5,002,882</u>	<u>7,175,991</u>
Total operating revenues	<u>64,678,959</u>	<u>65,538,631</u>
OPERATING EXPENSES:		
Salaries and wages	50,513,314	48,005,815
Benefits	11,958,017	12,652,815
Supplies and other services	31,853,705	30,655,419
Utilities	2,059,200	2,000,267
Student financial aid — scholarships and fellowships	14,967,934	14,395,570
Depreciation	3,314,749	3,059,145
Loan cancellations and write-offs	60,443	43,557
Other operating expenses	<u>1,000</u>	<u>13,515</u>
Total operating expenses	<u>114,728,362</u>	<u>110,826,103</u>
OPERATING LOSS	<u>(50,049,403)</u>	<u>(45,287,472)</u>

(Continued)

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

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

	2007	2006
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 55,754,456	\$ 52,063,464
Investment income	1,911,010	1,248,229
Other nonoperating expenses — net	<u>(47,830)</u>	<u>(96,181)</u>
Net nonoperating revenues	<u>57,617,636</u>	<u>53,215,512</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	7,568,233	7,928,040
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	9,484,015	10,273,032
CAPITAL GRANTS AND GIFTS	<u>292,000</u>	<u>1,885,546</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	17,344,248	20,086,618
TRANSFERS TO INSTITUTIONS OF THE COMMISSION	<u>(4,120,268)</u>	<u>(2,648,880)</u>
INCREASE IN NET ASSETS	13,223,980	17,437,738
NET ASSETS — Beginning of year	<u>84,123,565</u>	<u>66,685,827</u>
NET ASSETS — End of year	<u>\$ 97,347,545</u>	<u>\$ 84,123,565</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)

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

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 26,198,493	\$ 21,909,740
Contracts and grants	34,877,843	34,536,646
Payments to and on behalf of employees	(62,424,271)	(59,440,671)
Payments to suppliers	(31,619,340)	(26,117,425)
Payments to utilities	(2,420,602)	(2,240,119)
Payments for scholarships and fellowships	(17,374,958)	(16,000,489)
Loans issued to students	(4,321,610)	(3,959,198)
Collection of loans to students	4,416,816	3,971,070
Auxiliary enterprise charges	2,913,731	2,640,184
Sales and service of educational activities	1,019,727	792,968
Other receipts — net	<u>2,893,843</u>	<u>5,041,187</u>
Net cash used in operating activities	<u>(45,840,328)</u>	<u>(38,866,107)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	55,045,147	51,120,167
William D. Ford direct lending receipts	15,971,490	5,411,771
William D. Ford direct lending payments	(15,971,547)	(5,411,771)
Other nonoperating receipts (payments) — net	<u>26,235</u>	<u>(21,477)</u>
Net cash provided by noncapital financing activities	<u>55,071,325</u>	<u>51,098,690</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(15,397,416)	(16,419,907)
Bond proceeds from the Commission	9,039,196	10,821,453
Capital projects proceeds from the Commission	1,201,475	39,746
Withdrawals from noncurrent cash and cash equivalents	330,437	627,825
Deposits to noncurrent cash and cash equivalents	(188,484)	(443,771)
Principal payment on debt obligation due Commission	(412,598)	(317,815)
Interest paid on obligation to Commission	(6,249)	(7,010)
Principal paid on leases	(86,089)	(106,937)
Interest paid on leases	(14,831)	(19,655)
Other — including other transfers	<u>(3,913,036)</u>	<u>(3,022,116)</u>
Net cash used in capital financing activities	<u>(9,447,595)</u>	<u>(8,848,187)</u>
CASH FLOWS FROM INVESTING ACTIVITIES — Investment income	<u>1,892,107</u>	<u>1,235,205</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,675,509	4,619,601
CASH AND CASH EQUIVALENTS — Beginning of year	<u>34,233,056</u>	<u>29,613,455</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 35,908,565</u>	<u>\$ 34,233,056</u>

(Continued)

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

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

	2007	2006
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (50,049,403)	\$ (45,287,472)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,314,749	3,059,145
Changes in assets and liabilities:		
Receivables — net	1,037,929	(318,536)
Appropriations due from Primary Government		247,173
Due from Commission	734,836	37,952
Inventories	5,234	(105,626)
Accounts payable/amounts due	(2,064,772)	2,266,981
Accrued liabilities and deposits	120,562	(115,288)
Compensated absences	(373,502)	780,659
Deferred revenue	1,107,043	791,835
Advances from federal sponsors	(78,767)	(7,032)
Other — net	<u>405,763</u>	<u>(215,898)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (45,840,328)</u>	<u>\$ (38,866,107)</u>
SIGNIFICANT NONCASH TRANSACTION:		
Donated capital assets	<u>\$ -</u>	<u>\$ 1,877,000</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 YEARS ENDED JUNE 30, 2007 AND 2006

1. ORGANIZATION

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

- Blue Ridge Community and Technical College (formerly The Community and Technical College of Shepherd) (“Blue Ridge”)
- 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”)
- Pierpont Community and Technical College (formerly 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 beginning with the year ended June 30, 2005.

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. Effective July 2005, New River and Blue Ridge are governed by their own Governing Boards, but still receive services from their respective Commission institution. Effective July 1, 2006, Blue Ridge no longer receives such services. 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 four entities are administratively linked to the Council. These four 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.

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*, 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 accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable* — This includes resources in which the 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 combined financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the statements 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 Board of Treasury Investments (“BTI”). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, or amortized cost which approximates fair value. Fair value 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 BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit 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 BTI maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Consolidated Fund participants. Consolidated Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI’s investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

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 statements of net assets.

Capital Assets — Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. There was no interest capitalized as part of the cost of assets for the years ended June 30, 2007 and 2006. 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. During fiscal year 2006, the Council implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries* (“GASB No. 42”). The financial statements reflect all adjustments required by GASB No. 42 as of June 30, 2006.

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 1½ sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 ½ 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 statements of revenues, expenses, and changes in net assets.

Risk Management — The State’s Board of Risk and Insurance Management (“BRIM”) provides general, property and casualty coverage, 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.

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

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 2007 and 2006, the Council received and disbursed, or awarded, approximately \$24,600,000 and \$24,800,000, respectively, 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 2007 and 2006, the Council received and disbursed approximately \$23,600,000 and \$24,000,000, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the combined statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the 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 combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a 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 statements of cash flows.

Use of Estimates — The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ materially 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. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. Effective July 1, 2007, the Council is required to participate in this multiple employer cost sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>. The Council has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statement.

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

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

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

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

3. CASH AND CASH EQUIVALENTS

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

2007	Current	Noncurrent	Total
State Treasurer	\$ 34,858,303	\$ 312,339	\$ 35,170,642
Banks	1,041,012	122,280	1,163,292
On hand	<u>9,250</u>	<u> </u>	<u>9,250</u>
	<u>\$ 35,908,565</u>	<u>\$ 434,619</u>	<u>\$ 36,343,184</u>
2006	Current	Noncurrent	Total
State Treasurer	\$ 33,724,832	\$ 622,443	\$ 34,347,275
Banks	499,824	289,243	789,067
On hand	<u>8,400</u>	<u> </u>	<u>8,400</u>
	<u>\$ 34,233,056</u>	<u>\$ 911,686</u>	<u>\$ 35,144,742</u>

Amounts held by the State Treasurer include \$1,402,693 and \$2,682,322 of restricted cash at June 30, 2007 and 2006, respectively.

The combined carrying amounts of cash in the bank at June 30, 2007 and 2006, was \$1,163,292 and \$789,067, as compared with the combined bank balance of \$1,341,328 and \$1,219,162, respectively. 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, 2007 and 2006, is comprised of the following investment pools:

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

Cash Liquidity Pool

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

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

Security Type	Credit Rating *		2007		2006	
	Moody’s	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Investments:						
Commercial paper	P1	A-1	\$ 1,015,926	48.89 %	\$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76	61,992	3.56
	Aa3	AA	20,001	0.96		
	Aa3	A	23,002	1.11		
	Aa2	AA	15,000	0.72		
	Aa2	A	27,000	1.30		
	Aa1	AA	77,023	3.71		
	Aa	AA			55,063	3.16
	Aa	AA			12,000	0.69
			261,025	12.56	129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	306,279	17.58
Negotiable certificates of deposit	P1	A-1	76,500	3.68	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	93,851	5.39
Money market funds	Aaa	AAA	185	0.01	758	0.04
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA			73,000	4.19
U.S. agency notes	Aaa	AAA	246,821	11.88	29,339	1.69
			246,821	11.88	102,339	5.88
Deposits — nonnegotiable certificates of deposit	NR	NR	50,000	2.41	23,800	1.37
			\$ 2,077,831	100.01 %	\$ 1,741,802	100.00 %

* NR = Not Rated. See “Deposits” note at the conclusion of this footnote.

At June 30, 2007 and 2006, the Council's ownership represents 1.44% and 1.23%, respectively, of these amounts held by the BTI.

Government Money Market Pool

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

Security Type	Credit Rating		2007		2006	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	\$ 67,620	29.46 %	\$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			<u>51,400</u>	<u>22.39</u>	<u>19,900</u>	<u>10.92</u>
			<u>\$229,551</u>	<u>100.00 %</u>	<u>\$ 182,174</u>	<u>100.00 %</u>

At June 30, 2007 and 2006, the Council's ownership represents 0.50% and 0.28%, respectively, of these amounts held by the BTI.

Enhanced Yield Pool:

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

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

At June 30, 2007 and 2006, the Council’s ownership represents 0.75% and 4.20%, respectively, of these amounts held by the BTI.

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

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

Security Type	2007		2006	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 246,821	2	\$ 102,339	3
U.S. Treasury bills	358,725	30	306,279	32
Commercial paper	1,015,926	52	943,057	25
Certificates of deposit	126,500	76	122,800	105
U.S. agency discount notes	21,655	113	93,851	89
Corporate notes	261,025	58	129,055	77
U.S. agency bonds/notes	46,994	156	43,663	208
Money market fund	<u>185</u>	<u>1</u>	<u>758</u>	<u>1</u>
Total	<u>\$2,077,831</u>	<u>48</u>	<u>\$ 1,741,802</u>	<u>42</u>

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

Security Type	2007		2006	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 51,400	2	\$ 19,900	3
U.S. Treasury bills	36,379	29	28,346	42
U.S. agency discount notes	74,143	106	112,399	39
U.S. agency bonds/notes	67,620	60	21,420	152
Money market fund	<u>9</u>	<u>1</u>	<u>109</u>	<u>1</u>
Total	<u>\$229,551</u>	<u>49</u>	<u>\$182,174</u>	<u>49</u>

The overall weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Enhanced Yield Pool:

Security Type	2007		2006	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 20,485	2	\$ 1,346	3
U.S. Treasury bonds/notes	55,877	1,092	58,067	894
Corporate notes	52,620	557	71,793	588
Corporate asset backed securities	42,122	421	46,963	688
U.S. agency bonds/notes	46,075	927	87,215	594
U.S. agency mortgage backed securities	<u>11,741</u>	<u>814</u>	<u> </u>	<u> </u>
Total	<u>\$ 228,920</u>	<u>700</u>	<u>\$ 265,384</u>	<u>672</u>

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

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

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

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

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at \$50,000,000, which represents 2.41% of the pool's assets. The BTI's does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

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

	2007	2006
Student tuition and fees, net of allowance for doubtful accounts of \$1,565,962 and \$1,235,919, respectively	\$ 1,199,490	\$ 1,878,136
Grants and contracts receivable	868,830	1,077,727
Due from State agencies	232,673	801,315
Other, net of allowance of \$297,495 and \$2,000, respectively	<u>457,795</u>	<u>188,957</u>
	<u>\$2,758,788</u>	<u>\$3,946,135</u>

5. CAPITAL ASSETS

A summary of capital assets transactions for the Council at June 30, 2007 and 2006, is as follows:

	2007			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 4,488,396	\$ 2,341,020	\$ -	\$ 6,829,416
Construction in progress	<u>5,719,078</u>	<u>2,960,958</u>	<u>5,855,092</u>	<u>2,824,944</u>
Total capital assets not being depreciated	<u>\$10,207,474</u>	<u>\$ 5,301,978</u>	<u>\$ 5,855,092</u>	<u>\$ 9,654,360</u>
Other capital assets:				
Land improvements	\$ 828,385	\$ 4,998	\$ -	\$ 833,383
Infrastructure	2,757,159	116,350	113,000	2,760,509
Buildings	67,173,418	13,546,659	-	80,720,077
Equipment	15,478,223	1,769,946	1,244,207	16,003,962
Library books	<u>7,075,111</u>	<u>113,134</u>	<u>72,551</u>	<u>7,115,694</u>
Total other capital assets	<u>93,312,296</u>	<u>15,551,087</u>	<u>1,429,758</u>	<u>107,433,625</u>
Less accumulated depreciation for:				
Land improvements	114,773	49,686		164,459
Infrastructure	1,792,412	116,532		1,908,944
Buildings	21,131,850	1,432,332		22,564,182
Equipment	10,356,717	1,560,739	1,240,779	10,676,677
Library books	<u>6,560,378</u>	<u>155,460</u>	<u>71,551</u>	<u>6,644,287</u>
Total accumulated depreciation	<u>39,956,130</u>	<u>3,314,749</u>	<u>1,312,330</u>	<u>41,958,549</u>
Other capital assets — net	<u>\$53,356,166</u>	<u>\$12,236,338</u>	<u>\$ 117,428</u>	<u>\$ 65,475,076</u>
Capital asset summary:				
Capital assets not being depreciated	\$10,207,474	\$ 5,301,978	\$ 5,855,092	\$ 9,654,360
Other capital assets	<u>93,312,296</u>	<u>15,551,087</u>	<u>1,429,758</u>	<u>107,433,625</u>
Total cost of capital assets	103,519,770	20,853,065	7,284,850	117,087,985
Less accumulated depreciation	<u>39,956,130</u>	<u>3,314,749</u>	<u>1,312,330</u>	<u>41,958,549</u>
Capital assets — net	<u>\$63,563,640</u>	<u>\$17,538,316</u>	<u>\$ 5,972,520</u>	<u>\$ 75,129,436</u>

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 3,664,396	\$ 824,000	\$ -	\$ 4,488,396
Construction in progress	<u>4,008,366</u>	<u>11,908,519</u>	<u>10,197,807</u>	<u>5,719,078</u>
Total capital assets not being depreciated	<u>\$ 7,672,762</u>	<u>\$ 12,732,519</u>	<u>\$ 10,197,807</u>	<u>\$ 10,207,474</u>
Other capital assets:				
Land improvements	\$ 124,752	\$ 703,633	\$ -	\$ 828,385
Infrastructure	2,644,159	113,000		2,757,159
Buildings	54,479,618	12,693,800		67,173,418
Equipment	14,251,317	1,757,167	530,261	15,478,223
Library books	<u>7,084,085</u>	<u>101,985</u>	<u>110,959</u>	<u>7,075,111</u>
Total other capital assets	<u>78,583,931</u>	<u>15,369,585</u>	<u>641,220</u>	<u>93,312,296</u>
Less accumulated depreciation for:				
Land improvements	93,203	21,570		114,773
Infrastructure	1,687,898	104,514		1,792,412
Buildings	19,888,086	1,243,764		21,131,850
Equipment	9,328,773	1,536,659	508,715	10,356,717
Library books	<u>6,509,950</u>	<u>161,387</u>	<u>110,959</u>	<u>6,560,378</u>
Total accumulated depreciation	<u>37,507,910</u>	<u>3,067,894</u>	<u>619,674</u>	<u>39,956,130</u>
Other capital assets — net	<u>\$ 41,076,021</u>	<u>\$ 12,301,691</u>	<u>\$ 21,546</u>	<u>\$ 53,356,166</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 7,672,762	\$ 12,732,519	\$ 10,197,807	\$ 10,207,474
Other capital assets	<u>78,583,931</u>	<u>15,369,585</u>	<u>641,220</u>	<u>93,312,296</u>
Total cost of capital assets	86,256,693	28,102,104	10,839,027	103,519,770
Less accumulated depreciation	<u>37,507,910</u>	<u>3,067,894</u>	<u>619,674</u>	<u>39,956,130</u>
Capital assets — net	<u>\$ 48,748,783</u>	<u>\$ 25,034,210</u>	<u>\$ 10,219,353</u>	<u>\$ 63,563,640</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.

The Council has construction commitments as of June 30, 2007, of approximately:

Eastern	\$ 5,300,000
Southern	<u>430,000</u>
	<u>\$ 5,730,000</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 at June 30, 2007, is as follows:

Years Ending June 30	
2008	\$ 180,992
2009	136,543
2010	<u>136,543</u>
Total	<u>\$ 454,078</u>

8. COMPENSATED ABSENCES

The composition of the compensated absences liability at June 30, 2007 and 2006, was as follows:

	2007	2006
Health or life insurance benefits	\$ 5,590,912	\$ 6,258,369
Accrued vacation leave	<u>2,526,953</u>	<u>2,230,999</u>
	<u>\$ 8,117,865</u>	<u>\$ 8,489,368</u>

For the years ended June 30, 2007 and 2006, the amounts paid by the Council for extended health or life insurance benefits totaled approximately \$290,000 and \$275,000, respectively. As of June 30, 2007 and 2006, there were approximately 158 and 146 retirees, respectively, 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:

Years Ending June 30	Total
2008	\$ 88,327
2009	25,965
2010	24,591
2011	24,591
2012	24,591
2013–2016	<u>9,426</u>
Future minimum lease payments	197,491
Less interest	<u>(21,468)</u>
Total	<u>\$ 176,023</u>

Operating — The Council had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2007, are as follows:

Years Ending June 30	Total
2008	\$ 1,107,923
2009	805,042
2010	385,989
2011	281,845
2012	243,376
2013–2016	<u>582,355</u>
 Total	 <u>\$ 3,406,530</u>

Total rent expense for these operating leases for the years ended June 30, 2007 and 2006, was approximately \$1,132,000 and \$889,000, respectively.

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 2007 and 2006, the Council paid \$412,598 and \$323,000, respectively, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2007 and 2006, is \$1,296,492 and \$1,709,090, respectively.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The Institutions that comprise the Council have been approved to receive \$30.2 million of these funds. State lottery funds will be used to repay the debt, although the Council’s revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2007, the Council has recognized \$19.8 million of the amount authorized.

11. UNRESTRICTED NET ASSETS

The Council’s unrestricted net assets include certain designated net assets at June 30, 2007 and 2006, is as follows:

	2007	2006
Designated for capital projects	\$ 539,300	\$ 382,069
Designated for auxiliaries	48,442	50,720
Undesignated	<u>20,810,803</u>	<u>17,480,987</u>
 Total unrestricted net assets	 <u>\$21,398,545</u>	 <u>\$17,913,776</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 years ended June 30, 2007 and 2006. Required employee contributions are at the rate of 6% of total annual salary for the years ended June 30, 2007 and 2006. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2007, 2006, and 2005, were approximately \$803,000, \$829,000, and \$958,000, respectively, which consisted of approximately \$574,000, \$591,000, and \$683,000 from the Council in 2007, 2006, and 2005, respectively, and approximately \$229,000, \$237,000, and \$275,000, from the covered employees, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the 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% 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 years ended June 30, 2007, 2006, and 2005, were approximately \$4,265,000, \$3,881,000, and \$3,588,000 which consisted of approximately \$2,132,500, \$1,940,500, and \$1,794,000 from the Council and from the covered employees, respectively.

The Council's total payroll for the years ended June 30, 2007 and 2006, was approximately \$49,306,000 and \$47,385,000, and total covered employees' salaries in the STRS and TIAA-CREF were approximately \$4,001,000 and \$3,942,000, and \$34,752,000 and \$29,019,000, 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 combined financial statements under GASB No. 14 and they are not included in the accompanying combined 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., Southern West Virginia Community College Foundation, Inc., and Greenbrier Community College Foundation, Inc., which are material to their respective Institutions, but are not included in the Council's combined financial statements as they are 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 combined 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

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

2007	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	\$ 28,777,364	\$ 6,171,324	\$ 11,679,190	\$ 40,233	\$ -	\$ -	\$ -	\$ -	\$ 46,668,111
Research	16,603	11,256							27,859
Public service	1,710,728	393,095	1,753,780	1,135					3,858,738
Academic support	4,674,925	1,135,332	3,039,130	62,356					8,911,743
Student services	4,677,857	1,211,840	3,304,191	3,074					9,196,962
Operations and maintenance of plant	2,528,741	778,796	3,896,280	1,608,814					8,812,631
General institutional support	7,864,434	2,199,797	7,023,753	343,588				1,000	17,432,572
Total education and general	50,250,652	11,901,440	30,696,324	2,059,200	-	-	-	1,000	94,908,616
Student financial aid	27,251	58	88,570		14,967,934				15,083,813
Auxiliary enterprises	235,411	56,519	1,060,964						1,352,894
Depreciation						3,314,749			3,314,749
Loan cancellations and write-offs							60,443		60,443
Other			7,847						7,847
Total	\$ 50,513,314	\$ 11,958,017	\$ 31,853,705	\$ 2,059,200	\$ 14,967,934	\$ 3,314,749	\$ 60,443	\$ 1,000	\$ 114,728,362
2006	Wages	Benefits	Services	Utilities	Fellowships	Depreciation	Write-offs	Other	Total
Instruction	\$ 27,689,655	\$ 6,725,700	\$ 9,254,549	\$ 38,025	\$ -	\$ -	\$ -	\$ -	\$ 43,707,929
Research	24,714	4,694	26,596						56,004
Public service	2,153,733	519,282	1,065,982	1,942				11,515	3,752,454
Academic support	3,956,867	937,166	3,024,084	53,011					7,971,128
Student services	4,010,613	1,169,738	2,758,054	2,553					7,940,958
Operations and maintenance of plant	2,167,844	814,452	4,790,731	1,904,920					9,677,947
General institutional support	7,699,710	2,426,600	8,628,193	(184)				2,000	18,756,319
Total education and general	47,703,136	12,597,632	29,548,189	2,000,267	-	-	-	13,515	91,862,739
Student financial aid	20,105	178			14,395,570				14,415,853
Auxiliary enterprises	282,574	55,005	1,089,831						1,427,410
Depreciation						3,059,145			3,059,145
Loan cancellations and write-offs							43,557		43,557
Other			17,399						17,399
Total	\$ 48,005,815	\$ 12,652,815	\$ 30,655,419	\$ 2,000,267	\$ 14,395,570	\$ 3,059,145	\$ 43,557	\$ 13,515	\$ 110,826,103

* * * * *

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

To the West Virginia 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, 2007, and have issued our report thereon dated January 2, 2008, which indicates that other auditors audited approximately 33% of total assets, 31% 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Council's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

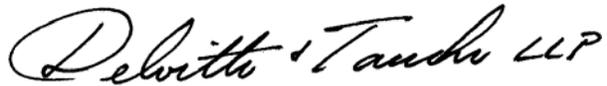
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

COMPLIANCE AND OTHER MATTERS

As part of obtaining reasonable assurance about whether 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.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

January 2, 2008