West Virginia Higher Education Fund

(A Component Unit of the State of West Virginia)

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

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

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Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education Policy Commission:

We have audited the accompanying combined statements of net assets of the West Virginia Higher Education Fund (the "Fund") 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 Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Concord University, Glenville State College, New River Community and Technical College, Southern West Virginia Community and Technical College, West Virginia Northern Community and Technical College, West Virginia School of Osteopathic Medicine, and West Virginia State University Research Corporation for the year ended June 30, 2007, which statements reflect total assets, total net assets, and total revenues constituting approximately 10%, 16%, and 11%, respectively, of the Fund. We did not audit the financial statements of Bluefield State College, Concord University, Glenville State College, New River Community and Technical College, Southern West Virginia Community and Technical College, West Virginia Northern Community and Technical College, and West Virginia School of Osteopathic Medicine for the year ended June 30, 2006, which statements reflect total assets, total net assets, and total revenues constituting approximately 10%, 16%, and 10%, respectively of the Fund. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund for the years ended June 30, 2007 and 2006, is based solely on the reports of such other auditors. We also did not audit the discretely presented component units' financial statements. The component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors.

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

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2007 and 2006, and the changes in net assets and 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 to 15 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 Fund'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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated January 2, 2008, on our consideration of the Fund'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 on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 2, 2008

West Virginia Higher Education Fund

Management's Discussion and Analysis
Fiscal Year 2007 (Unaudited)

Overview of the Combined Financial Statements and Financial Analysis

The West Virginia Higher Education Fund (the "Fund") is comprised of fifteen public colleges and universities and two administrative units. The Fund 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 West Virginia Higher Education Policy Commission (the "Commission") and the West Virginia Council for Community and Technical College Education (the "Council") are responsible for the development and implementation of a higher education policy agenda.

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of college and university financial statements that were adopted for presentation in Fiscal Year 2002 by the Fund. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of the organization. This is the fifth fiscal year for this format.

As of July 1, 2003, West Virginia Higher Education Institutions adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is an amendment to GASB Statement No. 14. As a result, the audited financial statements of certain institutions' Foundations are seperately presented as a discrete component unit in the Fund's financial statements for the fiscal years ended June 30, 2007 and 2006. The Foundations are private nonprofit organizations that report under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2007 and 2006 and is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. 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 Fund and is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Fund. 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 Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Fund.

Net assets are divided into three major categories as follows:

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

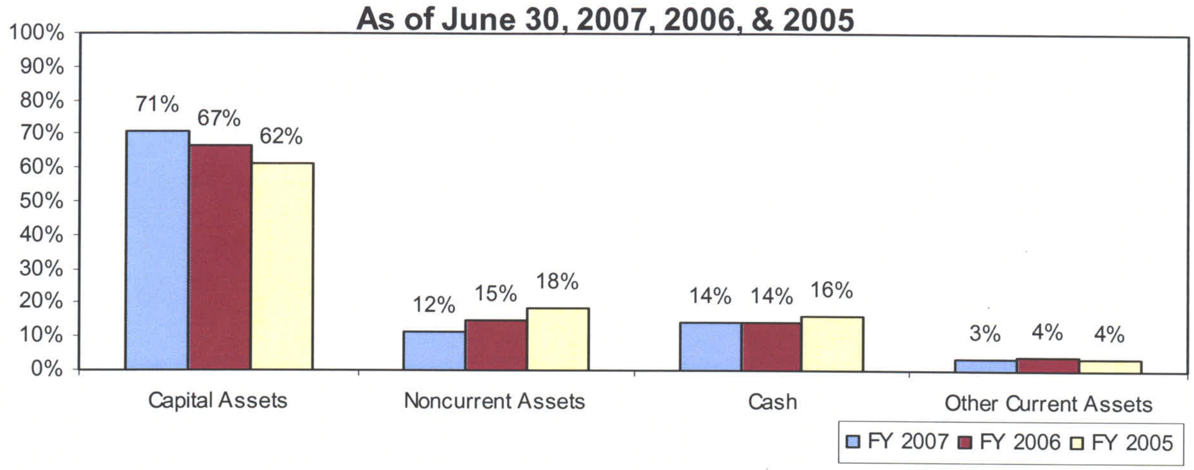
(2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted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

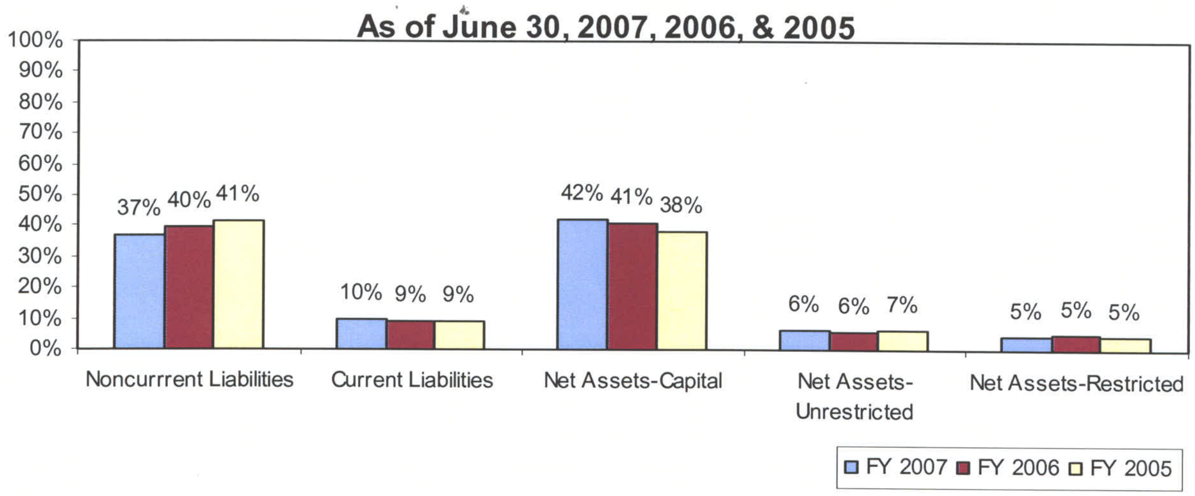
Condensed Statements of Net Assets
(In thousands of dollars)

	June 30 2007	June 30 2006	June 30 2005	Change From 2006 to 2007
Assets				
Current Assets	$ 404,934	$ 401,735	$ 415,661	$ 3,199
Capital Assets, net	1,642,452	1,451,510	1,280,066	190,942
Other Noncurrent Assets	267,718	327,987	382,213	(60,269)
Total Assets	$ 2,315,104	$ 2,181,232	$ 2,077,940	$ 133,872
Liabilities				
Current Liabilities	$ 222,740	$ 200,496	$ 186,720	$ 22,244
Noncurrent Liabilities	863,563	861,958	858,884	1,605
Total Liabilities	1,086,303	1,062,454	1,045,604	23,849
Net Assets				
Invested in Capital Assets, net	975,920	889,067	790,595	86,853
Restricted-expendable	104,309	102,888	95,339	1,421
Restricted-nonexpendable	5,729	5,019	4,785	710
Unrestricted	142,843	121,804	141,617	21,039
Total Net Assets	1,228,801	1,118,778	1,032,336	110,023
Total Liabilities and Net Assets	$ 2,315,104	$ 2,181,232	$ 2,077,940	$ 133,872

Asset Composition



Liabilities & Net Assets



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

- Total current assets of $404.9 million exceeded total current liabilities of $222.7 million as of June 30, 2007 for net working capital of $182.2 million as compared to net working capital of $201.2 million as of June 30, 2006. Current assets increased by $3.2 million over the prior year, while current liabilities increased by $22.2 million.

    - The major components of currents assets include cash and cash equivalents of $324.9 million and $315.0 million and net accounts receivable of $58.5 million and $62.4 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 invested with Board of Treasury Investments at June 30, 2007 and 2006, respectively.

    - The major components of current liabilities include $60.7 million and $58.2 million in accounts payable, $35.7 million and $31.9 million in accrued compensated absences, $54.9 million and $44.1 million of deferred revenue, and $34.2 million and $30.3 million of other accrued liabilities as of June 30, 2007 and 2006, respectively.

    - The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations, anticipation of upcoming projects including current construction projects, increases in grant activities, and the general growth of the higher education institutions.

- Noncurrent assets total $1,910.2 million and $1,779.5 million and noncurrent liabilities total $863.6 million and $862.0 million as of June 30, 2007 and 2006, respectively. Noncurrent assets increased by $130.7 million over the prior year while noncurrent liabilities increased by $1.6 million.

    - The primary noncurrent asset is $1,642.5 million and $1,451.5 million of net capital assets as of June 30, 2007 and 2006, respectively. Also included as noncurrent assets are cash and cash equivalents primarily for capital purposes of $43.3 million and $45.8 million and investments for capital purposes totaling $144.3 million and $217.5 million as of June 30, 2007 and 2006, respectively. Net loans to students total $48.5 million and $46.9 million as of June 30, 2007 and 2006, respectively.

    - Major components of noncurrent liabilities include long-term bonds payable totaling $681.3 million and $701.0 million, accruals for compensated absences of $64.4 million and $71.5 million, advances from federal sponsors of $42.3 million and $42.4 million, and capital leases of $31.5 million and $17.9 million as of June 30, 2007 and 2006, respectively. The increase in capital leases was primarily attributable to $18.6 million in two new leases at West Virginia University. The first is a lease purchase agreement in the amount of $7.8 million with First Security Leasing, Inc to finance a performance energy contract with Siemens Building Technologies, Inc. The other is a lease finance agreement with SunTrust Leasing Corporation in the amount of $10.8 million to finance renovations at the WVU Institute of Technology campus.

    - Changes from the prior year in noncurrent assets and liabilities reflect new capital projects financed by prior year revenue bonds at Fairmont State University, Shepherd University, West Virginia University, and a system bond issue by the Commission as discussed in more detail in a later section.

- The net assets of the Fund total $1,228.8 million and $1,118.8 million as of June 30, 2007 and 2006, respectively, an increase of $110.0 million and $86.4 million from each previous year end.
    - Net assets invested in capital assets total $975.9 million and $889.1 million as of June 30, 2007 and 2006 respectively.
    - Restricted expendable net assets total $104.3 million and $102.9 million and include $18.8 million and $29.3 million for capital projects, $25.6 million and $24.8 million for loan programs and $35.3 million and $24.8 million for sponsored projects as of June 30, 2007 and 2006, respectively.
    - Unrestricted net assets total $142.8 million and $121.8 million as of June 30, 2007 and 2006, respectively, and represent net assets available to the Fund for any lawful purpose of the Fund. The primary reason for the amount of the increase in unrestricted net assets in FY 2007 is attributed to positive operations at numerous institutions.
    - The increase in Net Assets is more fully explained in the following section.

Combined Statement of Revenues, Expenses, and Changes in Net Assets

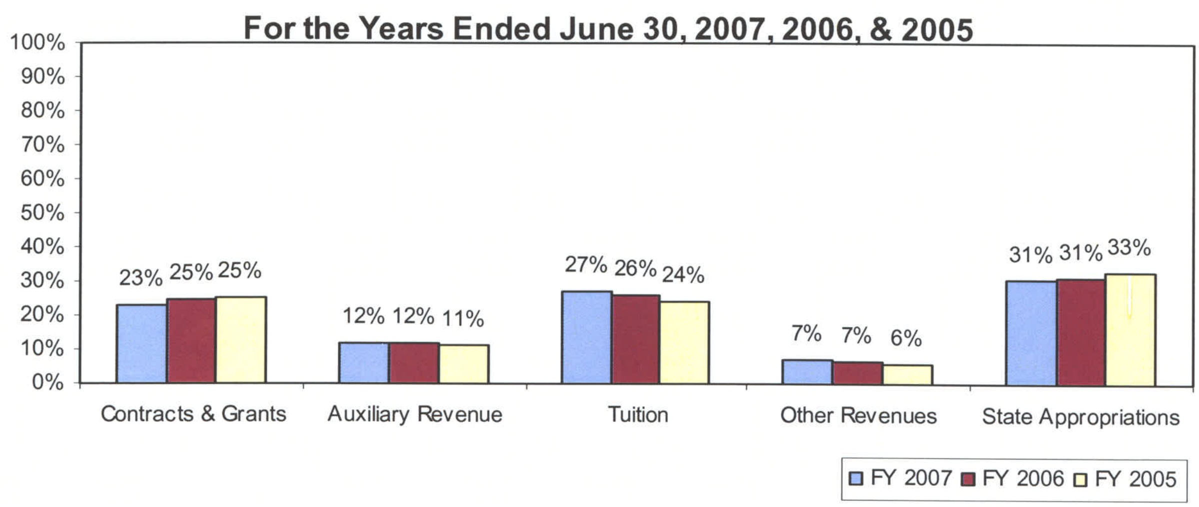
Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the expenses of the Fund, operating and nonoperating, and any other revenues, expenses, gains or losses of the Fund.

Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, 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 Fund. 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 Fund without the Legislature directly receiving commensurate goods and services for those revenues.

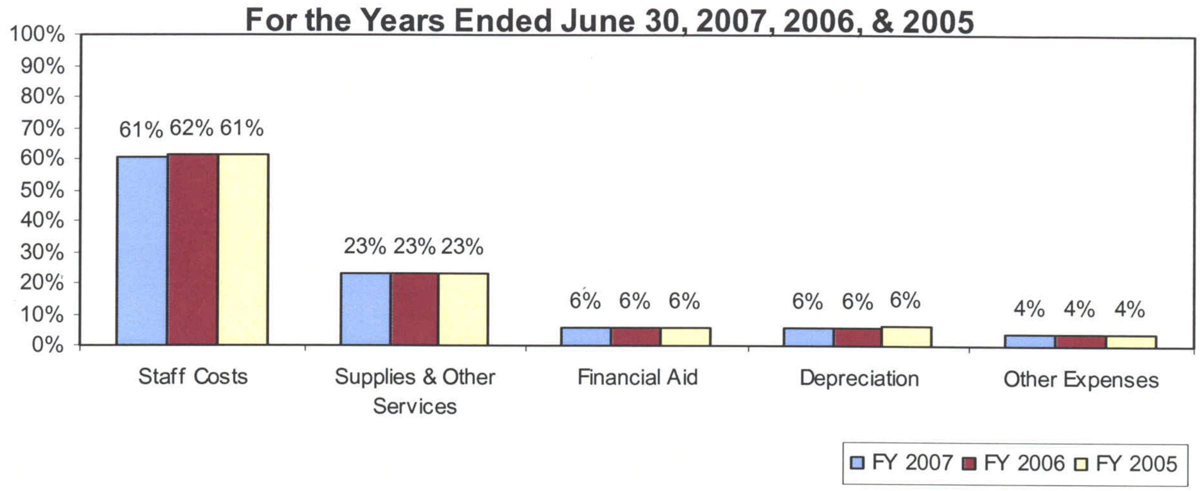
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(In thousands of dollars)

	FY 2007	FY 2006	FY 2005	Change From 2006 to 2007
Operating Revenues	$ 909,300	$ 853,142	$ 793,094	$ 56,158
Operating Expenses	1,292,113	1,217,380	1,125,561	74,733
Operating Loss	(382,813)	(364,238)	(332,467)	(18,575)
Net Nonoperating Revenues	414,924	387,488	388,428	27,436
Income Before Other Revenues, Expenses, Gains or Losses	32,111	23,250	55,961	8,861
Capital Grants and Gifts-Net	77,912	63,192	44,624	14,720
Increase in Net Assets	110,023	86,442	100,585	23,581
Net Assets-Beginning of Year	1,118,778	1,032,336	931,751	86,442
Net Assets-End of Year	$ 1,228,801	$ 1,118,778	$1,032,336	$ 110,023

Total Revenues



Total Expenses



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

- Operating Revenues of the Fund totaled $909.3 million and $853.1 million, an increase of $56.2 million and $60.0 million from each previous year.
    - Student tuition and fees revenues totaled $376.4 million in FY 2007, an increase of $43.1 million or 12.9% in FY 2007 compared to an 11.7% increase in FY 2006. Tuition is reported net of scholarship allowances totaling $82.8 million and $79.1 million for the years ended June 30, 2007 and 2006, respectively. This increase is a combination of increases in tuition and number of students.
    - Federal grant and contracts totaled $195.7 million and $194.6 million for the years ended June 30, 2007 and 2006, respectively. The increase of $1.1 million represents normal fluctuations in grant activities. Federal grants include funding for sponsored research, Pell grants, and other miscellaneous federal programs.
    - Auxiliary enterprises generated revenues of $165.1 million and $151.9 million, net of $14.7 million and $13.0 million of scholarship allowances for the years ended June 30, 2007 and 2006, respectively. FY 2007 net auxiliary revenues increased by $13.2 million or 8.7% compared to a 9.4% increase in FY 2006, reflecting respective growth in student levels, expansion of auxiliary services offered to students, as well as continued efforts to generate an adequate level of auxiliary revenues to offset the expenses necessary to provide the auxiliary services to students.
    - State grants and contracts totaled $62.7 million and $62.3 million for the years ended June 30, 2007 and 2006, respectively, an increase of $0.4 million from FY 2006 and an increase of $11.9 million from FY 2005. Private grants and contracts totaled $58.9 million and $59.5 million for the years ended June 30, 2007 and 2006 respectively, a decrease of $0.6 million from FY 2006, and an increase of $6.1 million from FY 2005. These changes represent normal fluctuations in grant activities.

- Operating expenses totaled $1,292.1 million and $1,217.4 million for the years ended June 30, 2007 and 2006, respectively, an increase of $74.7 million and $91.8 million from each previous year.

    - Staff salary costs totaled $611.1 million and $572.4 million, an increase of $38.7 million and $34.7 million for the years ended June 30, 2007 and 2006, respectively, or 11.5% from FY 2006. This increase is attributed to salary increases and an additional year of service of annual increment. Benefit costs decreased by $2.7 million in FY 2007, primarily due to the related costs associated with accruals for compensated absences.

    - Supplies and other services totaled $303.2 million and $283.7 million for the years ended June 30, 2007 and 2006, respectively, an increase of $19.5 million from FY 2006, compared to an increase $22.7 million from FY 2005. The largest increases in the functional areas related to instruction and auxiliary enterprises which both had overall increases.

    - Scholarships and fellowships totaled $75.7 million and $68.4 million for the years ended June 30, 2007 and 2006, respectively, an increase of $7.3 million or 10.7% from FY 2006 compared to an increase of $6.1 million or 9.8% from FY 2005.

    - Depreciation on capital assets totaled $74.5 million and $69.8 million for the years ended June 30, 2007 and 2006, respectively, an increase of $4.7 million from FY 2006 compared to a $0.3 million decrease from FY 2005.

    - As reported on a functional expenditure basis, expenditures for Educational and General Expenses were $990.4 million and $936.7 million for the years ended June 30, 2007 and 2006, respectively, an increase of $53.7 million or 5.7% from FY 2006. Cost of instruction constitutes 39.0% of total educational and general expenses. Research expenditures grew by 9.8% over FY 2006 due to expanded sponsored research projects. Plant operations increased by 6.7% over FY 2006.

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
Instruction	$ 386,738	39.0%	$ 366,819	39.2%	$ 330,737	38.3%
Research	135,214	13.7%	123,179	13.1%	116,867	13.5%
Public Service	79,096	8.0%	77,281	8.3%	77,958	9.0%
Academic Support	78,178	7.9%	69,177	7.4%	63,277	7.3%
Student Services	63,406	6.4%	57,361	6.1%	52,896	6.1%
Plant Operations	93,659	9.4%	98,424	10.5%	85,111	9.9%
Institutional Support	154,127	15.6%	144,506	15.4%	136,982	15.9%
Total E& G Expenses	990,418	100.0%	936,747	100.0%	863,828	100.0%
Financial Aid	75,364		67,916		61,440	
Auxiliary Enterprises	150,749		141,861		128,945	
Depreciation	74,461		69,797		70,105	
Other	1,121		1,059		1,243	
Total Operating Expenses	$ 1,292,113		$1,217,380		$ 1,125,561	

- The result from operations was a net operating loss of $382.8 million and $364.2 million for the years ended June 30, 2007 and 2006, respectively, but excludes State appropriations of $423.9 million and $401.8 million for the years ended June 30, 2007 and 2006, respectively, which are recorded as non-operating revenue. The net operating loss increased by $18.6 million in FY 2007, primarily from the increase in operating expenses of $74.7 million, in excess of increases in revenue.

- Net non-operating revenue totaled $414.9 million and $387.5 million for the years ended June 30, 2007 and 2006, respectively, an increase of $27.4 million.

  - State general revenue and lottery appropriations totaled $423.9 million and $401.8 million for the years ended June 30, 2007 and 2006, respectively, an increase of $22.1 million, primarily attributed to an increase in state appropriations from FY 2006.

  - Interest incurred on indebtedness totaled $34.9 million and $36.2 million, a decrease of $1.3 million from FY 2006.

  - Interest earned on investments totaled $28.2 million and $21.1 million for the years ended June 30, 2007 and 2006, respectively, an increase of $7.1 million from the prior year due to improved investment returns.

  - Student financial aid payments to other institutions totaled $15.3 million and $13.4 million for the years ended June 30, 2007 and 2006, respectively, an increase of $1.9 million from FY 2006.

- Other revenues consist of capital grants and gifts totaling $77.9 million and $63.2 million for the years ended June 30, 2007 and 2006, respectively, an increase of $14.7 million from FY 2006, compared to an increase of $18.6 million from FY 2005.

- The activity for FY 2007 resulted in an increase of net assets totaling $110.0 million, as compared to the $86.4 million increase in net assets during FY 2006.

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 Fund 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 Fund. 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	$ (284,329)	$ (274,851)	$ (256,486)	$ (9,478)
Noncapital Financing Activities	433,057	388,348	414,290	44,709
Capital and Related Financing Activities	(239,989)	(227,845)	176,829	(12,144)
Investing Activities	101,042	91,431	(265,257)	9,611
Increase (Decrease) in Cash and Cash Equivalents	9,781	(22,917)	69,376	32,698
Cash and Cash Equivalents, beginning of year	315,114	338,031	268,655	(22,917)
Cash and Cash Equivalents, end of year	$ 324,895	$ 315,114	$ 338,031	$ 9,781

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 $284.3 million and $274.9 million for the years ended June 30, 2007 and 2006, respectively, primarily due to the reporting of State appropriations as a noncapital financing activity. Primary sources of cash from Operating Activities during FY 2007 and 2006, respectively, were Student tuition and fees of $391.0 million and $341.7 million; Contracts and grants of $320.1 million and $307.9 million; and Auxiliary enterprise charges of $170.8 million and $158.7 million. Primarily uses of cash for FY 2007 and 2006, respectively, included payments to and on behalf of employees of $784.9 million and $735.3 million and payments to suppliers of $302.7 million and $288.3 million.

- Net cash provided from noncapital financing activities for FY 2007 and 2006, respectively, totaled $433.1 million and $388.4 million, of which $431.2 million and $401.2 million was from State General Revenue and Lottery appropriations.

- Net cash used in capital and related financing activities for FY 2007 totaled $240.0 million primarily from purchases of capital assets of $278.7 million, as compared to $219.3 million in FY 2006.

- Net cash provided by investing activities for FY 2007 was $101.0 million and primarily resulted from a higher yield on investment for FY 2007, as compared to $91.4 million in FY 2006.

- Net cash for FY 2007 increased by $9.8 million compared to decrease in net cash for FY 2006 of $22.9 million. This increase is the net result of all the previous activity discussed.

Capital Asset and Long-Term Debt Activity

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Purchases of capital assets totaled $278.7 million in FY 2007, as compared to $219.3 million in FY 2006. Institutional projects at all the institutions are under way due to institutional bond issues in FY 2003, 2004, 2005 and 2006 and a system bond issue in FY 2005. For FY 2007, expenditures at West Virginia University, Marshall University, Fairmont State University and Shepherd accounted for $238.0 million of the $278.7 million total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. Major projects at Fairmont State University include student housing facilities, parking facilities, campus infrastructure and utilities improvements, dormitory facilities and a new student activity center. Major projects at Shepherd University include a new housing complex, infrastructure upgrades, improvements to the Arts Center and construction of the Ken Boone Field House at Ram Stadium. The remaining expenditures reflect on-going capital projects at the other state colleges, universities and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of $167.3 million as of June 30, 2007. The State College and University System Bonds prior to the Facilities 2004 System Bonds are funded from tuition collections at the institutions. The Facilities 2004 System Bonds are funded from excess lottery revenue. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

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

The mission of the Commission is to align the West Virginia Higher Education System to a new master plan for 2007-2012. The master plan has two sections. The first section, The Public Agenda – Meeting West Virginia's Needs: A Vision for Higher Education in West Virginia, is a vision statement and an executive summary of the master plan. It will set forth the overarching goals for West Virginia public higher education and provides the conceptual framework for the 2007-2012 master plan of the Higher

Education Policy Commission. The plan will focus on five areas that are central to meeting current challenges in West Virginia higher education:

1. Economic Growth
2. Access
3. Cost and Affordability
4. Learning and Accountability
5. Innovation

The second section, Achieving the Goals – What We Need to Do, will provide findings, outlines goals, and suggests strategies for West Virginia's public colleges and universities to address in each of the five areas of the public agenda. The findings, goals, and strategies constitute the plan for addressing needs in higher education in West Virginia from 2007 to 2012 and are the basis for developing new elements in the establishment of new institutional compacts for the state's four-year public colleges and universities.

The achievement of the goals for the higher education system as described in the Master Plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is $1,228.8 million, including $142.8 million in unrestricted net assets. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 32% of operating and nonoperating revenues of the Fund in FY 2007 are from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State appropriations increased approximately 5% in fiscal year 2007 for all state higher education institutions. For fiscal year 2008, state appropriations again, are budgeted to increase slightly for all state higher education institutions along with increases in financial aid funding for Promise and the Higher Education Grant Program. The Council for Community and Technical College institutions also received a slight increase for Technical Program Development and Workforce Development. For fiscal year 2009 the Governor's Office instructed that budget requests are to be based on FY 2008 levels and that there would not be any budget reductions.

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. The adoption of GASB Statement No. 45 by the Fund will result in a cumulative effect adjustment of approximately $61.9 million which will increase net assets as the existing liability of the Fund will be transferred to the State's Multiple-Employer Trust Fund. The Trust Fund will then invoice the Fund on a monthly basis. The fiscal year 2008 expense, net of State revenue from payments made on behalf of the Fund, is expected to be less than this adjustment. However, there is no commitment of any additional funding from the State for years after fiscal year 2008, at this time. Accordingly, in approximately three years, the GASB Statement No. 45 liability will exceed the amount currently recorded as a liability as of June 30, 2007.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. 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 Fund. Net student tuition and fees provide approximately 28% of the total revenues of the Fund.

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 Fund will be beneficial in meeting the challenges that lie ahead.

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 324,895	$ 315,114
Appropriations due from Primary Government	5,598	8,036
Accounts receivable — net	58,518	62,397
Loans receivable — current portion	5,929	6,037
Other current assets	4,505	5,079
Inventories	5,489	5,072
Total current assets	404,934	401,735
NONCURRENT ASSETS:		
Cash and cash equivalents	43,335	45,816
Investments	144,347	217,538
Loans receivable — net of allowance of $9,423 and $9,532 in 2007 and 2006, respectively	48,492	46,944
Other assets	31,544	17,689
Capital assets — net	1,642,452	1,451,510
Total noncurrent assets	1,910,170	1,779,497
TOTAL	$ 2,315,104	$ 2,181,232

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 60,736	$ 58,170
Due to State of West Virginia	29	80
Accrued liabilities	34,227	30,276
Deferred revenue	54,852	44,102
Deposits	4,857	4,141
Severance payable — current portion	899	1,050
Compensated absences — current portion	35,655	31,929
Notes payable — current portion	138	258
Capital lease obligations — current portion	5,730	5,593
Interest payable	3,379	3,572
Bonds payable — current portion	22,238	21,325
Total current liabilities	222,740	200,496
NONCURRENT LIABILITIES:		
Advances from federal sponsors	42,293	42,417
Compensated absences	64,372	71,539
Notes payable	6,748	3,082
Capital lease obligations	31,513	17,909
Deferred interest payable	19,003	15,778
Bonds payable	681,259	701,023
Other noncurrent liabilities	18,375	10,210
Total noncurrent liabilities	863,563	861,958
Total liabilities	1,086,303	1,062,454
NET ASSETS:		
Invested in capital assets — net of related debt	975,920	889,067
Restricted for:		
Scholarships	13,643	14,290
Sponsored projects	35,350	24,767
Loans	25,626	24,805
Capital projects	18,846	29,301
Debt service	8,680	8,505
Other	2,164	1,220
Total restricted expendable	104,309	102,888
Nonexpendable	5,729	5,019
Unrestricted	142,843	121,804
Total net assets	1,228,801	1,118,778
TOTAL	$ 2,315,104	$ 2,181,232

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

ASSETS	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
CASH AND CASH EQUIVALENTS	$ 625,900	$ 1,381,397	$ 74,774	$ 66,827	$ 80,349	$ 912,897	$ 5,466,278	$ 1,130,682	$ 1,479,627	$ 34,316	$ 82,625	$ 402,333
INVESTMENTS	8,380,268	24,320,979	10,920,891	5,071,638	807,182	1,156,061	99,667,407	21,055,741	10,692,720	1,684,384	20,805	3,590,785
PLEDGES AND CONTRIBUTIONS RECEIVABLE	5,544	1,273,339	993,759	682,181		1,007,628	6,545,821	522,181	232,950	45,444		
INTEREST AND DIVIDENDS RECEIVABL	18,689	70,430	4,281			16,191		114,177				
NOTES RECEIVABLE						12,803	251,278			123,090		166,503
OTHER ASSETS	7,286	28,148	30,558	67,071		6,579	239,926	5,103	49,286	19,486	279,484	6,852
BENEFICIAL INTERESTS							8,130,467		2,362,336			114,442
PROPERTY, PLANT, AND EQUIPMENT — Net		13,202		250,961		27,735	1,961,959	161,193	4,867		1,782,286	1,036,894
TOTAL	$9,037,687	$27,087,495	$12,024,263	$6,138,678	$887,531	$ 3,139,894	$122,263,136	$22,989,077	$14,821,786	$1,906,720	$2,165,200	$5,317,809

* December 31 year end.

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2007

LIABILITIES AND NET ASSETS	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
LIABILITIES:												
Accounts payable	$ -	$ 9,834	$ 757	$ 13,923	$ -	$ 1,000	$ -	$ 15,888	$ 3,703	$ 10,998	$ 13,511	$ 13,634
Other accrued liabilities			37,500	31,331		574,667				2,500	37,600	
Amounts held on behalf of others	45,106	896,506						2,777,615			128,574	
Annuity obligations		281,492	105,335				648,037	176,493	65,427			
Note payable				6,754								
Total liabilities	45,106	1,187,832	143,592	52,008	-	575,667	648,037	2,969,996	69,130	13,498	179,685	13,634
NET ASSETS:												
Unrestricted	837,941	623,301	2,450,971	378,487		37,982	20,357,044	1,086,138	1,487,527	474,119	1,771,710	470,600
Temporarily restricted	7,343,962	8,326,562	3,521,840	50,536	99,908	2,511,245	40,220,696	1,378,550	4,699,933	1,054,566	6,521	1,120,089
Permanently restricted	810,678	16,949,800	5,907,860	5,657,647	787,623	15,000	61,037,359	17,554,393	8,565,196	364,537	207,284	3,713,486
Total net assets	8,992,581	25,899,663	11,880,671	6,086,670	887,531	2,564,227	121,615,099	20,019,081	14,752,656	1,893,222	1,985,515	5,304,175
TOTAL	$9,037,687	$27,087,495	$12,024,263	$6,138,678	$ 887,531	$3,139,894	$122,263,136	$22,989,077	$14,821,786	$1,906,720	$2,165,200	$5,317,809

* December 31 year end.

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

ASSETS	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
CASH AND CASH EQUIVALENTS	$ 376,643	$ 1,341,502	$ 75,746	$ 44,648	$ 6,398,321	$ 976,359	$ 49,063	$ 67,756	$ 73,954	$ 595,484
INVESTMENTS	7,538,799	21,468,874	9,385,471	4,832,213	87,049,044	19,056,165	8,707,580	1,389,857	20,050	3,111,826
PLEDGES AND CONTRIBUTIONS RECEIVABLE	6,951	1,280,126	570,322	623,203	6,882,215	49,950	255,030	31,716		
INTEREST AND DIVIDENDS RECEIVABLE	23,134	82,595	15,933			109,093				
NOTES RECEIVABLE					423,496					15,306
OTHER ASSETS	9,464	18,211	94,755	69,750	565,009	4,499	30,538	162,399	136,916	7,060
BENEFICIAL INTERESTS					7,450,349		2,203,055			108,529
PROPERTY, PLANT, AND EQUIPMENT — Net		15,454		136,697	1,075,462	167,719	8,756		1,848,404	1,070,443
TOTAL	$7,954,991	$24,206,762	$10,142,227	$5,706,511	$109,843,896	$20,363,785	$11,254,022	$1,651,728	$2,079,324	$4,908,648

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2006

LIABILITIES AND NET ASSETS	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
LIABILITIES:										
Accounts payable	$ -	$ 20,049	$ 205	$ -	$ 175,241	$ 6,326	$ 1,278	$ 24,145	$ 2,752	$ 44,072
Other accrued liabilities			69,395						8,381	
Amounts held on behalf of others	72,408	906,378				2,560,306			125,065	
Annuity obligations		329,579	90,974		675,018	114,197	64,169			
Note payable					486,331		4,004			
Total liabilities	72,408	1,256,006	160,574	-	1,336,590	2,680,829	69,451	24,145	136,198	44,072
NET ASSETS:										
Unrestricted	1,108,902	729,282	1,724,219	231,633	22,532,310	312,512	886,239	402,725	1,810,993	345,336
Temporarily restricted	6,405,565	6,641,420	2,885,275	1,065,208	29,053,171	939,773	3,791,849	1,140,264	600	1,291,825
Permanently restricted	368,116	15,580,054	5,372,159	4,409,670	56,921,825	16,430,671	6,506,483	84,594	131,533	3,227,415
Total net assets	7,882,583	22,950,756	9,981,653	5,706,511	108,507,306	17,682,956	11,184,571	1,627,583	1,943,126	4,864,576
TOTAL	$7,954,991	$24,206,762	$10,142,227	$5,706,511	$109,843,896	$20,363,785	$11,254,022	$1,651,728	$2,079,324	$4,908,648

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $82,825 and $79,087 2007 and 2006, respectively	$ 376,390	$ 333,266
Federal land grants	7,940	7,205
Local grants	885	942
Contracts and grants:		
Federal	195,722	194,642
State	62,736	62,331
Local	1,114	1,234
Private	58,885	59,455
Interest on student loans receivable	998	846
Sales and services of educational activities	18,803	17,097
Auxiliary enterprise revenue — net of scholarship allowance of $14,653 and $12,960 in 2007 and 2006, respectively	165,104	151,893
Other operating revenue	20,723	24,231
Total operating revenues	909,300	853,142
OPERATING EXPENSES:		
Salaries and wages	611,065	572,376
Benefits	174,286	177,021
Supplies and other services	303,158	283,710
Utilities	44,283	44,606
Student financial aid — scholarships and fellowships	75,730	68,360
Depreciation	74,461	69,797
Loan cancellations and write-offs	683	529
Other operating expenses	8,447	981
Total operating expenses	1,292,113	1,217,380
OPERATING LOSS	(382,813)	(364,238)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	423,858	401,829
Gifts	15,902	16,006
Investment income	28,235	21,050
Interest on indebtedness	(34,921)	(36,215)
Payments to other institutions	(15,346)	(13,444)
Other nonoperating expenses — net	(2,804)	(1,738)
Net nonoperating revenues	414,924	387,488
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	32,111	23,250
CAPITAL GRANTS AND GIFTS	77,912	63,192
INCREASE IN NET ASSETS	110,023	86,442
NET ASSETS — Beginning of year	1,118,778	1,032,336
NET ASSETS — End of year	$ 1,228,801	$ 1,118,778

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation	The West Virginia State University Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:												
Unrestricted:												
Gifts, contributions, and other	$ 1,333	$ 272,716	$ 234,400	$ 278,370	$ 2,684	$ -	$ 2,660,757	$ 22,364	$ 1,118,892	$ 12,736	$ 625,191	$ 367,300
Investment income	58,290	59,110	957,472	137,411	8,704	1,071	10,149,313	1,168,340	304,896	31,017	3,767	11,053
Temporarily restricted:												
Gifts, contributions, and other	101,095	727,496	1,642,065	580,993	16,500	2,246,530	4,080,922	985,544	768,408	149,993	7,743	433,896
Investment income	1,045,928	1,889,026	337,278	485,509	8,816	49,511	3,166,787	473,930	965,630	129,629		
Permanently restricted:												
Gifts, contributions, and other	147,860	452,935	530,549	187,294	45,775	10,000	2,775,765	1,070,534	1,610,750	47,663	26,578	123,096
Investment income		1,224,259	5,152	855	46,972		213,109	17,813	96,052		18,175	488,871
Total revenues, gains, and other support	1,354,506	4,625,542	3,706,916	1,670,432	129,451	2,307,112	23,046,653	3,738,525	4,864,628	371,038	681,454	1,424,216
EXPENSES:												
Scholarships and awards	187,954	427,148	1,047,834		31,236	62,388	761,200	879,832	399,337	34,381		
College support	26,031	782,044	576,228	953,705		4,688	6,504,736	132,150	671,047	55,177		646,558
Management and general	30,523	467,443	183,836	336,568	11,014	159,376	2,672,924	390,418	226,159	15,841	639,065	338,059
Total expenses	244,508	1,676,635	1,807,898	1,290,273	42,250	226,452	9,938,860	1,402,400	1,296,543	105,399	639,065	984,617
CHANGE IN NET ASSETS	1,109,998	2,948,907	1,899,018	380,159	87,201	2,080,660	13,107,793	2,336,125	3,568,085	265,639	42,389	439,599
NET ASSETS — Beginning of year	7,882,583	22,950,756	9,981,653	5,706,511	800,330	483,567	108,507,306	17,682,956	11,184,571	1,627,583	1,943,126	4,864,576
NET ASSETS — End of year	$8,992,581	$25,899,663	$11,880,671	$6,086,670	$ 887,531	$2,564,227	$121,615,099	$20,019,081	$14,752,656	$1,893,222	$1,985,515	$5,304,175

* December 31 year end.
See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Bluefield State College Foundation, Inc.	The Concord College Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation	The West Virginia State University Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:										
Unrestricted:										
Gifts, contributions, and other	$ 5,298	$ 508,315	$ 229,593	$ 210,559	$ 1,005,189	$ 22,364	$ 499,800	$ 10,639	$ 573,390	$ 415,480
Investment income	43,838	62,240	367,896	46,196	6,288,573	(46,693)	101,446	18,553	394	10,477
Temporarily restricted:										
Gifts, contributions, and other	170,855	1,319,797	719,439	519,715	7,428,648	644,482	629,876	162,358	(113,265)	664,539
Investment income	330,992	869,235	126,729	200,632	290,867	571,363	315,485	57,187	1,093	102
Permanently restricted:										
Gifts, contributions, and other	24,036	1,667,796	546,590	205,323	5,906,966	311,164	111,454		131,533	93,097
Investment income		663,813	95,899	521	906,282	23,510	94,659			260,950
Total revenues, gains, and other support	575,019	5,091,196	2,086,146	1,182,946	21,826,525	1,526,190	1,752,720	248,737	593,145	1,444,645
EXPENSES:										
Scholarships and awards	284,769	398,935	808,224		568,923	745,511	301,457			
College support	28,544	430,844	356,026	976,738	4,671,137	150,961	746,296	96,773		582,965
Management and general	18,195	388,697	161,681	304,780	1,909,515	353,905	189,763	8,937	647,314	379,858
Total expenses	331,508	1,218,476	1,325,931	1,281,518	7,149,575	1,250,377	1,237,516	105,710	647,314	962,823
CHANGE IN NET ASSETS	243,511	3,872,720	760,215	(98,572)	14,676,950	275,813	515,204	143,027	(54,169)	481,822
NET ASSETS — Beginning of year	7,639,072	19,078,036	9,221,438	5,805,083	93,830,356	17,407,143	10,669,367	1,484,556	1,997,295	4,382,754
NET ASSETS — End of year	$ 7,882,583	$ 22,950,756	$ 9,981,653	$ 5,706,511	$ 108,507,306	$ 17,682,956	$ 11,184,571	$ 1,627,583	$ 1,943,126	$ 4,864,576

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 390,974	$ 341,683
Federal and local land grants	8,825	8,148
Contracts and grants	320,139	307,890
Payments to and on behalf of employees	(784,914)	(735,252)
Payments to suppliers	(302,740)	(288,287)
Payments to utilities	(43,578)	(44,457)
Payments for scholarships and fellowships	(87,779)	(75,754)
Loans issued to students	(9,443)	(8,565)
Collection of loans to students	7,479	7,162
Sales and service of educational activities	21,510	19,895
Interest earned on loans to students	705	596
Auxiliary enterprise charges	170,847	158,732
Other receipts — net	23,633	33,358
Net cash used in operating activities	(284,342)	(274,851)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	431,184	401,205
Payments to other institutions	(14,660)	(17,377)
Gift receipts	15,902	16,006
Direct and Stafford lending receipts	275,863	256,677
Direct and Stafford lending payments	(275,876)	(256,723)
Other nonoperating receipts (payments) — net	644	(11,440)
Net cash provided by noncapital financing activities	433,057	388,348
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from bond issuances and borrowings	29,959	8,500
Payment for bond issuance costs	(183)	(17)
Proceeds from capital asset disposals/insurance recoveries	123	266
Withdrawals from noncurrent cash and cash equivalent	26,349	10,559
Depostis to noncurrent cash and cash equivalent	(5,629)	(23,561)
Capital grants and gifts received	80,130	62,293
Purchases of capital assets	(278,656)	(219,262)
Principal paid on notes, bonds, and leases	(31,054)	(31,776)
Interest paid on notes, bonds, and leases	(34,173)	(34,847)
Bond proceeds to outside entities	(946)	
Payment for defesance	(25,896)	
Net cash used in capital financing activities	(239,976)	(227,845)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from sales of investments	107,523	87,570
Purchase of investments	(31,516)	(13,898)
Investment income	25,035	17,759
Net cash provided by investing activities	101,042	91,431
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	9,781	(22,917)
CASH AND CASH EQUIVALENTS — Beginning of year	315,114	338,031
CASH AND CASH EQUIVALENTS — End of year	$ 324,895	$ 315,114

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in thousands)

	2007	**2006**
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (382,813)	$ (364,238)
Adjustments to reconcile operating loss to net cash used in operating activities —		
Depreciation and amortization expense	76,594	69,797
Changes in assets and liabilities:		
Receivables — net	(6,818)	(7,923)
Loans receivable — net	(1,439)	(699)
Prepaid expenses	178	882
Inventories	(416)	46
Accounts payable	10,394	(3,341)
Accrued liabilities	10,946	15,372
Compensated absences	(3,444)	9,724
Deferred revenue	10,729	5,445
Deposits	128	137
Advances from federal sponsors	1	(126)
Other	618	73
NET CASH USED IN OPERATING ACTIVITIES	$ (285,342)	$ (274,851)
SIGNIFICANT NONCASH TRANSACTIONS:		
Assets purchased on capital leases	$ 1,437	$ 8,755
Construction in progress and capital asset additions included in accounts payable and accrued liabilities	$ 16,477	$ 8,801
Donated capital assets	$ 1,193	$ 4,104

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

The West Virginia Higher Education Fund (the "Fund") is comprised of the following:

- Bluefield State College
- Blue Ridge Community and Technical College (formerly, The Community and Technical College of Shepherd)
- Concord University
- Eastern West Virginia Community and Technical College
- Fairmont State University
- Glenville State College
- Marshall University (including Marshall University Graduate College)
- New River Community and Technical College
- Shepherd University
- Southern West Virginia Community and Technical College
- West Liberty State College
- West Virginia Council for Community and Technical College Education
- West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing)
- West Virginia Northern Community College
- West Virginia State University
- West Virginia School of Osteopathic Medicine
- West Virginia University (including Potomac State College, West Virginia University Institute of Technology, and West Virginia University at Parkersburg)

The Fund is a discretely presented component unit of the State of West Virginia (the "State").

Each college and university (the "Institutions") in the Fund is governed by its own Governing Board, which is responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. The West Virginia Higher Education Policy Commission (the "Policy Commission"), in accordance with Senate Bill No. 653, is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. The Policy Commission is comprised of 10 persons appointed by the Governor with the advice and consent of the Senate. Senate Bill No. 448 gives the West Virginia Council for Community and Technical College Education (the "Council") the responsibility of developing, overseeing, and advancing the State's public policy agenda as it relates to community and technical college education. The Council is comprised of 12 persons appointed by the Governor with the advice and consent of the Senate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Fund 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 Fund's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

The Fund 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 Fund under GASB Statement No. 14, *The Financial Reporting Entity*, including:

- Bluefield State College Research and Development Corporation
- Concord College Research and Development Corporation
- Glenville State College Research Corporation
- Glenville State College Housing Corporation
- Marshall University Research and Development Corporation
- West Virginia State University Research and Development Corporation
- West Virginia University Research and Development Corporation

These entities are included in the combined financial statements as blended component units of the Fund.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund's ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund are not part of the Fund's reporting entity and are not included in the accompanying combined financial statements as the Fund 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.

As of July 1, 2003, the Fund adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units,* as an amendment to GASB Statement No. 14. As a result, the component units' financial statements are discretely presented here with the Fund's financial statements for the years ended June 30, 2007 and 2006. The component units are the separate private nonprofit organization of each applicable institution that are required to be reported under GASB No. 39, these discretely presented component unit organizations report under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The component units consist of foundations which meet the criteria for inclusion under GASB No. 39.

Financial Statement Presentation — GASB Statement No. 35, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the Fund as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Fund obligations. The Fund's net assets are classified as follows:

- *Invested in Capital Assets — Net of Related Debt* — This represents the Fund'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 Fund 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 Fund. 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 Fund, 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 Fund is considered a special-purpose government engaged only in business-type activities. Accordingly, the Fund's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the statement of net assets, the Fund 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 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 and for External*

Investment Pools. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the 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.wvbti.com.

Investments — GASB Statement No. 31 requires the Fund to record certain investment balances at fair value. As provided in the statement, the Fund's investments maintained by the IMB and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Investments other than alternative investments are presented at fair value, based upon quoted market prices.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligation); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements, asset-backed securities; certificates of deposits; state and local government securities ("SLGS"); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

The Fund's investments held with the Foundation and other agents are governed by investment policies that determine the permissible investments by category. The holdings include appropriately rated U.S. debt and equity securities, foreign debt and equity securities, as well as alternative investments. The respective investment policies outline the acceptable exposure to each category of investment and generally outline a liquidity goal.

The alternative investments are carried at estimated fair value as of June 30, 2007 and 2006. These valuations include assumptions and methods that were reviewed by Fund management and are based on quoted market values for underlying investments. The Fund believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2007 and 2006. Because alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

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

Noncurrent Cash and Cash Equivalents — Cash, 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 combined statements of net assets.

Capital Assets — Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was approximately $3,000,000 and $3,300,000 for the years ended June 30, 2007 and 2006, respectively. 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 Fund implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. The combined 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 football ticket sales, orientation fees, room, and board. Financial aid and other deposits are separately classified as deposits.

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

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

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the Fund 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 Fund 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 combined statement of revenues, expenses, and changes in net assets.

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

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

Classification of Revenues — The Fund 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, (4) federal appropriations for land grant institutions, and (5) sales and services of educational activities.

- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statement No. 34, such as state appropriations and investment income.

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

***Use of Restricted Net Assets* —** The Fund 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 Fund attempts to utilize restricted net assets first when practicable. Certain Institutions have adopted a policy to utilize restricted net assets first.

Federal Financial Assistance Programs — The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through the institution within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Fund's combined statements of net assets. In 2007 and 2006, the Fund received and disbursed, or awarded, approximately $283 million and $256 million, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The Fund 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 both 2007 and 2006, the Fund received and disbursed approximately $74 million 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 Fund, and the amount that is paid by students and/or third parties making payments on the student's behalf.

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

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Fund 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 Fund 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 2007, House Bill No. 4654 was established to create a trust fund for postemployement benefits for the State of West Virginia. Effective July 1, 2007, the Fund 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 Fund has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

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 of a liability. The Fund 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 Fund 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 postemployement benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. The Fund 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 Fund has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

Reclassifications — Certain prior year amounts have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2007 and 2006, was held as follows (dollars in thousands):

	2007		
	Current	Noncurrent	Total
State Treasurer:			
Fund	$ 262,050	$ 11,422	$ 273,472
Municipal Bond Commission	1,429	2,518	3,947
Trustee	1,730	24,429	26,159
Bank	43,158	1,250	44,408
Cash equivalents	16,429	3,716	20,145
On hand	99		99
	$ 324,895	$ 43,335	$ 368,230

	2006		
	Current	Noncurrent	Total
State Treasurer:			
Fund	$ 252,406	$ 20,542	$ 272,948
Municipal Bond Commission	893	2,395	3,288
Trustee	324	19,278	19,602
Bank	45,519	1,450	46,969
Cash equivalents	15,898	2,151	18,049
On hand	74		74
	$ 315,114	$ 45,816	$ 360,930

Amounts held by the Municipal Bond Commission or trustee represent various project revenue, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other amounts held by the State Treasurer include $22.9 million and $23.4 million 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 $44.4 million and $47.0 million, as compared with the combined bank balance of $51.3 million and $55.0 million, 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.

Amounts 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):

	Credit Rating *		2007		2006	
Security Type	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	100.00 %	$ 1,741,802	100.00 %

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

At June 30, 2007 and 2006, the Funds ownership represents 7.69% and 9.15%, 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):

	Credit Rating		2007		2006	
Security Type	**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
			51,400	22.39	19,900	10.92
			$ 229,551	100.00 %	$ 182,174	100.00 %

At June 30, 2007 and 2006, the Fund's ownership represents 2.65% and 2.11%, 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):

	Credit Rating		2007		2006	
Security Type	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 %	$ 265,384	100.00 %

At June 30, 2007 and 2006, the Fund's ownership represents 4.02% and 31.34%, 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:

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

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:

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

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:

	2007		2006	
Security Type	**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	11,741	814		
	$ 228,920	700	$ 265,384	672

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

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

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

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

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

Amounts with Trustee as of June 30, 2007 and 2006, are comprised of the following:

Investment Type	Moody's Rating	Standard and Poor's Rating	2007 Carrying Value	2006 Carrying Value
U.S. Treasury money market fund	Aaa	AAAm	$ 16,532	$ 7,758
Commercial paper	Aaa	AAAm	6,349	8,539
Money Market Fund (Credit Enhancers/ Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	N/A	83	83
Money Market Fund	Aaa	N/A	3	30
MBIA Guaranteed Investment Contract ("GIC")	N/A	N/A	3,192	3,192

These investments have no significant custodial risk or interest rate risk and they are not exposed to a concentration of credit risk nor any foreign currency risk.

At both June 30, 2007 and 2006, the GIC investments of approximately $3,192,000, have a fixed rate of interest of 5.18%. No rating is available for this investment.

The remaining amounts on deposit with Trustee are invested in funds, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities.

4. INVESTMENTS

Investments at June 30, 2007 and 2006, were as follows (dollars in thousands):

	Noncurrent 2007	Noncurrent 2006
Guaranteed investment contracts	$ 84,975	$ 186,471
U.S. Bonds/TIPS Fund - IRM	12,129	
Stock Fund - Dodge and Cox	9,509	
U.S. Government securities	4,945	5,116
Mutual funds	4,552	3,822
Equity securities	1,312	1,047
High-grade corporate obligations	1,152	1,258
Repurchase agreements		4,463
Other	1,527	470
Alternative investments:		
Equity funds	12,118	5,879
Bond funds	6,933	6,031
Other	5,195	2,981
	$ 144,347	$ 217,538

Approximately $38,436,129 and $110,176,000 as of June 30, 2007 and 2006, respectively, of the GIC investments are unsecured GICs with FSA Capital Management Services LLC, a subsidiary of FSA

Incorporated and have a rating of AAA by Standard and Poor's and Aaa by Moody's. These GICs have a fixed rate of interest of 2.83%, and are restricted by the bond indenture. The interest risk is minimized by the maturity date being through May 5, 2009. The investment is not exposed to any foreign currency risk.

A significant portion of the $46,539,000 and $76,295,000 as of June 30, 2007 and 2006, respectively, from the 2004 West Virginia University revenue refunding and improvement bond proceeds is invested in a GIC with United Bank, Inc. under a master repurchase agreement with Citigroup Global Markets Inc. (the "Seller") and is restricted by the bond indenture. The GIC is guaranteed by the long-term senior unsecured debt rating of Citigroup Global Markets Holdings Inc. (the "Guarantor"). In the event such debt rating of the Guarantor falls below A+ by Standard & Poor's Rating Services or A1 by Moody's Investor Services, Inc., the Seller must either provide additional securities to satisfy the rating agencies' collateral requirements or terminate the agreement by repurchasing all securities and paying any price differentials. These GIC investments have no significant custodial risk or interest rate risk and are not exposed to any foreign currency risk.

A concentration of credit risk exists for all above GIC's as they represent greater than 10% of total investments. These GIC's represent 58.9% of the Fund's total investments as of June 30, 2007.

Approximately $1,071,000 and $1,257,000 as of June 30, 2007 and 2006, respectively, of the investments in corporate bonds were rated Baa as of both June 30, 2007 and 2006, by Moody's Investors Service and BBB by Standard & Poor's rating services. The remainder of the investments in corporate bonds had an average rating of AA+.

The $4,945,000 and $5,116,000 as of June 30, 2007 and 2006, respectively, of investments in U.S. government agencies were rated Aaa by Moody's Investors Service, Inc. and AAA by Standard & Poor's rating services.

The $4,463,000 as of June 30, 2006, of repurchase agreements invest in securities issued by the United States Government or the Government National Mortgage Association, and securities issued or guaranteed by Freddie Mac or Fannie Mae or other agency, corporation, or instrumentality of the United States and such other securities as MBIA Inc. and the trustee may agree to in writing.

Investments in the equity securities and mutual funds have not been rated.

Other than listed above, these investments have no significant custodial credit risk or interest rate risk and they are not exposed to a concentration of credit risk or any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, were as follows (dollars in thousands):

	2007	2006
Students, net of allowance of $10,031 and $7,316	$ 8,437	$ 5,804
Grants and contracts, net of allowance of $551 and $668	40,805	41,038
Auxiliary services, net of allowance of $532 and $574	1,203	650
Due from State and state agencies	1,947	2,355
Other, net of allowance of $306 and $11	6,126	12,550
	$ 58,518	$ 62,397

6. CAPITAL ASSETS

The following, for the years ended June 30, 2007 and 2006, is a summary of capital assets transactions for the Fund (dollars in thousands):

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 62,817	$ 8,151	$ 754	$ 70,214
Construction in progress	266,138	215,314	238,899	242,553
Other	132			132
Total capital assets not being depreciated	$ 329,087	$ 223,465	$ 239,653	$ 312,899
Other capital assets:				
Land improvements	$ 23,171	$ 4,243	$ -	$ 27,414
Infrastructure	261,082	17,004	164	277,922
Buildings	1,341,656	230,704	1,427	1,570,933
Equipment	273,813	28,313	26,050	276,076
Software	48,123	1,655	5,471	44,307
Library books	120,153	8,079	444	127,788
Total other capital assets	2,067,998	289,998	33,556	2,324,440
Less accumulated depreciation for:				
Land improvements	10,801	1,586	96	12,291
Infrastructure	199,275	9,953	(54)	209,282
Buildings	417,911	31,084	544	448,451
Equipment	180,209	24,465	23,614	181,060
Software	41,527	598	519	41,606
Library books	95,852	6,775	430	102,197
Total accumulated depreciation	945,575	74,461	25,149	994,887
Other capital assets — net	$ 1,122,423	$ 215,537	$ 8,407	$ 1,329,553
Capital asset summary:				
Capital assets not being depreciated	$ 329,087	$ 223,465	$ 239,653	$ 312,899
Other capital assets	2,067,998	289,998	33,556	2,324,440
Total cost of capital assets	2,397,085	513,463	273,209	2,637,339
Less accumulated depreciation	945,575	74,461	25,149	994,887
Capital assets — net	$ 1,451,510	$ 439,002	$ 248,060	$ 1,642,452

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 44,996	$ 18,111	$ 290	$ 62,817
Construction in progress	191,323	182,213	107,398	266,138
Other	132			132
Total capital assets not being depreciated	$ 236,451	$ 200,324	$ 107,688	$ 329,087
Other capital assets:				
Land improvements	$ 20,235	$ 3,019	$ 83	$ 23,171
Infrastructure	247,758	13,329	5	261,082
Buildings	1,243,400	109,705	11,449	1,341,656
Equipment	263,465	26,842	16,494	273,813
Software	47,185	1,023	85	48,123
Library books	113,848	7,248	943	120,153
Total other capital assets	1,935,891	161,166	29,059	2,067,998
Less accumulated depreciation for:				
Land improvements	9,368	1,445	12	10,801
Infrastructure	190,073	9,220	18	199,275
Buildings	392,173	26,305	567	417,911
Equipment	171,765	23,355	14,911	180,209
Software	38,769	2,813	55	41,527
Library books	90,128	6,659	935	95,852
Total accumulated depreciation	892,276	69,797	16,498	945,575
Other capital assets — net	$ 1,043,615	$ 91,369	$ 12,561	$ 1,122,423
Capital asset summary:				
Capital assets not being depreciated	$ 236,451	$ 200,324	$ 107,688	$ 329,087
Other capital assets	1,935,891	161,166	29,059	2,067,998
Total cost of capital assets	2,172,342	361,490	136,747	2,397,085
Less accumulated depreciation	892,276	69,797	16,498	945,575
Capital assets — net	$ 1,280,066	$ 291,693	$ 120,249	$ 1,451,510

The Fund 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.

The Fund has construction commitments as of June 30, 2007, of approximately (dollars in thousands):

Concord University	$ 1,600
Eastern West Virginia Community and Technical College	5,300
Fairmont State University	6,900
Marshall University	3,150
Shepherd University	6,900
Southern West Virginia Community and Technical College	428
West Liberty State College	700
West Virginia School of Osteopathic Medicine	113
West Virginia University	66,700
	$ 91,791

On September 7, 2005, the Board of Directors of the West Virginia University Research Corporation approved a borrowing plan by the Corporation of up to $24.4 million to finance certain improvements at the University's Health Sciences Center ("HSC"). The West Virginia University Board of Governors has approved the Corporation entering into such transaction. The Corporation has entered into construction loan and pledge agreements with the West Virginia Housing Development Fund ("WVHDF"), the West Virginia Economic Development Authority ("WVEDA"), and the West Virginia Infrastructure and Jobs Development Council ("IJDC"). The Corporation drew down approximately $3.9 million during fiscal year 2007. No funds were drawn down during fiscal year 2006.

7. LONG-TERM LIABILITIES

The following, for the years ended June 30, 2007 and 2006, is a summary of long-term obligation transactions for the Fund (dollars in thousands):

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	$ 3,340	$ 3,882	$ (336)	$ 6,886	$ 138
Capital leases payable	23,502	19,958	(6,217)	37,243	5,730
Revenue bonds payable	722,348	27,588	(46,439)	703,497	22,238
Total bonds, capital leases, and notes payable	749,190	51,428	(52,992)	747,626	
Advances from federal sponsors	42,417	160	(284)	42,293	
Accrued compensated absences	103,468	8,589	(12,030)	100,027	35,655
Deferred interest payable	15,778	3,225		19,003	
Other noncurrent liabilities	11,260	9,069	(1,055)	19,274	899
Total long-term liabilities	$ 922,113	$ 72,471	$ (66,361)	$ 928,223	

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	$ 3,532	$ 9	$ (201)	$ 3,340	$ 258
Capital leases payable	24,567	8,745	(9,810)	23,502	5,593
Revenue bonds payable	734,368	8,507	(20,527)	722,348	21,325
Total bonds, capital leases, and notes payable	762,467	17,261	(30,538)	749,190	
Advances from federal sponsors	42,491	60	(134)	42,417	
Accrued compensated absences	93,744	16,793	(7,069)	103,468	31,929
Deferred interest payable	12,741	3,037		15,778	
Other noncurrent liabilities	2,817	9,177	(734)	11,260	1,050
Total long-term liabilities	$ 914,260	$ 46,328	$ (38,475)	$ 922,113	

8. COMPENSATED ABSENCES

The composition of the compensated absences liability at June 30, 2007 and 2006, are as follows (dollars in thousands):

	2007	2006
Health or life insurance benefits	$ 61,858	$ 70,897
Accrued vacation leave	38,169	32,571
	$ 100,027	$ 103,468

For the years ended June 30, 2007 and 2006, the amounts paid by the Fund for extended health or life insurance benefits totaled approximately $2.7 million and $2.6 million, respectively. As of June 30, 2007 and 2006, there were approximately 1,200 and 1,100 retirees, respectively, currently receiving these benefits.

9. LEASE OBLIGATIONS

Capital — The Fund 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 existing at June 30, 2007 (dollars in thousands):

Years Ending June 30	Total
2008	$ 7,314
2009	5,390
2010	3,198
2011	2,693
2012	11,324
2013–2017	13,081
2018–2022	2,271
2023–2025	914
Future minimum lease payments	46,185
Less interest	(8,942)
Total	$ 37,243

The following are related-party capital leases:

Marshall University ("Marshall") has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the "MUGC Foundation") for the Marshall University Graduate College's administration facility (the "Facility"). The fair value of the Facility was estimated by independent appraisal during the year ended June 30, 1995 at $5,000,000 (building $4,300,000, land $700,000), and the 21-year lease term commenced with the Marshall University Graduate College's occupancy of the Facility in June 1995. Ownership of the Facility transfers to Marshall at the end of the lease term.

In December 1996, Marshall entered into a lease agreement with the MUGC Foundation for an academic center to be used by the Marshall Graduate College. The construction of the academic center was financed by the MUGC Foundation through the issuance of governmental revenue bonds. Effective September 1, 1997, the MUGC Foundation leased the academic center to Marshall for 20 years. Upon expiration of the lease term, Marshall will have the right to purchase the academic center for a sum equal to the amount required to redeem or otherwise satisfy or defease the MUGC Foundation's bonds on the date of such purchase.

Operating — The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2007, are as follows (dollars in thousands):

Years Ending June 30	
2008	$ 9,212
2009	8,093
2010	5,140
2011	4,343
2012	3,798
2013–2017	15,374
2018–2022	9,880
2023–2027	9,880
2028–2031	7,905
Total	$ 73,625

Total rent expense for these operating leases for the years ended June 30, 2007 and 2006, was approximately $10.6 million and $11.4 million, respectively.

The following is a related-party operating lease*:*

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is $1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving 30 days written notice.

10. NOTES PAYABLE

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3.5 million to be used to renovate dormitories. As of June 30, 2007 and 2006, West Virginia State University had $2,896,662 and $2,983,727 outstanding, respectively, at an interest rate of approximately 6.3% with monthly principal and interest payments of approximately $21,068 payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State University's dormitories and receives a monthly service fee. West Virginia State University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

During fiscal year 2007, West Virginia University Research Corporation drew approximately $3.8 million on their loan with WVHDF. The proceeds of the WVHDF loan are disbursed on a draw basis as construction progresses. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The rate is calculated on the basis of a 360-day year on amounts advanced. The note is due 240 months from the closing date of October 24, 2005. Interest is due and payable quarterly.

The Fund also has other notes of approximately $109,000 and $356,000 outstanding at June 30, 2007 and 2006, respectively.

Principal maturities for the years ending after June 30, 2007, are as follows (dollars in thousands):

2008	$ 138
2009	95
2010	101
2011	107
2012	162
2013–2017	649
2018–2022	862
2023–2026	4,772
Total	$ 6,886

11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund, at June 30, 2007 and 2006, have the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Annual Installments	Principal Outstanding 2007	Principal Outstanding 2006
West Virginia University — Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement Bonds 2004, Series A, due through 2035	Variable	\$975–\$4,200	\$ 19,100	\$ 22,575
West Virginia University — Revenue Refunding Bonds 2004, Series B, due through 2021	5.00 %	\$0–\$6,685	55,430	55,430
West Virginia University — Revenue Improvement Bonds 2004, Series C, due through 2035	5.00 %	\$0–\$12,780	138,710	138,710
Marshall University — University Center Revenue Bonds 1969, due through 2009	6.00 %	\$205–\$215	420	615
Marshall University — University Facilities Revenue Bonds 2001, due through 2031	5.30 %	\$1,000–\$3,035	43,820	44,785
Glenville State University — Student Housing Bonds, Series 2000A, due 2030	6.20 %	\$90–\$1,280	4,595	4,680
Glenville State University — Campus Community Center Bonds, Series 2006, due 2026	4.30 % (10 year reset)	\$50–\$456	1,476	
Fairmont State University — College Facilities Revenue Bonds 2002, Series A, due through 2032	5.38 %	\$375–\$1,145	16,760	17,125
Fairmont State University — Infrastructure Revenue Bonds 2002, Series B, due through 2032	5.00 %	\$195–\$565	8,470	8,660
Fairmont State University — College Facilities Revenue Bonds 2003, Series A, due through 2032	5.25 %	\$295–\$860	12,755	13,040
Fairmont State University — Student Activity Revenue Bonds 2003, Series B, due through 2032	5.25 %	\$505–\$1,475	21,945	22,440
Fairmont State University — Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18 % (10 year reset)	\$291–\$611	8,215	8,500
Shepherd University — Student Fee Revenue Bonds, due through 2033	5.13 %	\$105–\$370	5,670	5,780
Shepherd University — Infrastructure Revenue Bonds, Series 2004B, due through 2024	4.50 %	\$125–\$240	2,995	3,125
Shepherd University — Residence Facilities Revenue Bonds, due through 2035	5.00 %	\$435–\$1,450	22,925	22,925
WV State University — Student Union Revenue Bonds 2002, Series A, due through 2022	6.20 %	\$215–\$420	4,570	4,785
West Liberty State University — Dormatory Revenue Bonds 2003, Series A, due through 2028	6.13 %	\$215–\$650	8,090	8,295
West Liberty State University — University Union Revenue Bonds 2003, Series B, due through 2018	5.63 %	\$70–\$120	1,010	1,080
West Liberty State University — Capital Improvement Revenue Bonds 2003, Series C, due through 2028	6.00 %	\$95–\$285	3,540	3,630
			380,496	386,180
Less unamortized bond discount			(419)	(440)
Loss on Bond Defeasance			(4,752)	(5,511)
Add unamortized bond premium			5,880	6,173
			\$381,205	\$386,402

Prior to fiscal 2003, each of the above bond issues was specific to an individual institution within the Fund, although the bonds were also issued in the names of the Fund's former governing boards, previously responsible for the governance of the State's higher education system. The bonds issued after fiscal 2002 were issued by the Institution's Governing Board only.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2007, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2008	$ 7,935	$ 18,136	$ 26,071
2009	8,280	17,820	26,100
2010	8,414	17,483	25,897
2011	8,760	17,135	25,895
2012	9,142	16,791	25,933
2013–2017	51,188	78,111	129,299
2018–2022	64,389	64,741	129,130
2023–2027	78,573	47,099	125,672
2028–2032	89,020	25,623	114,643
2033–2035	54,795	5,492	60,287
Total	$ 380,496	$ 308,431	$ 688,927

12. SYSTEM BONDS PAYABLE

The Fund 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 Fund's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Fund 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 Fund. Financing for these facilities was provided through revenue bonds issued by various former governing boards which are now administered by the Policy Commission.

The Policy Commission has the authority to assess each institution of the Fund for payment of debt service on these system bonds. The tuition and registration fees of the Institutions are generally pledged as collateral for the Fund'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 Fund.

The 2007 Series A Bonds were issued in April 2007 in the original principal amount of $25,915,000 with rates up to 5% and a total all-in interest cost of 4.34%, maturing serially through April 1, 2027. The 2007 Series A Bonds were issued to provide funding for a refinancing of a portion of the State College System 1997 Series A Bonds ($7,885,000). State University System 1997 Series A Bonds ($9,990,000), and the State University System 2000 B Bonds ($6,970,000). The amount refinanced was $24,815,000 and with the reduced interest rates will provide a total cash savings of $1,813,791 to the State. The economic gain on the refinancing was $1,253,171.

The Commission, at June 30, 2007 and 2006, has the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Original Range of Annual Installments	Principal Outstanding 2007	Principal Outstanding 2006
Series 1997 — University System Bonds, due through 2008	5.25 %	$255–$795	$ 310	$ 10,595
Series 1998 — University System Bonds, due through 2028	5.25 %	$1,065–$3,625	47,540	48,750
Series 2000A — University System Bonds, due through 2031	6.26 %	$0–$3,264	36,591	36,591
Series 2000B — University System Bonds, due through 2010	5.96 %	$210–$625	810	8,025
Series 2003A — University Facilities Bonds, due through 2012	5.00 %	$5,740–$7,875	35,840	42,095
Series 1997 — College System Bonds, due through 2008	5.25 %	$200–$625	240	8,325
Series 2003A — College Facilities Bonds, due through 2012	5.00 %	$2,325–$2,690	11,440	13,835
Series 2004B — Higher Education Facilities Bonds, due through 2034	6.00 %	$2,680–$9,520	155,335	158,870
Series 2007A — Revenue Refunding Bonds, due through 2027	5.00 %	$185–$1,880	25,915	
			314,021	327,086
Add Bond Premium and Deferred Gain			8,271	8,860
			$322,292	$335,946

A summary of the annual aggregate principal payments for years subsequent to June 30, 2007, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2008	$ 14,815	$ 13,514	$ 28,329
2009	15,425	12,868	28,293
2010	16,070	12,182	28,252
2011	16,780	11,456	28,236
2012	15,985	10,683	26,668
2013–2017	52,987	65,378	118,365
2018–2022	54,092	59,510	113,602
2023–2027	61,908	50,367	112,275
2028–2032	47,369	33,634	81,003
2033–2034	18,590	1,406	19,996
Total	$ 314,021	$ 270,998	$ 585,019

13. UNRESTRICTED NET ASSETS

The Fund's unrestricted net assets at June 30, 2007 and 2006, include certain designated net assets as follows:

	2007	2006
Designated for auxiliaries	$ 7,755	$ 8,014
Designated for repair and replacement of property	7,420	11,540
Designated for new technology center	2,637	2,182
Designated for affiliate organizations	375	507
Undesignated	124,656	99,561
Total unrestricted net assets	$ 142,843	$ 121,804

14. RETIREMENT PLANS

Substantially all full-time employees of the Fund 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 Educators Money 401(a) plan by Fund 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 Fund accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2007 and 2006. Required employee contributions are at the rate of 6% of total annual salary for both 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 $7,043,000, $7,458,000, and $7,483,000, respectively, which consisted of approximately $4,885,500, $5,257,000, and $5,351,000, from the Fund in 2007, 2006, and 2005, respectively, and approximately $2,158,000, $2,201,000, and $2,132,000 from the covered employees in 2007, 2006, and 2005, 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 Fund 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 $61,800,000, $58,600,000, and $54,400,000, respectively, which consisted of approximately $30,900,000, $29,300,000, and $27,200,000, from the Fund and from the covered employees in 2007, 2006, and 2005, respectively.

The Fund's total payroll for the years ended June 30, 2007 and 2006, was approximately $611,000,000 and $573,000,000, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were approximately $34,300,000 and $514,200,000, and $35,400,000 and $473,700,000, for the years ended June 30, 2007 and 2006, respectively.

15. 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 Fund), 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 Fund. 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. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the basic financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore discretely presented with the Fund's financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled $546.5 million and $456.9 million, at June 30, 2007 and 2006, respectively. The Eastern West Virginia Community and Technical College Foundation Inc. is not included for the years ended June 30, 2007 and 2006 because it was not significant to its institutions. The Southern West Virginia Community College Foundation Inc. and Greenbrier Community College Foundation Inc. are not included for the year ended June 30, 2006, because they were not significant to their Institutions. Blue Ridge Community and Technical College does not have a related foundation.

Complete financial statements for any discretely presented component unit foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301. See also Note 18.

16. AFFILIATED ORGANIZATIONS

The Fund 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 Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under GASB No. 14. They are not included in the Fund's accompanying financial statements under GASB No. 39 as discretely presented component units because they are 1) not significant or 2) have dual purpose (i.e. not entirely or almost entirely for the benefit of the Fund).

17. 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 Fund would not impact seriously on the financial status of the Fund.

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 Fund's financial position.

The Fund and Institutions within the Fund own various buildings that are known to contain asbestos. The Fund is not required by Federal, State, or Local Law to remove the asbestos from the buildings. The Fund is 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 Fund also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

Commitments — West Virginia University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were approximately $8.5 million and $11.1 million in 2007 and 2006, respectively. West Virginia University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

18. COMPONENT UNITS' DISCLOSURES

The following are the significant notes for the financial statements of the discretely presented component unit foundations:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations — The foundations are nonprofit organization incorporated in the State of West Virginia. The primary purpose of the foundations is to provide assistance and support for the students, facilities, and programs of their respective institution.

Basis of Presentation — Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Note-for-Profit Organizations.* Under SFAS No. 117, the Foundations are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting — The financial statements of the foundations are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the foundations and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the foundations and/or the passage of time.

Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the foundations. Generally, the donors of these assets permit the foundations to use all or part of the income earned related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the foundations on behalf of an Institution and/or departments of the Institution are reported as custodial liabilities. The foundations are responsible for the management and administration of these funds.

Investments — The foundations account for their investments in accordance with GAAP. Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

Property and Equipment — Purchased assets are recorded at cost. Donated assets are recorded at their fair value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the assets.

Gift Annuities — The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

Contributions — Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

PLEDGES RECEIVEABLE

Pledges receivable represent amounts due to the foundations for legally enforceable pledges.

INVESTMENTS

The Foundations' investment securities at June 30, 2007 and 2006, are composed of the following:

2007

	Bluefield State College Foundation, Inc.	The Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation Inc.	Southern West Virginia Community College Foundation Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Cash and temporary investments	$ -	$ -	$ 1,469,371	$ -	$ -	$ -	$ -	$ 1,923,619	$ -	$ 407,048	$ -	$ 151,880
U.S. Government securities	1,601,316	4,687,501				1,006,752		9,631,403	1,141,947	417,806		741,313
Corporate and municipal bonds and notes	496,815	2,739,594	2,370,292				27,022,195	1,237,350	323,378			104,957
Mutual funds	112,689	6,907,366	2,693,601	4,758,045					4,156,544	62,483		1,409,336
Equity investments	5,740,943	9,646,714	4,229,504	312,593		133,531	50,410,195	8,263,369	4,714,573	726,421		1,183,299
Other	428,505	339,804	158,123	1,000	807,182	15,778	22,235,017		356,278	70,626	20,805	
	$8,380,268	$24,320,979	$10,920,891	$5,071,638	$ 807,182	$1,156,061	$99,667,407	$21,055,741	$10,692,720	$1,684,384	$20,805	$3,590,785

2006

	Bluefield State College Foundation, Inc.	The Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	The West Virginia Northern Community College Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Cash and temporary investments	$ -	$ -	$1,125,906	$ -	$ -	$ 1,829,589	$ 633,686	$ 319,797	$ -	$ 131,158
U.S. Government securities	1,762,863	3,591,568				9,890,253	1,228,785	264,984		729,886
Corporate and municipal bonds and notes	485,956	2,100,423	2,517,646		25,315,249	877,931	276,496			307,005
Mutual funds	99,524	6,993,805	2,419,702	4,528,777			1,014,456	48,471		1,001,651
Equity investments	4,777,406	8,443,274	3,190,578	302,436	46,128,158	6,458,392	5,196,879	700,221		942,126
Other	413,050	339,804	131,639	1,000	15,605,637		357,278	56,384	20,050	
	$7,538,799	$21,468,874	$9,385,471	$4,832,213	$87,049,044	$19,056,165	$8,707,580	$1,389,857	$20,050	$3,111,826

The Foundations' property, plant, and equipment at June 30, 2007 and 2006, consists of the following:

	2007							
	The Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land	$ -	$203,915	$ -	$1,510,000	$ 40,000	$ -	$ -	$ 166,000
Building				595,000	160,202		2,285,210	1,276,425
Equipment	51,377	80,154	41,602	240,159	16,019	19,446	48,448	46,448
Accumulated depreciation	(38,175)	(33,108)	(13,867)	(383,200)	(55,028)	(14,579)	(551,372)	(451,979)
Net book value	$ 13,202	$250,961	$ 27,735	$1,961,959	$161,193	$ 4,867	$1,782,286	$1,036,894

	2006						
	The Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	West Liberty State Foundation, Inc.	The West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land	$ -	$131,914	$ 220,000	$ 40,000	$ -	$ -	$ 166,000
Building			1,034,275	160,202		2,285,210	1,276,425
Equipment	39,565	35,965	293,070	16,019	19,446	48,448	43,643
Accumulated depreciation	(24,111)	(31,182)	(471,883)	(48,502)	(10,690)	(485,254)	(415,625)
Net book value	$ 15,454	$136,697	$1,075,462	$167,719	$ 8,756	$1,848,404	$1,070,443

19. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

Descriptive information for each of the Fund's segments is shown below:

West Virginia University Board of Governors Auction Rate Certificates, Federally Taxable University Revenue Refunding, and Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B; and the University Revenue Improvement Bonds 2004 Series C (Collectively, the "2004 Bonds") — On November 1, 2004, the West Virginia University Board of Governors (the "Board") issued $25,900,000 of the 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the $13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bond 1997 Series A, and the $3,250,500 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at West Virginia University, including reimbursement to West Virginia for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds, and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

On November 1, 2004, the Board also issued 2004 Series B and C Bonds in the amounts of $55,430,000. The 2004 Series B Bonds are being used (1) to advance refund the $4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the

$10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the $3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the $38,000,0000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds.

The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at West Virginia University, including capitalized interest and reimbursement to West Virginia University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the cost of issuance.

The 2004 Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and the funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rent fees, charges and other income received by or accrued to West Virginia University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other moneys legally available to be used for such purposes.

State of West Virginia, West Virginia Board of Education, Marshall University Center Revenue Bonds of 1969 — In January 1969, the Board of Education sold $3,600,000 of Revenue Bonds, Marshall University Center Revenue Bonds of 1969 (the "1969 Bonds"). The 1969 Bonds were issued under the authority contained in Chapters 18 and 25 of the West Virginia State Code, as amended. The proceeds of the 1969 Bonds were used for construction of a University Center (the "Center") on the Huntington campus of Marshall University. The 1969 Bonds are secured by and payable from the revenues of the Center.

State of West Virginia, Higher Education Interim Governing Board, Marshall University Facilities Revenue Bonds, 2001 Series A — In June 2001, the Board sold $46,610,000 of Revenue Bonds, Marshall University Facilities 2001 Series A (the "2001 Bonds"). The 2001 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2001 Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of June 1, 2001, by and between the Interim Governing Board and Bank One, West Virginia, National Association, Charleston, West Virginia (the "Trustee"). The 2001 Bonds are secured by and payable from the revenues of the dormitories and parking facilities, and certain funds held under the Indenture. The proceeds of the 2001 Bonds are being used (1) to finance a portion of the costs of acquisition, construction and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds, and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

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

Board of Governors of Glenville State College, Facilities Improvement Revenue Bonds, Series 2006 — In November 2006 Glenville State College sold $1,500,000 of Revenue Bonds, 2006 Facilities Improvement Revenue Bonds, Series 2006. The 2006 Bonds were issued under the authority contained in Chapter 18B, Article 10 of the Code of West Virginia, 1931, as amended, and the Bonds will be secured pursuant to a Trust Indenture (the "Indenture") dated as of November 30, 2006, by and between the Glenville State college Board of Governors and Branch Banking & Trust, Charleston, WV (the "Trustee"). The bonds are secured by and payable form the revenues of Glenville State College's auxiliary and auxiliary capital fee and certain funds held under the Indenture. The proceeds of the 2006 Bonds are being used (1) to finance all or part of the cost of renovating the student center (Mollohan Campus community Center), (2) to reimburse the Board for cash amounts previously expended to pay renovation costs, and (3) to pay the cost of issuing the bonds.

Fairmont State College Facilities Revenue Bonds 2002 and 2003, Series A — On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the "2002A Bonds") amounting to $18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) to finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facilities, (3) to establish a debt service reserve fund for the 2002A Bonds, (4) to capitalize interest on the 2002A Bonds, and (5) to pay the cost of issuance of the 2002A Bonds and related costs.

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the "2003A Bonds") amounting $13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction, and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) to make a deposit to the debt service reserve fund for the 2003A Bonds, (3) to capitalize interest on the 2003A Bonds, and (4) to pay the costs of issuance of the 2003A Bonds and related costs.

Fairmont State Infrastructure Revenue Bonds 2002, Series B — On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the "2002B Bonds") amounting to $9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) to pay the costs of issuance of the 2002B bonds and related costs.

Fairmont State Student Activity Revenue Bonds 2003, Series B — On March 1, 2003, Fairmont State issued student Activity Revenue Bonds (the "2003B Bonds") amounting to $22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) to capitalize interest on the 2003B Bonds during reasonable time after the construction of the Project, and (3) to pay the costs of issuance of the 2003B Bonds and related costs.

Fairmont State Facilities Improvement Revenue Bonds, 2006 Series — On May 9, 2006, Fairmont State issued Facilities Improvement Revenue Bonds (the "2006 Bonds") amounting to $8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus of Fairmont State University, including but not limited to a Technology Wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Board and (2) pay the costs of issuance of the 2006 Bonds and related costs.

State of West Virginia, Shepherd University, Student Fee Revenue Bonds, Series 2003 — In January 2003, $5,990,000 of Shepherd University Student Fee Revenue Bonds, Series 2003 were sold. These bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) to establish a debt serve reserve fund, (3) to establish a capitalized interest fund to pay interest on these bonds due on December 1, 2003, and (4) to pay the costs of issuance of the bonds and related costs.

State of West Virginia, Shepherd University, Infrastructure Revenue Bonds, Series 2004 — In September 2004, $3,405,000 of Shepherd University Infrastructure Revenue Bonds, Series 2004 were sold. These bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and these bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board of Directors of Shepherd University and WesBanco Bank, Inc. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of Shepherd University and other capital renovations and improvements to Shepherd University's campus, and (2) to pay the costs of issuance of these bonds and related costs.

State of West Virginia, Shepherd University, Residence Facilities Revenue Bonds, Series 2005 — In May 2005, $22,925,000 of Shepherd University Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2005 were sold. These bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and these bonds are secured pursuant to the Indenture and Security Agreement dated as of May 24, 2005, by and between the Board of Directors of Shepherd University and WesBanco Bank, Inc. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of Shepherd University; (2) fund capitalized interest on the Series 2005 Bonds to January 1, 2007; (3) refund the Issuer's $1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall and Thacher Hall and other capital renovations and improvements to Shepherd University's residence facilities pending issuance of the Series 2005 Bonds; and (4) to pay the costs of issuance of the Series 2005 bonds.

State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002 Series A — On August 1, 2002, the West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of $5,500,000. The Bonds were issued to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the College Union, (2) to establish a debt service reserve fund, and (3) to pay the costs of issuance of the Bonds and related costs.

Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B & C — On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to $8,870,000. The Bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College's (the "College") existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture, and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

On September 3, 2003, the West Liberty State College issued College Union Revenue Bonds 2003 Series B, amounting to $1,145,000. The Bonds were issued (1) to finance certain capital improvements consisting of improvements to the College's existing student union building located on the campus of the College known as the "College Union," including improvements to existing offices and meeting areas, the upgrading of entry ways and facades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) to pay costs of issuance of the 2003 Series B Bonds and related costs.

On September 3, 2003, the West Liberty State College issued Capital Improvement Revenue Bonds 2003 Series C, amounting to $3,890,000. The Bonds were issued (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College’s Hall of Fine Arts, and to make certain improvements to roads, sidewalks and parking areas on the College’s campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) to pay costs of issuance of the 2003 Series C Bonds and related costs.

Condensed financial information for the Fund’s segments as of June 30, 2007 and 2006, is as follows (dollars in thousands):

	2007													
	WVU 2004 Auxiliaries	**Marshall 1969 University Center**	**Marshall 2001 Facilities Series A**	**Glenville 2000 Housing Series A**	**Glenville 2006 Facilities**	**Fairmont Facilities 2002 and 2003 Series A**	**Fairmont Infrastructure 2002 Series B**	**Fairmont Student Activity 2003 Series B**	**Fairmont Improvement Series 2006**	**Shepherd 2003 Student Fee**	**Shepherd Infrastructure 2004**	**Shepherd Residence Facilities 2005**	**WV State 2002 Student Union Series A**	**West Liberty Capital Improvements 2003 Series A,B&C**
CONDENSED STATEMENT OF NET ASSETS														
Assets:														
Current assets	$ 22,049	$ 1,795	$ 6,468	$ 358	$ 288	$ 1,816	$ 315	$ 1,950	$ 1,635	$ 669	$ 168	$ 6,559	$ 324	$ 1,384
Noncurrent assets	413,704	4,299	48,254	5,700	9,799	34,041	10,063	23,945	8,533	5,114	3,340	20,507	5,935	14,038
Total assets	$435,753	$ 6,094	$ 54,722	$6,058	$10,087	$35,857	$10,378	$25,895	$10,168	$5,783	$3,508	$27,066	$6,259	$15,422
Liabilities														
Current liabilities	$ 23,470	$ 556	$ 2,665	$ 8	$ 53	$ 885	$ 228	$ 818	$ 1,982	$ 161	$ 140	$ 1,157	$ 260	$ 823
Noncurrent liabilities	213,017	58	43,143	4,727	1,426	29,113	8,186	21,610	7,925	5,555	2,865	23,276	4,251	12,113
Total liabilities	236,487	614	45,808	4,735	1,479	29,998	8,414	22,428	9,907	5,716	3,005	24,433	4,511	12,936
Net assets (deficit):														
Invested in capital assets — net of related debt	198,675	3,453	4,434	974	8,323	1,424	2,080	1,496	261	(1,316)	246	(3,621)	977	44
Restricted	49	702	83	190		4,435	(116)	1,971		605	89	327	498	1,113
Unrestricted	542	1,325	4,397	159	285					778	168	5,927	273	1,329
Total net assets (deficit)	199,266	5,480	8,914	1,323	8,608	5,859	1,964	3,467	261	67	503	2,633	1,748	2,486
TOTAL	$435,753	$ 6,094	$ 54,722	$6,058	$10,087	$35,857	$10,378	$25,895	$10,168	$5,783	$3,508	$27,066	$6,259	$15,422
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:														
Operating:														
Operating revenues	$101,250	$ 1,322	$ 14,941	$ 434	$ 354	$ 4,765	$ 792	$ 3,061	$ 631	$ 541	$ 314	$12,738	$ 900	$ 1,319
Operating expenses	(94,216)	(1,137)	(12,266)	(186)	(483)	(2,346)	(30)	(1,663)	(426)	(167)	(215)	(11,573)	(688)	(8)
Net operating income	7,034	185	2,675	248	(129)	2,419	762	1,398	205	374	99	1,165	212	1,311
Nonoperating:														
Transfers (to) from Institution	22,276		(677)									3,983		
Nonoperating revenues	9,939	36	170	10	1,280	223	8	107	403	21	7	450	27	94
Nonoperating expenses	(13,070)	(27)	(2,291)	(288)	(35)	(1,930)	(964)	(1,475)	(346)	(276)	(119)	(1,087)	(225)	(967)
INCREASE (DECREASE) IN NET ASSETS	26,179	194	(123)	(30)	1,116	712	(194)	30	262	119	(13)	4,511	14	438
NET ASSETS (DEFICIT) — Beginning of year	173,087	5,286	9,037	1,353	7,492	5,147	2,157	3,437	(2)	(52)	516	(1,878)	1,734	2,048
NET ASSETS (DEFICIT) — End of year	$199,266	$ 5,480	$ 8,914	$1,323	$ 8,608	$ 5,859	$ 1,963	$ 3,467	$ 260	$ 67	$ 503	$ 2,633	$1,748	$ 2,486
CONDENSED STATEMENT OF CASH FLOWS:														
Net cash provided by (used in) operating activities	$ 16,457	$ 293	$ 4,387	$ 380	$ 86	$ 2,501	$ 763	$ 1,573	$	$ 540	$ 313	$ 1,653	$ 391	$ 1,311
Net cash provided by (used in) capital financing activities	(55,334)	(491)	(3,865)	(434)	244	(2,021)	(1,154)	(2,122)	(2,190)	(389)	(1,481)	(979)	(415)	(1,091)
Net cash provided by (used in) investing activities	33,593				(56)	87		90		23	1,232	5,203		
INCREASE (DECREASE) IN CASH	(5,284)	(198)	522	(54)	274	567	(391)	(459)	(2,190)	174	64	5,877	(24)	220
CASH — Beginning of year	25,099	2,405	8,987	407		3,246	694	2,311	8,539	513	99		348	1,164
CASH — End of year	$ 19,815	$ 2,207	$ 9,509	$ 353	$ 274	$ 3,813	$ 303	$ 1,852	$ 6,349	$ 687	$ 163	$ 5,877	$ 324	$ 1,384

* The cash of WVU, Marshall, Fairmont, and Shepherd includes current and noncurrent cash

	2006													
	WVU 2004 Auxiliaries	Marshall 1969 University Center	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A,B&C
CONDENSED STATEMENT OF NET ASSETS													
Assets:													
Current assets	$ 26,484	$ 2,035	$ 6,053	$ 407	$ 1,344	$ 710	$ 2,487	$ -	$ 517	$ 109	$ 16	$ 348	$ 1,164
Noncurrent assets	382,992	4,048	49,467	5,668	34,474	10,258	23,933	8,580	5,241	4,385	22,787	6,079	14,310
Total assets	$409,476	$ 6,083	$ 55,520	$6,075	$35,818	$10,968	$26,420	$8,580	$5,758	$4,494	$22,803	$6,427	$15,474
Liabilities													
Current liabilities	$ 18,345	$ 317	$ 2,312	$ 9	$ 877	$ 433	$ 862	$ 366	$ 140	$ 983	$ 926	$ 231	$ 940
Noncurrent liabilities	218,044	480	44,171	4,713	29,794	8,378	22,121	8,216	5,670	2,995	23,755	4,462	12,486
Total liabilities	236,389	797	46,483	4,722	30,671	8,811	22,983	8,582	5,810	3,978	24,681	4,693	13,426
Net assets (deficit):													
Invested in capital assets — net of related debt	163,532	3,028	4,682	955	1,174	1,747	1,011			412	(1,643)	911	
Restricted	17	678	83	181	3,973	410	2,426		487		598	500	1,114
Unrestricted	9,538	1,580	4,272	217				(2)	(539)	104	(833)	323	934
Total net assets (deficit)	173,087	5,286	9,037	1,353	5,147	2,157	3,437	(2)	(52)	516	(1,878)	1,734	2,048
TOTAL	$409,476	$ 6,083	$ 55,520	$6,075	$35,818	$10,968	$26,420	$8,580	$5,758	$4,494	$22,803	$6,427	$15,474
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:													
Operating:													
Operating revenues	$ 91,853	$ 1,340	$ 14,673	$ 510	$ 4,269	$ 876	$ 3,080	$ -	$ 517	$ 304	$ -	$ 902	$ 1,284
Operating expenses	(91,199)	(1,132)	(11,489)	(262)	(2,111)		(1,465)		(359)	(6)	(7)	(564)	(30)
Net operating income	654	208	3,184	248	2,158	876	1,615	-	158	298	(7)	338	1,254
Nonoperating:													
Transfers (to) from Institution	19,585	(12)	(101)										
Nonoperating revenues	11,092	26	235	7	185	10	152	55	34	86	453	18	408
Nonoperating expenses	(14,893)	(38)	(2,326)	(294)	(1,808)	(639)	(1,280)	(57)	(289)	(121)	(435)	(231)	(780)
INCREASE (DECREASE) IN NET ASSETS	16,438	184	992	(39)	535	247	487	(2)	(97)	263	11	125	882
NET ASSETS (DEFICIT) — Beginning of year	156,649	5,102	8,045	1,392	4,612	1,910	2,950		45	253	(1,889)	1,609	1,166
NET ASSETS (DEFICIT) — End of year	$173,087	$ 5,286	$ 9,037	$1,353	$ 5,147	$ 2,157	$ 3,437	$ (2)	$ (52)	$ 516	$(1,878)	$1,734	$ 2,048
CONDENSED STATEMENT OF CASH FLOWS:													
Net cash provided by (used in) operating activities	$ 3,915	$ 261	$ 3,571	$ 433	$ 2,064	$ 856	$ 1,909	$ -	$ 515	$ 303	$ (512)	$ 338	$ 1,253
Net cash provided by (used in) capital financing activities	(30,238)	(147)	(3,106)	(372)	(2,048)	(1,128)	(3,840)	8,483	(423)	(328)	512	(293)	(1,106)
Net cash provided by (used in) investing activities	28,625				54		118	56	36	81			
INCREASE (DECREASE) IN CASH	2,302	114	465	61	70	(272)	(1,813)	8,539	128	56		45	147
CASH — Beginning of year	22,797 *	2,291	8,522	346	3,176 *	966 *	4,124 *		385	43		303	1,017
CASH — End of year	$ 25,099 *	$ 2,405 *	$ 8,987 *	$ 407	$ 3,246 *	$ 694 *	$ 2,311 *	$8,539 *	$ 513	$ 99	$ -	$ 348	$ 1,164

* The cash of WVU, Marshall, and Fairmont includes current and noncurrent cash

20. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2007 and 2006, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2007								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Other	Total
Instruction	$ 264,402	$ 71,326	$ 47,545	$ 403	$ 351	$ -	$ -	$ 2,711	$ 386,738
Research	66,945	25,916	37,072	932	23			4,326	135,214
Public service	42,395	11,241	25,078	291	26			65	79,096
Academic support	42,064	10,348	25,474	292					78,178
Student services	35,555	10,414	17,355	77	5				63,406
Operations and maintenance of plant	31,007	10,241	26,865	25,328	7			211	93,659
General institutional support	76,601	20,821	51,366	4,618	73			648	154,127
Total education and general	558,969	160,307	230,755	31,941	485	-	-	7,961	990,418
Student financial aid	27		95		75,241		1		75,364
Auxiliary enterprises	52,069	13,979	72,301	12,342	4			54	150,749
Depreciation						74,461			74,461
Loan cancellations and write-offs							277		277
Other			7				405	432	844
Total	$ 611,065	$ 174,286	$ 303,158	$ 44,283	$ 75,730	$ 74,461	$ 683	$ 8,447	$ 1,292,113

	2006								
	Salaries and Wages	**Benefits**	**Supplies and Other Services**	**Utilities**	**Scholarships and Fellowships**	**Depreciation**	**Loan Cancellations and Write-offs**	**Other**	**Total**
Instruction	$249,142	$ 74,109	$ 43,018	$ 325	$ 224	$ -	$ -	$ 1	$ 366,819
Research	61,669	23,372	37,025	946	20			147	123,179
Public service	41,870	11,948	23,111	277	53			22	77,281
Academic support	39,479	10,801	18,614	267	16				69,177
Student services	32,298	9,946	15,035	77	5				57,361
Operations and maintenance of plant	28,753	11,390	27,931	30,113	7			230	98,424
General institutional support	70,339	21,710	52,115	206	64			72	144,506
Total education and general	523,550	163,276	216,849	32,211	389	-	-	472	936,747
Student financial aid	26	202	32		67,654		2		67,916
Auxiliary enterprises	48,800	13,543	66,806	12,395	317				141,861
Depreciation						69,797			69,797
Loan cancellations and write-offs							233		233
Other			23				294	509	826
Total	$572,376	$177,021	$283,710	$44,606	$68,360	$69,797	$ 529	$981	$1,217,380

* * * * * *

Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the West Virginia Higher Education
Policy Commission:

Our audit was conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the West Virginia Higher Education Fund's management. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

Deloitte & Touche LLP

January 2, 2008

ADDITIONAL INFORMATION

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET ASSETS INFORMATION
AS OF JUNE 30, 2007
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
ASSETS			
Current assets:			
Cash and cash equivalents	$ 324,895	$ 7,421	$ 332,316
Short-term investments		7,708	7,708
Appropriations due from Primary Government	5,598		5,598
Accounts receivable — net	58,518	7,634	66,152
Loans receivable — current portion	5,929	318	6,247
Other current assets	4,505	255	4,760
Inventories	5,489		5,489
Total current assets	404,934	23,336	428,270
Noncurrent assets:			
Cash and cash equivalents	43,335	90	43,425
Investments	144,347	184,031	328,378
Loans receivable — net of allowance of $9,423	48,492	159	48,651
Other assets	31,544	14,569	46,113
Capital assets — net	1,642,452	5,595	1,648,047
Total noncurrent assets	1,910,170	204,444	2,114,614
TOTAL	$ 2,315,104	$ 227,780	$ 2,542,884

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET ASSETS INFORMATION
AS OF JUNE 30, 2007
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
LIABILITIES			
Current liabilities:			
Accounts payable	$ 60,736	$ 110	$ 60,846
Due to State of West Virginia	29		29
Accrued liabilities	34,227	3,281	37,508
Deferred revenue	54,852		54,852
Deposits/custodial/annuity liabilities	4,857	2,146	7,003
Severance payable — current portion	899		899
Compensated absences — current portion	35,655		35,655
Notes payable — current portion	138	36	174
Capital lease obligations — current portion	5,730		5,730
Interest payable	3,379		3,379
Bonds payable — current portion	22,238		22,238
Total current liabilities	222,740	5,573	228,313
Noncurrent liabilities:			
Advances from federal sponsors	42,293		42,293
Compensated absences	64,372		64,372
Notes payable	6,748	31	6,779
Capital lease obligations	31,513		31,513
Deferred interest payable	19,003		19,003
Bonds payable	681,259		681,259
Other noncurrent liabilities	18,375	294	18,669
Total noncurrent liabilities	863,563	325	863,888
Total liabilities	1,086,303	5,898	1,092,201
NET ASSETS			
Invested in capital assets — net of related debt	975,920	2,025	977,945
Restricted for:			
Expendable:			
Scholarships	13,643	35,015	48,658
Sponsored projects	35,350	19,317	54,667
Loans	25,626	2,523	28,149
Capital projects	18,846	960	19,806
Debt service	8,680		8,680
Other	2,164	24,658	26,822
Total restricted expendable	104,309	82,473	186,782
Nonexpendable	5,729	108,617	114,346
Unrestricted	142,843	28,767	171,610
Total net assets	1,228,801	221,882	1,450,683
TOTAL	$ 2,315,104	$227,780	$ 2,542,884

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
OPERATING REVENUES:			
Student tuition and fees — net of scholarship allowance of $82,825	$ 376,390	$ -	$ 376,390
Gift and contributions		13,143	13,143
Federal land grants	7,940		7,940
Local grants	885		885
Contracts and grants:			
Federal	195,722		195,722
State	62,736		62,736
Local	1,114		1,114
Private	58,885		58,885
Interest on student loans receivable	998		998
Sales and services of educational activities	18,803		18,803
Auxiliary enterprise revenue — net of scholarship allowance of $14,653	165,104		165,104
Other operating revenue	20,723	3,107	23,830
Total operating revenues	909,300	16,250	925,550
OPERATING EXPENSES:			
Salaries and wages	611,065	1,830	612,895
Benefits	174,286	64	174,350
Supplies and other services	303,158	1,577	304,735
Utilities	44,283	46	44,329
Student financial aid — scholarships and fellowships	75,730	5,361	81,091
Depreciation	74,461	122	74,583
Loan cancellations and write-offs	683		683
Other operating expenses	8,447	10,476	18,923
Total operating expenses	1,292,113	19,476	1,311,589
OPERATING INCOME (LOSS)	(382,813)	(3,226)	(386,039)

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2007
(Dollars in thousands)

	Higher Education Fund	Aggregate Foundations	Total
NONOPERATING REVENUES (EXPENSES):			
State appropriations	$ 423,858	$ -	$ 423,858
Gifts	15,902		15,902
Investment income	28,235	22,319	50,554
Interest on indebtedness	(34,921)		(34,921)
Payments to other institutions	(15,346)		(15,346)
Other nonoperating expenses — net	(2,804)	(3)	(2,807)
Net nonoperating revenues	414,924	22,316	437,240
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	32,111	19,090	51,201
CAPITAL GRANTS AND GIFTS	77,912	9,175	87,087
INCREASE IN NET ASSETS	110,023	28,265	138,288
NET ASSETS — Beginning of year	1,118,778	193,617	1,312,395
NET ASSETS — End of year	$ 1,228,801	$221,882	$ 1,450,683

See notes to combined financial statements. (Concluded)

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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

To the West Virginia Higher Education
Policy Commission:

We have audited the financial statements of the West Virginia Higher Education Fund (the "Fund") as of and for the year ended June 30, 2007, and have issued our report thereon dated January 2, 2008. 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 Fund's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 function, 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 weakness, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund'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*.

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

Deloitte & Touche LLP

January 2, 2008