

West Virginia Higher Education Policy Commission

Financial Statements and Additional Information as of
and for the Years Ended June 30, 2008 and 2007,
and Independent Auditors' Reports

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

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INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education
Policy Commission:

We have audited the accompanying statements of net assets of the West Virginia Higher Education Policy Commission (the "Commission") as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express an opinion on these financial statements based on our audits.

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 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 Commission'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.

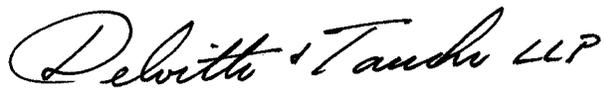
In our opinion, such financial statements present fairly, in all material respects, the financial position of the Commission at June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the Commission adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

The Management's Discussion and Analysis on pages 3–14 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Commission's management. We have applied certain limited procedures, which consisted principally of inquiries 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 Commission's management. Such information has been subjected to the auditing procedures applied in our audits 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 February 17, 2009, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the 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.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

February 17, 2009

West Virginia Higher Education Policy Commission
Management Discussion and Analysis (Unaudited)
Fiscal Year 2008

Overview of the Financial Statements and Financial Analysis

The Governmental Accounting Standards Board (“GASB”) has issued directives for presentation of college and university financial statements that have been adopted for presentation in Fiscal Year 2002 by the West Virginia Higher Education Policy Commission (“Commission”). 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.

The following discussion and analysis of the Commission’s financial statements provides an overview of its financial activities for the years ended June 30, 2008 and 2007 with a primary focus on the current year and is required supplemental information per GASB No. 35. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows.

Statement of Net Assets

The Statement of Net Assets presents comparative data of the assets, liabilities, and net assets of the Commission as of June 30, 2008 and 2007. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the Commission. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

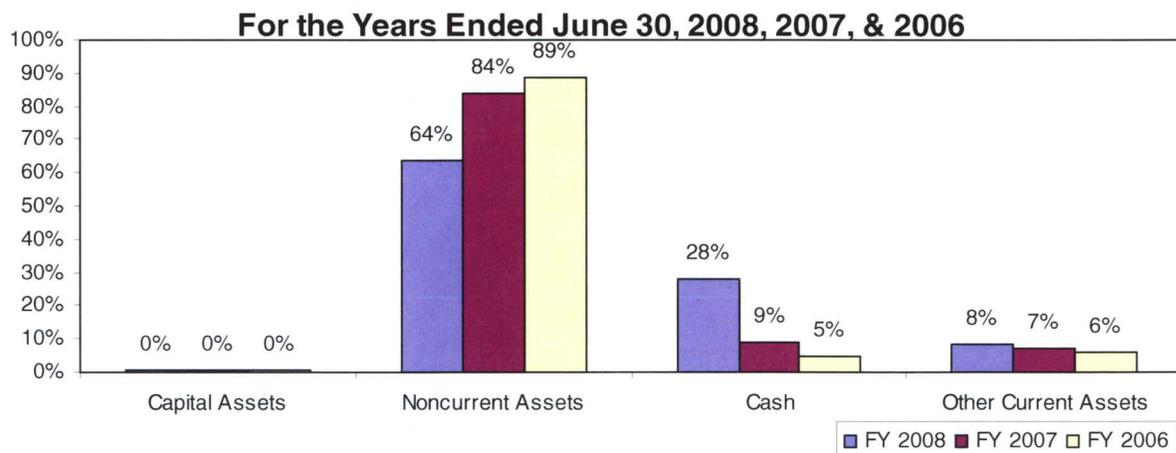
From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the Commission. They are also able to determine how much the Commission owes vendors, employees and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets/deficit (assets minus liabilities).

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the Commission’s equity in land, furniture and equipment owned by the Commission. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are for the Endowment Program where funds are invested and the earnings are available for expenditure but the original investment is not. The Commission does not have any nonexpendable net assets at June 30, 2008 or 2007. Expendable restricted net assets are available for expenditure by the Commission but have a specific purpose. The final category is unrestricted net assets/deficit. Unrestricted net assets are available to be used for any lawful purpose of the Commission. The deficit is solely attributable to 2004 bond proceeds which were transferred to the Institutions for their capital projects without any assets being received by the Commission in return.

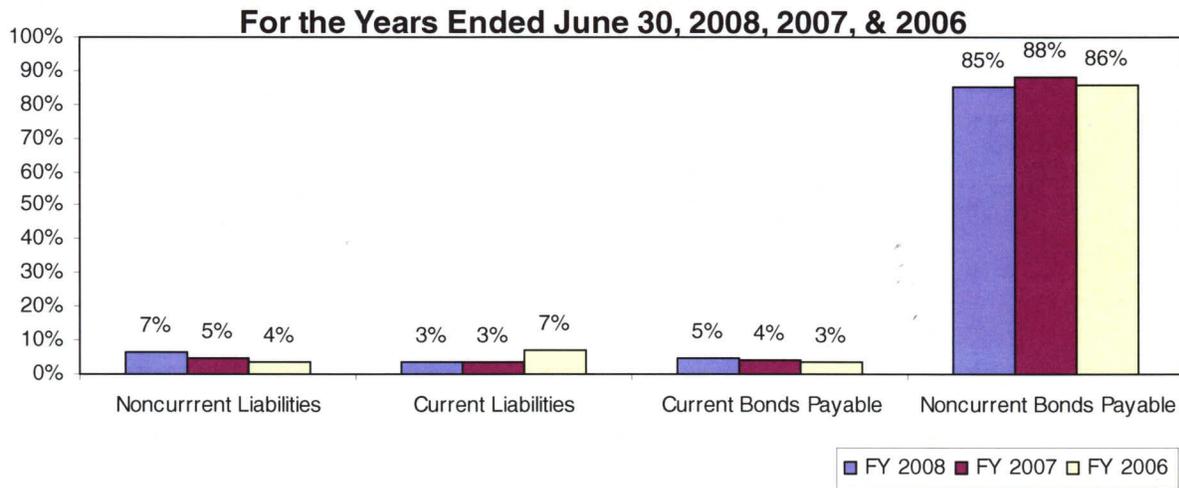
Condensed Statements of Net Assets
(In thousands of dollars)

	June 30 2008	June 30 2007	June 30 2006	Change From 2007 to 2008
Assets				
Current Assets	\$ 114,334	\$ 38,866	\$ 34,574	\$ 75,468
Other Noncurrent Assets	201,235	203,874	284,002	(2,639)
Capital Assets, net	<u>1,304</u>	<u>972</u>	<u>1,263</u>	<u>332</u>
Total Assets	\$ <u>316,873</u>	\$ <u>243,712</u>	\$ <u>319,839</u>	\$ <u>73,161</u>
Liabilities				
Current Liabilities	\$ 27,292	\$ 29,177	\$ 26,899	\$ (1,885)
Noncurrent Liabilities	<u>314,001</u>	<u>327,265</u>	<u>338,402</u>	<u>(13,264)</u>
Total Liabilities	<u>341,293</u>	<u>356,442</u>	<u>365,301</u>	<u>(15,149)</u>
Net Assets (Deficit)				
Restricted-expendable	146,192	27,105	29,712	119,087
Unrestricted	<u>(170,612)</u>	<u>(139,835)</u>	<u>(75,174)</u>	<u>(30,777)</u>
Total Net Deficit	<u>(24,420)</u>	<u>(112,730)</u>	<u>(45,462)</u>	<u>88,310</u>
Total Liabilities and Net Assets	\$ <u>316,873</u>	\$ <u>243,712</u>	\$ <u>319,839</u>	\$ <u>73,161</u>

Asset Composition



Liabilities & Net Assets



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

- At June 30, 2008, the Commission's financial statements reflect a receivable from the higher education institutions (an internal obligation) related to principal payments owed by the Commission on system-wide debt obligations that were issued on behalf of the University and College Systems before the 2004 issuance. Prior to fiscal year 2002, the system debt had been reflected solely as an obligation of the Commission and the requirement of the institutions to contribute funds to repay this debt was disclosed in a footnote. The internal assignment of this liability was shown as a transfer in the Statement of Revenue, Expenses and Changes in Net Assets during fiscal year 2002. On the Statement of Net Assets as of June 30, 2008, a receivable has been recorded for institutional obligations totaling \$146.8 million out of the total amount due from institutions of \$147.3 million as compared to \$177.6 million in debt including outstanding University and College System Bonds of \$155.2 million plus deferred interest of \$22.4 million, but not including bond premiums. This shortfall continues to be reflected as part of the deficit in the Unrestricted Net Assets and will be allocated to certain institutions on an annual basis over the remaining term of the bonds. This allocation of debt to institutions resulted in a more equitable presentation of net assets for both the Commission and the institutions. As discussed later, the Commission debt for facilities issued in fiscal year 2005 (2004 Series B Bonds) is not allocated to the institutions as the funding will be forthcoming from excess Lottery proceeds.
- As of June 30, 2008, total current assets of \$114.3 million exceed total current liabilities of \$27.3 million. As of June 30, 2007, total current assets of \$38.9 million exceeded total current liabilities of \$29.2 million. By the very nature of the Commission, significant funds flow through the operations reported in these financial statements with further

distribution to the West Virginia public institutions in subsequent years based on the decisions of the Commission.

- Unrestricted cash balances at June 30, 2008 of \$88.0 million compared to cash balances at June 30, 2007 of \$22.1 million. This increase of \$65.9 million is primarily attributed to \$59.2 million in supplemental appropriations for special projects by the State Legislature near the end of FY 2008 and the return of \$6.1 million of unused Higher Education Grant Program dollars from state institutions. Additionally, there is a decrease of \$0.6 million on hand at West Virginia Network for Educational Telecomputing (WVNET).
 - Current receivables from the institutions total \$10.7 million and \$10.4 million as of June 30, 2008 and June 30, 2007, respectively. This receivable primarily represents the institutions current obligations for principal payments to be paid on the University and College system-wide bond obligations.
 - Current liabilities total \$27.3 million and \$29.2 million as of June 30, 2008 and June 30, 2007 respectively. The decrease of \$1.9 million is primarily attributed to the decrease of \$5.3 million in amounts due to institutions attributable to amounts payable from bond proceeds due to the institutions for construction costs. Additionally there are increases of \$3.2 million in deposits, of which \$1.6 million is held for the Promise scholarship awards, \$2.5 million held for Research Challenge awards to be awarded in FY 2009 and \$0.6 million in Bonds payable-current portion.
- As of June 30, 2008 noncurrent assets total \$202.5 million and noncurrent liabilities total \$314.0 million. As of June 30, 2007, noncurrent assets totaled \$204.8 million and noncurrent liabilities totaled \$327.3 million.
 - The primary noncurrent asset is a receivable from the institutions primarily related to the University and College system-wide bond obligations which total \$136.4 million at June 30, 2008 compared to \$146.8 million at June 30, 2007, a decrease of \$10.4 million paid on the principal of outstanding bonds during FY 2008. \$9.0 million was paid on the principal of outstanding bonds during FY 2007. The other amounts due from institutions reflect the advances made to certain institutions.
 - The other major noncurrent asset is the investment of \$11.9 million at June 30, 2008 compared to \$39.6 million at June 30, 2007 and is attributed to the unexpended portion of the \$167.3 million of bonds issued in FY 2005. The \$27.7 million decrease is attributed to bond proceeds (including investment earnings) disbursements of \$28.6 million to the institutions for construction costs during FY 2008. \$72.9 million of bond proceeds were disbursed to the institutions for construction costs during FY 2007.
 - Another noncurrent asset is \$44.1 million in noncurrent cash. In FY 2008, the Legislature appropriated \$37.0 million for capital projects which include \$30.0 million for two advanced technology centers for the Community and Technical College System and \$7.0 million for an energy savings loan program.

- The primary noncurrent liability represents the actual system-wide bonds outstanding, as further described in Note 8 to the financial statements. At June 30, 2008, noncurrent bonds payable totaled \$291.3 million compared to \$307.5 million at June 30, 2007, a decrease of \$16.2 million. This represents the amount paid on the principal of outstanding bonds during FY 2008 and the increase in current portion of bonds payable. \$14.3 million was the similar change on the principal of outstanding bonds during FY 2007.
- Total net assets of the Commission were a deficit of \$24.4 million as of June 30, 2008, which is an \$88.3 million improvement in the deficit over the prior year. This is primarily attributed to the increase in amounts received in state appropriations by the Commission for Sponsored and Capital Projects. The major components of net assets as of June 30, 2008 are as follows:
 - Funds restricted for sponsored projects total \$65.9 million.
 - Funds restricted for scholarship programs total \$21.1 million.
 - Funds restricted for capital projects total \$58.1 million.

Statement of Revenues, Expenses and Changes in Net Assets

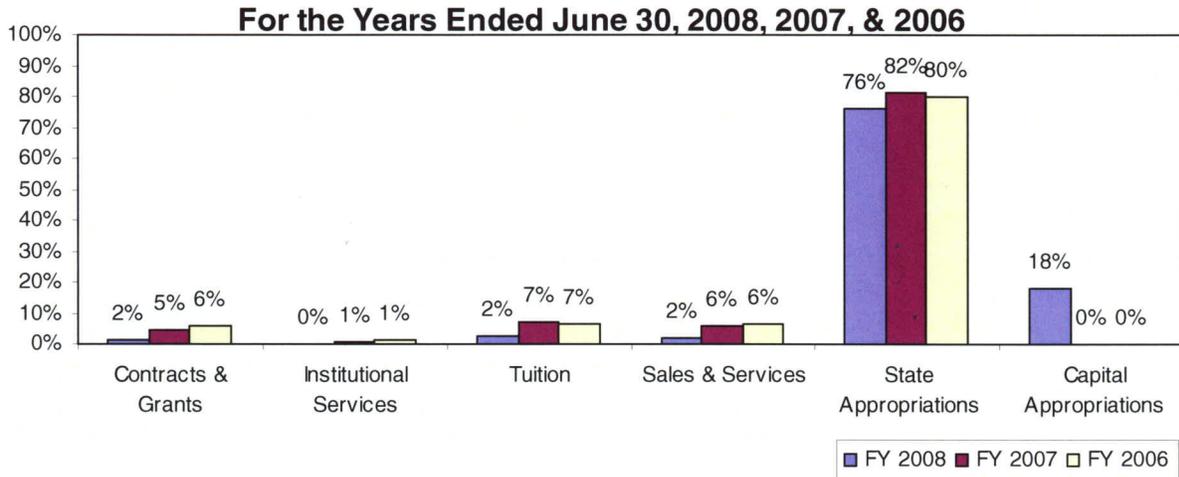
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Commission, both operating and nonoperating, and the expenses of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

Operating revenues are fees from the institutions that the Commission by statute can assess them to support the Commission operations and various initiatives. Additional operating revenue comes from the sale of various services to public and private higher education institutions, public and private K-12, and other state government agencies. Revenue is also received in the form of federal and State grants. 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 Commission. 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 Legislature to the Commission without the Legislature directly receiving commensurate goods and services for those revenues.

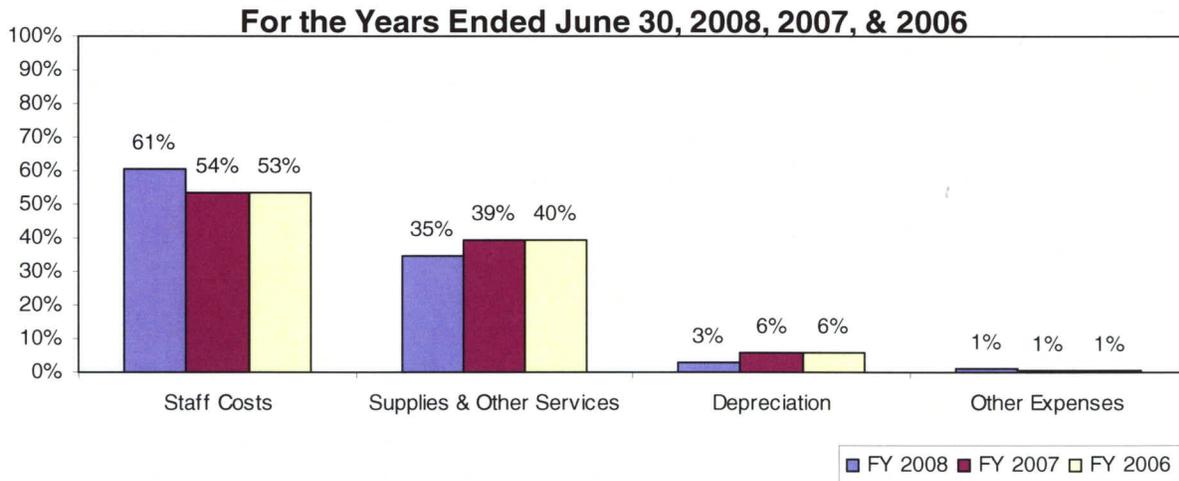
**Condensed Statements of Revenues, Expenses and Changes in Net Assets
(In thousands of dollars)**

	FY 2008	FY 2007	FY 2006	Change From 2007 to 2008
Operating Revenues	\$ 10,351	\$ 10,461	\$ 11,165	\$ (110)
Operating Expenses	<u>11,406</u>	<u>11,913</u>	<u>12,072</u>	<u>(507)</u>
Operating Loss	(1,055)	(1,452)	(907)	397
Net Nonoperating Revenues	<u>82,324</u>	<u>7,184</u>	<u>12,408</u>	<u>75,140</u>
Income Before Other Revenues, Expenses, Gains, Losses or Transfers	81,269	5,732	11,501	75,537
Capital Appropriations	30,000			30,000
Net Transfers of Liabilities (Assets) to Institutions		1,100	(316)	(1,100)
Transfers to Institutions and Outside Entities	<u>(23,595)</u>	<u>(74,100)</u>	<u>(54,178)</u>	<u>50,505</u>
Increase (Decrease) in Net Assets Before Cumulative Effect	87,674	(67,268)	(42,993)	154,942
Cummulative Effect of Adoption of Accounting Principle	<u>636</u>	<u>-</u>	<u>-</u>	<u>636</u>
Increase (Decrease) in Net Assets	88,310	(67,268)	(42,993)	155,578
Net Deficit-Beginning of Year	<u>(112,730)</u>	<u>(45,462)</u>	<u>(2,469)</u>	<u>(67,268)</u>
Net Deficit-End of Year	\$ <u><u>(24,420)</u></u>	\$ <u><u>(112,730)</u></u>	\$ <u><u>(45,462)</u></u>	\$ <u><u>88,310</u></u>

Total Revenues



Total Operating Expenses



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

- Operating revenues of the Commission totaled \$10.4 million in FY 2008 compared to \$10.5 million in FY 2007.
 - Fees collected from higher education institutions for the operations of the Commission and for special projects for higher education totaled \$4.1 million at June 30, 2008, basically unchanged from \$3.9 million at June 30, 2007.
 - Other state, federal and local grants totaled \$2.6 million at June 30, 2008, unchanged from \$2.6 million at June 30, 2007.
 - Sales and services of educational activities totaled \$3.1 million at June 30, 2008, basically unchanged from \$3.3 million at June 30, 2007.
 - Institutional collections totaled \$0.4 million at June 30, 2008, as compared to \$0.5 million at June 30, 2007, as compared to \$0.6 million at June 30, 2006. This decrease is primarily attributed to a reduction in billable modem accounts.
- Operating expenses totaled \$11.4 million in FY 2008 compared to \$11.9 million in FY 2007. The primary reasons for the decrease was a \$0.4 million decrease in depreciation and a \$0.6 million decrease in supplies and other services offset by an increase in benefits of \$0.4 million related to the increase costs of OPEB.
- Net nonoperating revenue totaled \$82.3 million in FY 2008 compared to \$7.2 million in FY 2007. The net increase of \$75.1 million is primarily attributed to an increase in state appropriations of \$81.4 million offset by decreases in institutional debt service payments to the Commission of \$0.6 million and increases in student financial aid and other payments to institutions of \$5.2 million.
 - State general revenue and lottery appropriations totaled \$127.5 million in FY 2008 compared to \$46.1 million in FY 2007, a net increase of \$81.4 million. This increase is primarily attributed to an additional \$50.0 million for research initiatives, \$8.0 million for capital projects maintenance, \$7.0 million for an energy savings loan program, \$7.2 million for special projects and \$11.4 million for financial aid.
 - Pass-through expenditures for student financial aid and other payments to institutions totaled \$40.6 million in FY 2008 compared to \$35.4 million in FY 2007. This \$5.2 million increase is primarily related additional funding for student awards. This followed a \$5.6 million increase in FY 2007.
 - Interest expense on indebtedness totaled \$16.9 million in FY 2008. This is compared to \$17.5 million in FY 2007. A slight decrease of \$0.6 million is attributed to lower principal outstanding and savings from debt refinancing in FY 2007. This followed a \$0.3 million decrease in FY 2007.
 - Investment income totaled \$3.6 million in FY 2008 compared to \$5.2 million in FY 2007. This decrease is attributed to less invested bond proceeds from the prior year that was disbursed for construction in FY 2008 and a lower rate of return.

- During FY 2008, \$30.0 million in capital appropriations was appropriated by the Legislature for the construction of two advanced technology centers for the Community and Technical College System.
- During FY 2008, there was no transfer of liabilities to institutions. During FY 2007, there was a transfer of liabilities to institutions of \$1.1 million due to additional principal amount during the refunding of the 1997 Series A College System Bonds, 1997 Series A University System Bonds and the 2000 B University System Bonds. On April, 17, 2007, the 2007 Series A Bonds were issued 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 (\$7,855,000), 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 savings of \$1,813,791 to the West Virginia Higher Education Fund.

Statement of Cash Flows

The final statement presented by the Commission is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Commission 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 Commission. 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 reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth 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 fifth part reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statements of Cash Flows
(In thousands of dollars)

	FY 2008	FY 2007	FY 2006	Change From 2007 to 2008
Cash Provided (Used) By:				
Operating Activities	\$ (1,250)	\$ (442)	\$ (561)	\$ (808)
Noncapital Financing Activities	104,501	14,509	2,627	89,992
Capital Financing Activities	(69,961)	(83,426)	(65,842)	13,465
Investing Activities	<u>32,566</u>	<u>75,853</u>	<u>50,727</u>	<u>(43,287)</u>
Increase (Decrease) in Cash and Cash Equivalents	65,856	6,494	(13,049)	59,362
Cash and Cash Equivalents, beginning of year	<u>22,137</u>	<u>15,643</u>	<u>28,692</u>	<u>6,494</u>
Cash and Cash Equivalents, end of year	\$ <u>87,993</u>	\$ <u>22,137</u>	\$ <u>15,643</u>	\$ <u>65,856</u>

Major items of note in the Cash Flow Statement include:

- Net Cash used in operating activities in FY 2008 compared to net cash used in operating activities in FY 2007 were primarily a result of an increase of \$0.3 million in payments to and on behalf of employees, \$0.7 million decrease in sales and services of education activities and \$1.0 million decrease of institutional collections. Major reconciling items in FY 2008 from the loss reported on the Statement of Revenue, Expenses and Changes in Net Assets include depreciation expense and fluctuations in accounts receivable and deferred revenue.
- Cash provided by Noncapital Financing Activities increased by \$90.0 million primarily because the Commission in FY 2008 received a \$98.6 million increase of state appropriation for research initiatives, financial aid and special projects.
- Net cash used in Capital Financing Activities totaled \$70.0 million in FY 2008 compared to net cash used in Capital Financing Activities of \$83.4 million in FY 2007. This difference is primarily due to the reduction of \$50.8 million of bond proceeds transferred to institutions.
- Net cash provided by Investing Activities totaled \$32.6 million in FY 2008 compared to net cash provided by Investing Activities of \$75.9 million in FY 2007. The difference is due to selling investments to provide funds transferred to institutions.
- Total cash for FY 2008 year increased by \$65.9 million compared to an increase in FY 2007 of \$6.5 million, ending the year at \$88.0 million at June 30, 2008 compared to \$22.1 million at June 30, 2007.

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

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 Commission itself maintains a strong financial condition. Although the net asset position of the Commission is reported as a deficit of \$24.1 million, this deficit includes the \$8.4 million in net system bond indebtedness that will be allocated to the institutions as the debt is repaid over the next four years, \$22.4 million of deferred interest payable on the 2000 Series A Bonds that will continue to increase until the year 2013, the year the bonds actually go into repayment, and \$151.7 million of debt on the 2004 Series A Facilities Bonds (net of unexpended bond proceeds of \$11.9 million) which probably will be paid by lottery proceeds. The vast majority of the funding which is reported in the financial statements of the Commission is ultimately assigned to the public higher education institutions in the State for capital projects, grants, scholarships and special projects. This funding is critical to the success of the higher education system in meeting the Compact goals.

Economic Outlook

General revenue funding from the State for the Commission’s operations were approximately \$4.1 million in FY 2008, which is substantially unchanged from the \$4.0 million in FY 2007. For FY 2008, fees from the institutions for the funding of Commission operations were approximately \$4.1 million, which also is almost a 5% increase from the \$3.9 million in FY 2007. For FY 2009, general revenue funding of \$4.2 million has been appropriated by the State, which is a 5% increase from FY 2008. For FY 2009, fees from the institutions for funding of the

Commission's operations are expected to remain unchanged. For FY 2010, all state agencies have been requested to submit a general revenue budget appropriation request at the current level as FY 2009. No budget reductions are anticipated.

The Commission adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, at the beginning of FY 2008. The adoption of GASB Statement No. 45 by the Commission resulted in a cumulative effect adjustment of approximately \$0.6 million which increased net assets as the existing liability of the Commission was transferred to the State's Multiple-Employer Trust Fund. The Trust Fund is now invoicing the Commission on a monthly basis. The FY 2008 expense, net of State revenue from payments made on behalf of the Commission, is less than this adjustment. For FY 2009, the benefits expense related to OPEB is not expected to change materially from the FY 2008 amount.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 87,992,552	\$ 22,136,724
Appropriations due from Primary Government	13,357,797	3,094,517
Accounts receivable — net	1,686,046	1,332,707
Interest receivable	564,810	1,887,937
Prepaid expense	46,935	
Receivable from institutions — current portion	<u>10,685,996</u>	<u>10,414,295</u>
 Total current assets	 <u>114,334,136</u>	 <u>38,866,180</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	44,128,324	7,575,656
Investments	11,915,959	39,607,427
Receivable from institutions	136,646,931	147,332,927
Other assets	8,543,610	9,357,630
Capital assets — net	<u>1,303,948</u>	<u>971,904</u>
 Total noncurrent assets	 <u>202,538,772</u>	 <u>204,845,544</u>
 TOTAL	 <u>\$316,872,908</u>	 <u>\$243,711,724</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS	2008	2007
CURRENT LIABILITIES:		
Accounts payable	\$ 626,350	\$ 794,273
Amounts due to institutions	2,568,283	7,946,506
Accrued liabilities	111,151	85,305
Deposits	4,540,810	1,389,444
Deferred revenue	18,597	306,794
Compensated absences — current portion	473,706	454,891
Interest payable	3,527,762	3,378,578
Bonds payable — current portion	15,425,000	14,815,000
Capital lease obligation — current portion	<u>6,510</u>	<u>6,510</u>
Total current liabilities	<u>27,291,659</u>	<u>29,177,301</u>
NONCURRENT LIABILITIES:		
Compensated absences	214,461	784,846
Deferred interest payable	22,425,696	19,002,600
Other post employment benefit liability	67,570	
Bonds payable	<u>291,293,228</u>	<u>307,477,248</u>
Total noncurrent liabilities	<u>314,000,955</u>	<u>327,264,694</u>
Total liabilities	<u>341,292,614</u>	<u>356,441,995</u>
NET ASSETS (DEFICIT):		
Invested in capital assets — net of related debt	<u>-</u>	<u>-</u>
Restricted for —		
Expendable:		
Scholarships	21,090,340	12,596,908
Sponsored projects	65,945,044	6,611,509
Capital projects	58,055,377	6,247,298
Debt service	1,101,241	1,648,813
Other	<u>727</u>	<u>727</u>
Total restricted expendable	<u>146,192,002</u>	<u>27,105,255</u>
Unrestricted	<u>(170,611,708)</u>	<u>(139,835,526)</u>
Total net deficit	<u>(24,419,706)</u>	<u>(112,730,271)</u>
TOTAL	<u><u>\$ 316,872,908</u></u>	<u><u>\$ 243,711,724</u></u>
See notes to financial statements.		(Concluded)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Fees from higher education institutions	\$ 4,128,975	\$ 3,938,002
Institutional collections	412,942	523,585
Contracts and grants:		
Federal	1,640,573	1,875,843
State	943,876	757,304
Sales and services of educational activities	3,125,573	3,266,635
Miscellaneous — net	<u>99,666</u>	<u>99,666</u>
Total operating revenues	<u>10,351,605</u>	<u>10,461,035</u>
OPERATING EXPENSES:		
Salaries and wages	5,387,869	5,215,604
Benefits	1,527,218	1,172,444
Supplies and other services	4,057,265	4,690,873
Utilities	110,489	104,296
Depreciation	<u>323,374</u>	<u>729,854</u>
Total operating expenses	<u>11,406,215</u>	<u>11,913,071</u>
OPERATING LOSS	<u>(1,054,610)</u>	<u>(1,452,036)</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 127,450,880	\$ 46,091,816
Payments on behalf of the Commission	155,066	
Investment income	3,551,245	5,184,145
Institutional debt service payments from institutions:		
Interest	5,830,009	6,472,295
Other	2,826,691	2,825,077
Interest on indebtedness	(16,937,484)	(17,513,363)
Student financial aid and other payments to institutions	(40,575,431)	(35,381,018)
Net loss on sale of equipment	(41,746)	(135,772)
Other nonoperating revenues (expenses) — net	<u>65,131</u>	<u>(359,187)</u>
Net nonoperating revenues	<u>82,324,361</u>	<u>7,183,993</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS	81,269,751	5,731,957
CAPITAL APPROPRIATIONS	30,000,000	
NET TRANSFER OF LIABILITIES TO INSTITUTIONS		1,100,000
TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	<u>(23,594,896)</u>	<u>(74,099,966)</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE CUMULATIVE EFFECT	87,674,855	(67,268,009)
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	<u>635,710</u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	88,310,565	(67,268,009)
NET DEFICIT — Beginning of year	<u>(112,730,271)</u>	<u>(45,462,262)</u>
NET DEFICIT — End of year	<u>\$ (24,419,706)</u>	<u>\$ (112,730,271)</u>

See notes to financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Fees and reimbursements from higher education institutions	\$ 4,317,289	\$ 3,740,614
Institutional collections	28,871	1,044,653
Contracts and grants	2,584,449	2,633,147
Payments to and on behalf of employees	(6,675,881)	(6,424,689)
Payments to suppliers	(4,410,897)	(5,078,635)
Payments to utilities	(110,489)	(104,296)
Sales and service of educational activities	2,916,501	3,647,079
Other	<u>99,666</u>	<u>99,666</u>
Net cash used in operating activities	<u>(1,250,491)</u>	<u>(442,461)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	147,187,600	48,616,423
Receipts for fiduciary governmental entities	59,792,214	42,494,986
Disbursements to fiduciary governmental entities	(56,640,848)	(41,907,156)
Payments to institutions	<u>(45,838,040)</u>	<u>(34,694,810)</u>
Net cash provided by noncapital financing activities	<u>104,500,926</u>	<u>14,509,443</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from bond issuance		26,078,820
Payment of bond issuance costs		(183,097)
Institutional receipts for debt service	18,730,995	18,849,104
Purchases of capital assets	(697,164)	(578,084)
Proceeds from sale of equipment		3,400
Principal paid on bonds	(14,815,000)	(14,165,000)
Payments for defeasance		(25,895,723)
Interest paid on bonds	(13,365,126)	(14,480,684)
Principal paid on leases	(6,510)	(18,371)
Interest paid on leases	(78)	(1,405)
Transfers to institutions and outside entities	(23,594,896)	(74,099,966)
Capital loans to institutions		(500,000)
Capital loan repayments from institutions	340,000	504,000
(Increase) decrease in noncurrent cash and cash equivalents	<u>(36,552,668)</u>	<u>1,060,450</u>
Net cash used in capital financing activities	<u>(69,960,447)</u>	<u>(83,426,556)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from investment income	4,874,372	5,283,953
Receipts from sales of investments	<u>27,691,468</u>	<u>70,568,951</u>
Net cash provided by investing activities	<u>32,565,840</u>	<u>75,852,904</u>
INCREASE IN CASH AND CASH EQUIVALENTS	65,855,828	6,493,330
CASH AND CASH EQUIVALENTS — Beginning of year	<u>22,136,724</u>	<u>15,643,394</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 87,992,552</u>	<u>\$ 22,136,724</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(1,054,610)	\$(1,452,036)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	323,374	729,854
Payments on behalf of the Commission	155,066	
Changes in assets and liabilities:		
Accounts receivables — net	(348,822)	123,680
Prepaid expenses	(46,935)	
Accounts payable	(167,923)	(75,472)
Accrued liabilities	93,416	338
Compensated absences	84,140	(36,641)
Deferred revenue	<u>(288,197)</u>	<u>267,816</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(1,250,491)</u>	<u>\$ (442,461)</u>
NONCASH TRANSACTIONS:		
Transfer of liabilities to Institutions	<u>\$ -</u>	<u>\$ 1,100,000</u>
Cumulative effect of adoption of accounting principle	<u>\$ 635,710</u>	<u>\$ -</u>
See notes to financial statements.		(Concluded)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. ORGANIZATION

On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 (“S.B. 653”), which restructured public higher education in West Virginia.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the Board of the West Virginia Higher Education Fund that encompassed all West Virginia public higher education prior to Senate Bill No. 448 (“S.B. 448”)), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. The West Virginia Higher Education Policy Commission (the “Commission”) consists of two parts. One part is the administrative functions of the Commission. The second part is a separate division which includes the accounts of West Virginia Network for Educational Telecommuting (“WVNET”). Oversight of WVNET lies with the Commission. WVNET was originally created in 1975 to provide central computing facilities and wide-area network communications services as a resource for the public colleges and universities in the State of West Virginia.

Each Institutional Governing Board (all institutions, the Commission, and the West Virginia Council for Community and Technical College Education (the “Council”) comprise the West Virginia Higher Education Fund) has certain powers and duties including, but not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the institution(s) under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and institution’s budget request; the duty to review, at least every five years, all academic programs offered at the institution; and the power to fix tuition and other fees for the different classes or categories of students enrolled at the institution(s).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Commission 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 Commission’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

The Commission 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 financial statements.

Reporting Entity — The Commission is a statutory entity and an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The Commission is a separate entity which, along with all State institutions of higher education and the Council, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the direct authority of the Commission. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the Commission’s ability to significantly influence operations and accountability for fiscal matters of related entities.

Financial Statement Presentation — GASB Statement No. 35, as amended by GASB Statements No. 37, *Basic Financial Statements and Management’s Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the Commission as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Commission obligations. The Commission’s net assets are classified as follows:

- *Invested in capital assets — net of related debt* — This represents the Commission’s total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to capital assets, including those on individual institutions’ financial statements. 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 Commission 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 (the “Code”). House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the related institutions. These restrictions are subject to change by future actions of the West Virginia Legislature. The Commission does not have any such Code-restricted net assets at June 30, 2008 and 2007.

- *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. There were no nonexpendable net assets as of June 30, 2008 and 2007.
- *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 Commission, and may be used at the discretion of the Commission to meet current expenses for any purpose.

Basis of Accounting — For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities. Accordingly, the Commission’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 expenses when materials or services are received. All interdivision accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the statements of net assets, the Commission 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, provisions of bond indentures, and the 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 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 or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of seven investment pools and participant-directed accounts, three of which the Commission may invest in. 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.wvbt.com>.

Investments — GASB Statement No. 31 requires the Commission to record certain investment balances at fair value. The Commission’s investments are on deposit with the Municipal Bond Commission or with external financial institutions. These funds primarily represent unexpended proceeds of bond issuances and are restricted to expenditures for capital improvements and bond-related costs and debt service reserve funds. These funds are classified as noncurrent due to the restrictions on expenditure or requirement to provide debt service reserve funds. Amounts for restricted expenditures are available for immediate withdrawal.

The alternative investments are carried at fair value as of June 30, 2008 and 2007. These valuations include assumptions and methods that were reviewed by Fund management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The alternative investments have a readily determinable market value. The Fund believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2008 and 2007.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; 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 the State to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the legislature.

Allowance For Doubtful Accounts — It is the Commission’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 Commission on such balances; and such other factors which, in the Commission’s judgment, require consideration in estimating doubtful accounts.

Noncurrent Cash and Cash Equivalents — Cash and cash equivalents that are (1) externally restricted to make debt service payments or to maintain sinking or reserve funds and (2) to purchase capital or other noncurrent assets are classified as a noncurrent asset in the statements of net assets.

Other Assets — Other assets include bond issuance costs that are amortized over the life of the related bonds.

Capital Assets — Capital assets include furniture and equipment. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 10 years for furniture and equipment. The financial statements reflect all adjustments required by GASB No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*.

Deferred Revenue — Cash received for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue.

Compensated Absences and Other Post Employment Benefits — The Commission accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Effective July 1, 2007, the Commission adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (“OPEB”) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for other post employment benefits for the State of West Virginia. Effective July 1, 2007, the Commission was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (“PEIA”), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

These statements require 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 Commission’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 extends health insurance for one month of single coverage and three days

extends health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire. This liability is now provided for under the multiple cost-sharing plan approved by the State.

For the year ended June 30, 2007, 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 Commission 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 Commission for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense on the statements of revenues, expenses, and changes in net assets.

Deferred Interest Payable — Interest on capital accretion bonds is recognized over the life of the related bonds on the interest method.

Bonds — Bond premiums or discounts are amortized over the life of the related bonds.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property, and casualty coverage to the Commission and its employees. Such coverage may be provided to the Commission 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 Commission or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between premiums the Commission is currently charged by BRIM and the ultimate cost of that insurance based on the Commission's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Commission and the Commission'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 Commission has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums PEIA and the third-party insurer, the Commission has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The Commission 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) fees from higher education institutions; (2) most federal, state, local, and nongovernmental grants and contracts; and (3) federal appropriations for land grant institutions.

- *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 No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB No. 34, such as state and federal appropriations and investment income.
- *Other revenues* — Other revenues consist primarily of capital appropriations, grants, and gifts.

Use of Restricted Net Assets — The Commission 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 Commission attempts to utilize restricted funds first when practical.

Institutional Collections — Institutional collections represent revenues earned from colleges and universities throughout the State for the use of central site (WVNET) computing services.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Commission 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.

Interest Expense — The Commission accounts for interest on debt as an expense of the period in which it is incurred.

Income Taxes — The Commission 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 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 expenses during the reporting period. Actual results could differ from those estimates.

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

Recent Statements Issued by the GASB — 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 Commission 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. 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 Commission has not yet determined the effect that the adoption of GASB No. 51 may have on the financial statements.

The GASB has issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair values to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. The Commission has not yet determined the effect that the adoption of GASB Statement No. 52 may have on its financial statements.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The Commission has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2008 and 2007, was held as follows:

2008	Current	Noncurrent	Total
State Treasurer	\$86,949,037	\$44,128,324	\$131,077,361
Municipal Bond Commission	1,040,343		1,040,343
Trustee	<u>3,172</u>	<u> </u>	<u>3,172</u>
	<u>\$87,992,552</u>	<u>\$44,128,324</u>	<u>\$132,120,876</u>
2007	Current	Noncurrent	Total
State Treasurer	\$21,272,084	\$7,575,656	\$28,847,740
Municipal Bond Commission	861,467		861,467
Trustee	<u>3,173</u>	<u> </u>	<u>3,173</u>
	<u>\$22,136,724</u>	<u>\$7,575,656</u>	<u>\$29,712,380</u>

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2008 and 2007, are 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. Of the BTI's Consolidated Fund pools and accounts which the Commission may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield Pool).

WV Money Market (Formerly Cash Liquidity Pool)

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2008, the WV Money Market Pool has been rated AAAM by Standard & Poor's. A Fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market 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.

At June 30, 2008, the WV Money Market Pool investments had a total carrying value of \$2,358,470,000, of which the Commission's ownership represents 3.20%.

The following table provides information on the credit ratings of the WV Money Market Pool's investments (in thousands) at June 30, 2007:

Security Type	Credit Rating *		2007	
	Moody's	S&P	Carrying Value	Percent of Pool Assets
Investments:				
Commercial paper	P1	A-1	<u>\$1,015,926</u>	<u>48.89 %</u>
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	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	<u>77,023</u>	<u>3.71</u>
			<u>261,025</u>	<u>12.56</u>
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Deposits —				
nonnegotiable certificates of deposit	NR	NR	<u>50,000</u>	<u>2.41</u>
			<u>\$2,077,831</u>	<u>100.00 %</u>

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

At June 30, 2007, the Commission's ownership was 1.16% of these amounts held by the BTI.

WV Government Money Market Pool (formerly Government Money Market Pool)

Credit Risk — For the year ended June 30, 2008, the WV Government Market Pool has been rated AAAM by Standard & Poor's. A Fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV 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.

At June 30, 2008, the WV Government Money Market Pool investments had a total carrying value of \$187,064,000, of which the Commission's ownership represents 0.38%.

The following table provides information on the credit ratings of the WV Government Money Market Pool's investments (in thousands) at June 30, 2007:

Security Type	Credit Rating		2007	
	Moody's	S&P	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	\$ 67,620	29.46 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	<u>51,400</u>	<u>22.39</u>
			<u>51,400</u>	<u>22.39</u>
			<u>\$ 229,551</u>	<u>100.00 %</u>

At June 30, 2007, the Commission's ownership was 0.39% of these amounts held by the BTI.

WV Short Term Bond Pool (formerly Enhanced Yield Pool)

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A (A- in 2007) 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 WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating*		2008		2007	
	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 %
	Aaa	AAA	48,663	13.75		
	Aaa	NR	2,179	0.62		
	NR	AAA	1,135	0.32		
	AA3	AA	192	0.06		
			<u>52,169</u>	<u>14.75</u>	<u>42,122</u>	<u>18.40</u>
Commercial paper	P1	A-1	7,971	2.25		
Corporate bonds and notes	Aaa	AAA	13,146	3.72	1,667	0.73
	Aa1	AA	12,613	3.56	6,431	2.81
	Aa2	AA	20,860	5.89	950	0.41
	Aa2	A	1,061	0.30	2,177	0.95
	Aa3	AA	11,488	3.25	7,857	3.43
	Aa3	A	4,548	1.28	3,905	1.70
	A1	AA	4,305	1.22	3,034	1.32
	A1	A	8,361	2.36	10,706	4.68
	A2	AA	847	0.24	747	0.33
	A2	A	26,585	7.51	8,188	3.58
	A3	A	10,917	3.08	6,958	3.04
	Baa1	AA-	593	0.17		
	Baa1	A-	2,028	0.57		
	Baa3	BB+	645	0.18		
			<u>117,977</u>	<u>33.33</u>	<u>52,620</u>	<u>22.98</u>
U.S. agency bonds	Aaa	AAA	71,840	20.29	46,075	20.13
U.S. Treasury notes**	Aaa	AAA	81,875	23.13	55,877	24.41
U.S. agency mortgage backed securities***	Aaa	AAA	5,345	1.51	11,741	5.13
Repurchase agreements (underlying securities):						
U.S. agency notes	Aaa	AAA	<u>16,782</u>	<u>4.74</u>	<u>20,485</u>	<u>8.95</u>
			<u>\$ 353,979</u>	<u>100 %</u>	<u>\$ 228,920</u>	<u>100 %</u>

*NR = Not Rated

**U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

***U.S. agency mortgage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2008 and 2007, the Commission's ownership represents 1.78% and 0.61%, 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 WV 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 WV Money Market Pool:

Security Type	2008		2007	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 371,163	1	\$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	<u>150,058</u>	1	<u>185</u>	1
	<u>\$2,358,470</u>	40	<u>\$2,077,831</u>	48

The overall weighted average maturity of the investments of the WV 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 WV Government Money Market Pool:

Security Type	2008		2007	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 53,400	1	\$ 51,400	2
U.S. Treasury bills	29,929	58	36,379	29
U.S. agency discount notes	43,249	77	74,143	106
U.S. agency bonds/notes	60,420	84	67,620	60
Money market funds	<u>66</u>	1	<u>9</u>	1
	<u>\$ 187,064</u>	54	<u>\$ 229,551</u>	49

The overall weighted average maturity of the investments of the WV Short Term Bond 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 WV Short Term Bond Pool:

Security Type	2008		2007	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 16,782	1	\$ 20,485	2
U.S. Treasury bonds/notes	81,875	744	55,877	1,092
Corporate notes	117,997	675	52,620	557
Corporate asset backed securities	52,169	341	42,122	421
U.S. agency bonds/notes	71,840	1,231	46,075	927
U.S. agency mortgage backed securities	5,345	570	11,741	814
Commercial paper	<u>7,971</u>	50	<u> </u>	
	<u>\$ 353,979</u>	707	<u>\$ 228,920</u>	700

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 or 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. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

4. INVESTMENTS

The composition of investments at June 30, 2008 and 2007, was as follows:

	2008	2007
Alternative investments (with a readily determinable market value):		
Guaranteed Investment Contracts	\$ 11,461,946	\$ 38,436,129
U.S. Government short-term investments	<u>454,013</u>	<u>1,171,298</u>
	<u>\$ 11,915,959</u>	<u>\$ 39,607,427</u>

Investments with FSA Capital Management Services LLC, a subsidiary of FSA Incorporated, have a rating of AAA by Standard and Poor's and Aaa by Moody's. HEPC has unsecured FSA Guaranteed Investment Contracts ("GIC") with a fixed rate of interest of 2.83%. The fair value of these investments is \$11,461,946 and \$38,436,129 at June 30, 2008 and 2007, respectively, and is restricted by the bond indenture. The interest risk is minimized by the maturity date being through May 5, 2009. This fund is not exposed to any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007, were as follows:

	2008	2007
Student loan receivables — net of allowance for doubtful accounts of \$1,404,303 and \$1,558,839	\$ 370,168	\$ 523,013
Grants and contracts receivable	101,464	27,765
Due from higher education institutions	741,835	486,080
Other accounts receivable	<u>472,579</u>	<u>295,849</u>
	<u>\$ 1,686,046</u>	<u>\$ 1,332,707</u>

6. CAPITAL ASSETS

A summary of capital asset activity for the Commission for the years ended June 30, 2008 and 2007, is as follows:

	2008			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated —				
Land	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other capital assets:				
Buildings	\$ -	\$ -	\$ -	\$ -
Software		109,000		109,000
Equipment	9,246,430	588,164	(273,959)	9,560,635
Leased equipment	<u>59,209</u>	<u> </u>	<u>(59,209)</u>	<u>-</u>
Total other capital assets	<u>9,305,639</u>	<u>697,164</u>	<u>(333,168)</u>	<u>9,669,635</u>
Less accumulated depreciation for:				
Buildings				
Software		3,028		3,028
Equipment	8,299,961	316,893	(254,195)	8,362,659
Leased equipment	<u>33,774</u>	<u>3,453</u>	<u>(37,227)</u>	<u>-</u>
Total accumulated depreciation	<u>8,333,735</u>	<u>323,374</u>	<u>(291,422)</u>	<u>8,365,687</u>
Other capital assets — net	<u>\$ 971,904</u>	<u>\$ 373,790</u>	<u>\$ (41,746)</u>	<u>\$ 1,303,948</u>
Capital asset summary:				
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets	<u>9,305,639</u>	<u>697,164</u>	<u>(333,168)</u>	<u>9,669,635</u>
Total cost of capital assets	9,305,639	697,164	(333,168)	9,669,635
Less accumulated depreciation	<u>8,333,735</u>	<u>323,374</u>	<u>(291,422)</u>	<u>8,365,687</u>
Capital assets — net	<u>\$ 971,904</u>	<u>\$ 373,790</u>	<u>\$ (41,746)</u>	<u>\$ 1,303,948</u>

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated —				
Land	\$ -	\$ -	\$ -	\$ -
Total capital assets not being depreciated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other capital assets:				
Buildings	\$ -	\$ -	\$ -	\$ -
Equipment	9,693,958	578,084	(1,025,612)	9,246,430
Leased equipment	<u>59,209</u>	<u></u>	<u></u>	<u>59,209</u>
Total other capital assets	<u>9,753,167</u>	<u>578,084</u>	<u>(1,025,612)</u>	<u>9,305,639</u>
Less accumulated depreciation for:				
Buildings				
Equipment	8,468,389	718,012	(886,440)	8,299,961
Leased equipment	<u>21,932</u>	<u>11,842</u>	<u></u>	<u>33,774</u>
Total accumulated depreciation	<u>8,490,321</u>	<u>729,854</u>	<u>(886,440)</u>	<u>8,333,735</u>
Other capital assets — net	<u>\$ 1,262,846</u>	<u>\$ (151,770)</u>	<u>\$ (139,172)</u>	<u>\$ 971,904</u>
Capital asset summary:				
Capital assets not being depreciated	\$ -	\$ -	\$ -	\$ -
Other capital assets	<u>9,753,167</u>	<u>578,084</u>	<u>(1,025,612)</u>	<u>9,305,639</u>
Total cost of capital assets	9,753,167	578,084	(1,025,612)	9,305,639
Less accumulated depreciation	<u>8,490,321</u>	<u>729,854</u>	<u>(886,440)</u>	<u>8,333,735</u>
Capital assets — net	<u>\$ 1,262,846</u>	<u>\$ (151,770)</u>	<u>\$ (139,172)</u>	<u>\$ 971,904</u>

Title to certain real property at the institutions is held by the Commission by virtue of legislative assignment from prior systemwide governing boards. Title can be transferred from the Commission to the Institutional Governing Boards upon mutual agreement. Regardless of title, all real property at the institution is recorded in the institution's financial statements.

7. LONG-TERM LIABILITIES

A summary of long-term obligation activity for the Commission for the years ended June 30, 2008 and 2007, is as follows:

2008	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 322,292,248	\$ -	\$ (15,574,020)	\$ 306,718,228	\$15,425,000
Capital lease obligation	6,510		(6,510)	-	
Other long-term liabilities:					
Accrued compensated absences	1,239,737		(551,570)	688,167	473,706
Deferred interest payable	19,002,600	3,423,096		22,425,696	
Other post employment benefit liability		67,570		67,570	
Total long-term liabilities	<u>\$ 342,541,095</u>	<u>\$ 3,490,666</u>	<u>\$ (16,132,100)</u>	<u>\$ 329,899,661</u>	
2007	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 335,946,305	\$26,078,820	\$ (39,732,877)	\$ 322,292,248	\$14,815,000
Capital lease obligation	24,881		(18,371)	6,510	6,510
Other long-term liabilities:					
Accrued compensated absences	1,276,378		(36,641)	1,239,737	454,891
Deferred interest payable	15,778,052	3,224,548		19,002,600	
Total long-term liabilities	<u>\$ 353,025,616</u>	<u>\$29,303,368</u>	<u>\$ (39,787,889)</u>	<u>\$ 342,541,095</u>	

8. BONDS PAYABLE

The State chartered the former University System of West Virginia and the former State College System of West Virginia with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's higher education institutions. Financing for these facilities was provided through revenue bonds issued by the former State Board of Regents, the former College and University System Boards, the Interim Governing Board, or the Commission. All bonds payable are administered by the Commission, as successor to the various former governing boards.

The Commission has the authority to assess each institution of the West Virginia Higher Education 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 Commission's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain an obligation of the Commission.

On April 17, 2007, the 2007 Series A Bonds were issued 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 (\$7,855,000), 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.

On April, 1, 2008, \$9,990,000 of defeased Series A 1997 University System bonds and \$7,855,000 of defeased Series A College System bonds were called and paid in full. There are \$6,970,000 of Series A 2000 University System bonds that will be called and paid April 1, 2010.

Bonds payable at June 30, 2008 and 2007, consisted of the following:

	Maximum Interest Rate	Original Range of Annual Principal Installment Due	Principal Amount Outstanding	
			2008	2007
2007 Series A Revenue Refunding Bonds, due through 2027	5.00 %	\$ 185,000 to \$1,880,000	\$ 25,730,000	\$ 25,915,000
2004 Series B Higher Ed Facilities Bonds, due through 2034	6.00	2,680,000 to 9,520,000	151,720,000	155,335,000
2003 Series A College Facilities Bonds, due through 2012	5.00	2,325,000 to 2,690,000	9,025,000	11,440,000
2003 Series A University Facilities Bonds, due through 2012	5.00	5,740,000 to 7,875,000	29,320,000	35,840,000
Series 1997 University System Bonds, due through 2008	5.25	255,000 to 795,000		310,000
Series 1998 University System Bonds, due through 2028	5.25	1,065,000 to 3,625,000	46,265,000	47,540,000
Series 2000A University System Bonds, due through 2031	6.26	Zero to 3,263,864	36,590,868	36,590,868
Series 2000B University System Bonds, due through 2010	5.96	210,000 to 625,000	555,000	810,000
Series 1997 College System Bonds, due through 2008	5.25	200,000 to 625,000		240,000
			299,205,868	314,020,868
Add bond premium			7,512,360	8,271,380
			<u>\$ 306,718,228</u>	<u>\$ 322,292,248</u>

A summary of the annual aggregate payments for years subsequent to June 30, 2008, is as follows:

Years Ending June 30	Principal	Interest	Total
2009	\$ 15,425,000	\$ 12,867,560	\$ 28,292,560
2010	16,070,000	12,182,313	28,252,313
2011	16,780,000	11,455,813	28,235,813
2012	15,985,000	10,682,563	26,667,563
2013	10,473,864	13,435,174	23,909,038
2014–2018	52,785,916	64,389,797	117,175,713
2019–2023	55,610,364	57,994,274	113,604,638
2024–2028	62,075,564	48,090,411	110,165,975
2029–2033	44,480,160	25,909,590	70,389,750
2034–2034	9,520,000	476,000	9,996,000
Total	<u>\$ 299,205,868</u>	<u>\$ 257,483,495</u>	<u>\$ 556,689,363</u>

The higher education institutions' tuition, registration, and other specified fees generally are pledged as collateral for the Commission's bond indebtedness, as well as any monies held by the trustees.

9. CAPITAL LEASE

Capital lease obligation at June 30, 2008 and 2007, consisted of the following:

	Interest Rate	Principal Amount Outstanding	
		2008	2007
Document Solutions, Xerox copiers and printers	9.25–12.50%	\$ -	\$ 6,510

10. COMPENSATED ABSENCES LIABILITY AND OTHER POST EMPLOYMENT BENEFITS

The composition of the compensated absences liability at June 30, 2008 and 2007, was as follows:

	2008	2007
Health and life insurance	\$ -	\$ 635,710
Accrued vacation liability	<u>688,167</u>	<u>604,027</u>
	<u>\$ 688,167</u>	<u>\$ 1,239,737</u>

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by the Commission is based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by the Commission for extended health or life insurance coverage retirement benefits totaled \$31,712. As of June 30, 2007, there were eight retirees, currently receiving these benefits.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was \$67,570. For the year ended June 30, 2008, the Commission recorded a cumulative effect of the adoption of this accounting principle of \$635,710, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$438,008 and \$215,372, respectively, during 2008. As of June 30, 2008, there were nine retirees receiving these benefits.

11. UNRESTRICTED NET ASSETS

The Commission did not have any designated unrestricted net assets as of June 30, 2008 or 2007.

12. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the new Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

Total contributions to the Educators Money for the year ended June 30, 2008, were \$5,034, which consisted of \$2,517 from the Commission and \$2,517 from covered employees. Total contributions to the Educators Money for the year ended June 30, 2007, were \$9,820, which consisted of \$4,910 from the Commission and \$4,910 from covered employees. Total contributions to the Educators Money for the year ended June 30, 2006, were \$11,888, which consisted of \$5,944 from the Commission and \$5,944 from covered employees.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Commission accrued and paid its contribution to the STRS at a rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2008 and 2007. Required employee contributions were at the rate of 6% of total annual salary in both 2008 and 2007. 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 year ended June 30, 2008, were \$65,218, which consisted of \$46,584 from the Commission and \$18,634 from covered employees. Total contributions to the STRS for the year ended June 30, 2007, were \$70,838, which consisted of \$50,598 from the Commission and \$20,240 from covered employees. Total contributions to the STRS for the year ended June 30, 2006, were \$68,669, which consisted of \$49,050 from the Commission and \$19,619 from covered employees.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the Commission. 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 and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in these plans are required to make a contribution equal to 6% of total annual compensation. The Commission matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF and Educators Money, which are not matched by the Commission.

Total contributions to the TIAA-CREF for the year ended June 30, 2008, were \$595,590, which consisted of \$297,795 from the Commission and \$297,795 from covered employees. Total contributions to the TIAA-CREF for the year ended June 30, 2007, were \$562,614, which consisted of \$281,307 from the Commission and \$281,307 from covered employees. Total contributions to the TIAA-CREF for the year ended June 30, 2006, were \$573,524, which consisted of \$286,762 from the Commission and \$286,762 from covered employees.

The Commission's total payroll for the years ended June 30, 2008 and 2007, was \$5,403,747 and \$5,165,841, respectively. Total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were \$310,562, \$4,983,086, and \$41,953 and \$95,979, \$4,701,759, and \$81,827, respectively, in 2008 and 2007, respectively.

13. OPERATING LEASES

Future annual minimum scheduled lease payments on operating leases for years subsequent to June 30, 2008, are as follows:

Years Ending June 30	
2009	\$ 392,246
2010	135,025
2011	<u>1,877</u>
Total	<u>\$ 529,148</u>

Total rent expense for the years ended June 30, 2008 and 2007, was \$376,517 and \$377,188, respectively. The Commission has no noncancelable leases.

The primary operations of WVNET are conducted at property located on Chestnut Ridge Road in Morgantown. This property is owned or titled by other units of the West Virginia Higher Education Fund and WVNET is not charged any rent for the use of the property. WVNET is responsible for all physical plant services, utilities, renovations, insurance, and other operating costs for this property. These operating costs are recorded in the Commission’s statement of revenues, expenses, and changes in net assets.

14. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2008 or 2007.

WVNET occupies a building that is known to contain asbestos. WVNET is not required by federal, state, or local law to remove the asbestos from the building. WVNET is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in the building in a safe condition. WVNET addresses its responsibility to manage the presence of asbestos in the building. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. WVNET 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 operation with the asbestos in a safe condition.

15. REIMBURSED EXPENDITURES

The Commission, through WVNET, acts as a purchasing agent for the public higher education institutions of the State and other state agencies to obtain bulk-pricing discounts for maintenance and equipment purchases. In addition, the Commission, through WVNET, provides purchasing services regarding computer equipment purchases. In fiscal years 2008 and 2007, approximately \$3,700,000 and \$2,600,000, respectively, was reimbursed by the schools and other state agencies to WVNET. The Commission treats these items as reimbursed expenditures so as not to distort total revenues and expenditures.

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2008 and 2007, the following table represents operating expenses within both natural and functional classifications:

2008	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
General institutional support Administration, operations, and maintenance of plant	\$ 5,387,869	\$ 1,527,218	\$ 4,057,265	\$ -	\$ -	\$ 10,972,352
				110,489		110,489
Depreciation					323,374	323,374
Total	<u>\$ 5,387,869</u>	<u>\$ 1,527,218</u>	<u>\$ 4,057,265</u>	<u>\$ 110,489</u>	<u>\$ 323,374</u>	<u>\$ 11,406,215</u>

2007	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
General institutional support Administration, operations, and maintenance of plant	\$ 5,215,604	\$ 1,172,444	\$ 4,690,873	\$ -	\$ -	\$ 11,078,921
				104,296		104,296
Depreciation					729,854	729,854
Total	<u>\$ 5,215,604</u>	<u>\$ 1,172,444</u>	<u>\$ 4,690,873</u>	<u>\$ 104,296</u>	<u>\$ 729,854</u>	<u>\$ 11,913,071</u>

* * * * *

ADDITIONAL INFORMATION

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE — STATEMENT OF NET ASSETS INFORMATION AS OF JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)

ASSETS	2008			Combined	2007
	HEPC Division	WVNET Division	Eliminations		Total
CURRENT ASSETS:					
Cash and cash equivalents	\$ 84,355,252	\$ 3,637,300	\$ -	\$ 87,992,552	\$ 22,136,724
Appropriations due from Primary Government	13,357,797			13,357,797	3,094,517
Accounts receivable — net	770,948	918,508	(3,410) (A)	1,686,046	1,332,707
Interest receivable	558,746	6,064		564,810	1,887,937
Prepaid expense		46,935		46,935	
Receivable from institutions — current portion	<u>10,685,996</u>	<u> </u>	<u> </u>	<u>10,685,996</u>	<u>10,414,295</u>
Total current assets	<u>109,728,739</u>	<u>4,608,807</u>	<u>(3,410)</u>	<u>114,334,136</u>	<u>38,866,180</u>
NONCURRENT ASSETS:					
Cash and cash equivalents	44,128,324			44,128,324	7,575,656
Investments	11,915,959			11,915,959	39,607,427
Receivable from institutions	136,646,931			136,646,931	147,332,927
Other assets	8,543,610			8,543,610	9,357,630
Capital assets — net	<u>286,604</u>	<u>1,017,344</u>	<u> </u>	<u>1,303,948</u>	<u>971,904</u>
Total noncurrent assets	<u>201,521,428</u>	<u>1,017,344</u>	<u>-</u>	<u>202,538,772</u>	<u>204,845,544</u>
TOTAL	<u>\$ 311,250,167</u>	<u>\$ 5,626,151</u>	<u>\$ (3,410)</u>	<u>\$ 316,872,908</u>	<u>\$ 243,711,724</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE — STATEMENT OF NET ASSETS INFORMATION AS OF JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)

	2008			2007	
	HEPC Division	WVNET Division	Eliminations	Combined	Total
LIABILITIES					
CURRENT LIABILITIES:					
Accounts payable	\$ 245,927	\$ 380,423	\$ -	\$ 626,350	\$ 794,273
Amounts due to institutions	2,571,693		(3,410) (A)	2,568,283	7,946,506
Accrued liabilities	111,151			111,151	85,305
Deposits	4,540,810			4,540,810	1,389,444
Deferred revenue		18,597		18,597	306,794
Compensated absences — current portion	244,492	229,214		473,706	454,891
Interest payable	3,527,762			3,527,762	3,378,578
Bonds payable — current portion	15,425,000			15,425,000	14,815,000
Capital lease obligation — current portion				-	6,510
Total current liabilities	<u>26,666,835</u>	<u>628,234</u>	<u>(3,410)</u>	<u>27,291,659</u>	<u>29,177,301</u>
NONCURRENT LIABILITIES:					
Compensated absences	135,244	79,217		214,461	784,846
Deferred interest payable	22,425,696			22,425,696	19,002,600
OPEB liabilities	45,466	22,104		67,570	
Bonds payable	291,293,228			291,293,228	307,477,248
Total noncurrent liabilities	<u>313,899,634</u>	<u>101,321</u>	<u>-</u>	<u>314,000,955</u>	<u>327,264,694</u>
Total liabilities	<u>340,566,469</u>	<u>729,555</u>	<u>(3,410)</u>	<u>341,292,614</u>	<u>356,441,995</u>
NET ASSETS (DEFICIT):					
Invested in capital assets	(161,064,824)	1,017,344	160,047,480	(B) -	-
Restricted for — Expendable:					
Scholarships	21,090,340			21,090,340	12,596,908
Sponsored projects	65,945,044			65,945,044	6,611,509
Capital projects	58,055,377			58,055,377	6,247,298
Debt service	1,101,241			1,101,241	1,648,813
Other				-	727
Total restricted expendable	<u>146,192,002</u>	<u>-</u>	<u>-</u>	<u>146,192,002</u>	<u>27,105,255</u>
Unrestricted	(14,443,480)	3,879,252	(160,047,480)	(B) (170,611,708)	(139,835,526)
Total net assets (deficit)	<u>(29,316,302)</u>	<u>4,896,596</u>	<u>-</u>	<u>(24,419,706)</u>	<u>(112,730,271)</u>
TOTAL	<u>\$ 311,250,167</u>	<u>\$5,626,151</u>	<u>\$ (3,410)</u>	<u>\$316,872,908</u>	<u>\$ 243,711,724</u>

(A) To eliminate interdivision receivables/payables.

(B) To reclass negative net assets invested in capital assets net of related debt to unrestricted net assets (deficit).

(Concluded)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE — STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)

	2008				2007
	HEPC Division	WVNET Division	Eliminations	Combined	Total
OPERATING REVENUES:					
Fees from higher education institutions	\$4,128,975	\$ -	\$ -	\$ 4,128,975	\$ 3,938,002
Institutional collections		612,942	(200,000) (C)	412,942	523,585
Contracts and grants:					
Federal	1,640,573			1,640,573	1,875,843
State	943,876			943,876	757,304
Sales and services of educational activities		3,204,698	(79,125) (C)	3,125,573	3,266,635
Miscellaneous — net		99,666		99,666	99,666
Total operating revenues	<u>6,713,424</u>	<u>3,917,306</u>	<u>(279,125)</u>	<u>10,351,605</u>	<u>10,461,035</u>
OPERATING EXPENSES:					
Salaries and wages	2,980,075	2,407,794		5,387,869	5,215,604
Benefits	844,041	683,177		1,527,218	1,172,444
Supplies and other services	2,458,101	1,878,289	(279,125) (C)	4,057,265	4,690,873
Utilities		110,489		110,489	104,296
Depreciation	46,696	276,678		323,374	729,854
Total operating expenses	<u>6,328,913</u>	<u>5,356,427</u>	<u>(279,125)</u>	<u>11,406,215</u>	<u>11,913,071</u>
OPERATING INCOME (LOSS)	<u>384,511</u>	<u>(1,439,121)</u>	<u>-</u>	<u>(1,054,610)</u>	<u>(1,452,036)</u>

(C) To eliminate interdivision revenue/expense.

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE — STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (DEFICIT) INFORMATION FOR THE YEAR ENDED JUNE 30, 2008 (WITH COMPARATIVE TOTALS FOR 2007)

	2008			2007 Total	
	HEPC Division	WVNET Division	Eliminations		Combined
NONOPERATING REVENUES (EXPENSES):					
State appropriations	\$ 125,535,872	\$ 1,915,008	\$ -	\$ 127,450,880	\$ 46,091,816
Payments on behalf of the Commission	77,394	77,672		155,066	
Investment income	3,417,659	133,586		3,551,245	5,184,145
Institutional debt service payments from institutions:					
Interest	5,830,009			5,830,009	6,472,295
Other	2,826,691			2,826,691	2,825,077
Interest on indebtedness	(16,937,406)	(78)		(16,937,484)	(17,513,363)
Student financial aid and other payments to institutions	(40,575,431)			(40,575,431)	(35,381,018)
Net loss on sale of equipment		(41,746)		(41,746)	(135,772)
Amortization and accretion					
Other nonoperating (expenses) revenues — net	<u>65,131</u>	<u> </u>	<u> </u>	<u>65,131</u>	<u>(359,187)</u>
Net nonoperating revenues	<u>80,239,919</u>	<u>2,084,442</u>	<u>-</u>	<u>82,324,361</u>	<u>7,183,993</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS	80,624,430	645,321	-	81,269,751	5,731,957
CAPITAL APPROPRIATIONS	30,000,000			30,000,000	
NET TRANSFER OF LIABILITIES TO INSTITUTIONS					1,100,000
TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	<u>(23,594,896)</u>	<u> </u>	<u> </u>	<u>(23,594,896)</u>	<u>(74,099,966)</u>
INCREASE (DECREASE) IN NET ASSETS BEFORE CUMULATIVE EFFECT	87,029,534	645,321	-	87,674,855	(67,268,009)
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	<u>358,185</u>	<u>277,525</u>	<u> </u>	<u>635,710</u>	<u> </u>
INCREASE (DECREASE) IN NET ASSETS	87,387,719	922,846	-	88,310,565	(67,268,009)
NET (DEFICIT) ASSETS — Beginning of year	<u>(116,704,021)</u>	<u>3,973,750</u>	<u> </u>	<u>(112,730,271)</u>	<u>(45,462,262)</u>
NET (DEFICIT) ASSETS — End of year	<u>\$ (29,316,302)</u>	<u>\$ 4,896,596</u>	<u>\$ -</u>	<u>\$ (24,419,706)</u>	<u>\$ (112,730,271)</u>

(Concluded)

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 Policy Commission (the "Commission") as of and for the year ended June 30, 2008, and have issued our report thereon dated February 17, 2009. 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 Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 affect the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

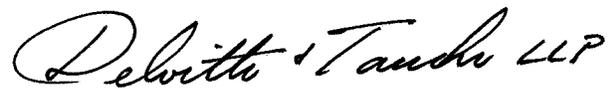
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission'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 Commission, 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.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

February 17, 2009