Eastern West Virginia Community and Technical College

Financial Statements and Additional Information for the Years Ended June 30, 2005 and 2004 and Independent Auditors' Reports

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Eastern West Virginia Community and Technical College:

We have audited the accompanying statements of net assets of Eastern West Virginia Community and Technical College (the "College") as of June 30, 2005 and 2004, 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 College. 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 College at June 30, 2005 and 2004, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis ("MD&A") on pages 2 to 8 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 College'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 23, 2005, on our consideration of the College'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.

Deloitte & Touche LLP

September 23, 2005

Eastern West Virginia Community and Technical College

Management Discussion and Analysis
Fiscal Year 2005

Overview of the Financial Statements and Financial Analysis

The Governmental Accounting Standards Board ("GASB") issued directives for presentation of college and university financial statements which were adopted in Fiscal Year 2002 by Eastern West Virginia Community and Technical College (the "College"). The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of the College.

The following discussion and analysis of the College's financial statements provides an overview of its financial activities during the fiscal years ended June 30, 2005 and June 30, 2004 with the primary focus on 2005. This discussion and analysis is required supplementary information. 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 the assets, liabilities, and net assets of the College as of June 30, 2005 and June 30, 2004. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of the College. 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). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the availability of net assets (assets minus liabilities) for expenditure to continue the operations of the College. They are also able to determine how much the College owes vendors and employees.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the College's equity in equipment and library books owned by the College. 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 (corpus) is not. The College does not currently have nonexpendable restricted net assets since all funds of this nature would generally be directed to The Eastern West Virginia Community and Technical College Foundation, Incorporated. Expendable restricted net assets are available for expenditure by the College but have a specific purpose (i.e. time or purpose restrictions). The final category is unrestricted net assets. Unrestricted assets are available to the College for any lawful purpose of the College.

	June 30, 2005	June 30, 2004	June 30, 2003
Assets:			
Current assets	$939,729	$1,131,430	$1,332,110
Capital assets, net	704,451	919,593	1,034,652
Total Assets	1,644,180	2,051,023	2,366,762
Liabilities			
Current liabilities	433,753	637,119	658,317
Non-current liabilities	97,144	83,277	90,747
Total Liabilities	530,897	720,396	749,064
Net Assets			
Invested in capital assets, net of debt	657,316	887,091	1,034,652
Restricted – expendable	47,474	32,426	211,871
Unrestricted	408,493	411,110	371,175
Total Net Assets	**$1,113,283**	**$1,330,627**	**$1,617,698**

Financial Highlights:

- *Assets*

  Current assets as of June 30, 2005 reflect a decrease of $191,701 as compared to June 30, 2004. Cash decreased by $256,442 due in large part to increased payments to and on behalf of employees, increased payments to suppliers, and a reduction in sales and services of education activities as detailed later in the statement of cash flows section. Current assets as of June 30, 2004 decreased by $200,680 as compared to June 30, 2003 in large part due to a decrease in state grants and contracts which decreased appropriations due from primary government. Non-current assets decreased by $215,142 as of June 30, 2005 in comparison to June 30, 2004 due to investment in assets that have a short useful life, three-year to seven-year schedule in conjunction with minimal purchase of new assets during fiscal year 2005. Non-current assets decreased by $115,059 as of June 30, 2004 compared to June 30, 2003. Principally, the investments in non-current assets were initially in new academic program equipment, furniture and fixtures for student support centers and distance learning classrooms. Additional investments have also been made in equipment, fixtures, furniture and software. However, these additional investments were less than the annual depreciation. As the College matures and begins to acquire buildings and land, capital assets, net will show a more stable balance from year to year in that land does not depreciate and buildings depreciate much more slowly than equipment, furniture and fixtures. At the close of fiscal year 2005 the College was in the programming phase of design for an institution-owned facility that is tentatively scheduled to open in winter 2007.

- *Liabilities*

  Current Liabilities decreased by $203,366 from June 30, 2004 to June 30, 2005, as compared to an decrease of $21,198 from June 30, 2003 to June 30, 2004. Accounts payable decreased by $62,193 and the amount due to the commission decreased by $68,360 as a result of a reduction in operating expenses paid to suppliers and improved billing processes through Commission and its partners, respectively. Deferred revenue decreased by $66,992 from June 30, 2004 to June 30, 2005 due to spending down of grant balances that had been awarded in previous fiscal years.

  Non-current or long-term liabilities represent accrued compensated absences. Included are employees' balances of annual leave which are in excess of one year's annual leave rate, and sick leave for those employees hired before July 1, 2002. The long-term balance increased by $13,867 as of June 30, 2005 in comparison to June 30, 2004 as the College staffs' years of experience increased. Overall, the long-term balance as of June 30, 2004 as compared to June 30, 2003 decreased by $7,470 which reflected a small shift in the experience level of the College's staff for that fiscal year.

- *Net Assets*

  Investment in capital assets reflects a decrease of $229,775 from June 30, 2004 to June 30, 2005 in fixed assets (net of depreciation), as described in the above highlighted Assets Section. Investment in capital assets as of June 30, 2004 compared to June 30, 2003 reflects a decrease of $147,561.

  The increase in restricted net assets of $15,048 is the result of collection of education and general tuition & fees capital fee that is expendable but restricted for capital projects. The decrease in restricted net assets of $179,445 as of June 30, 2004 in comparison to June 30, 2003 is primarily a result of the simplification of tuition and fee restrictions instituted in fiscal 2004 by State code.

  Unrestricted net assets decreased by $2,617 as of June 30, 2005 in comparison to June 30, 2004. Unrestricted net assets increased by $39,935 as of June 30, 2004 compared to June 30, 2003. The increase in 2004 is due to the above mentioned simplification of tuition and fee restrictions and the decrease of appropriations due from primary government as the State funds that were utilized as start up funding for the College were fully depleted during fiscal year 2004.

  In total, net assets as of June 30, 2005 decreased by $217,344 as compared to a decrease of $287,071 as of June 30, 2004.

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 generated and expenses incurred by the College, both operating and non-operating. In addition, any other revenues, expenses, gains or losses are also reflected in this financial statement.

Operating revenues are generated by providing goods and services to the College's customers and constituencies and in the form of federally-funded and state-funded grants. *Operating expenses* are expenses incurred by the College in order to generate operating revenue and to carry out the mission of the College.

Non-operating revenue is revenue received for which goods and services are not provided. For example, state appropriations are nonoperating because they are provided by the West Virginia Legislature to the College without the West Virginia Legislature directly receiving commensurate goods and services for those revenues.

	FY 2005	FY 2004	FY 2003
Operating revenues	$ 662,832	$ 573,307	$859,743
Operating expenses	2,884,752	2,885,293	3,132,622
Operating income (loss)	(2,221,920)	(2,311,986)	(2,272,879)
Non-operating revenues	1,984,516	1,982,848	1,981,513
Capital projects and bond proceeds	20,060	0	0
Donated Equipment	0	42,067	37,150
Decrease in Net Assets	(217,344)	(287,071)	(254,216)
Net Assets—Beginning of Year	1,330,627	1,617,698	1,871,914
Net Assets—End of Year	$ 1,113,283	$ 1,330,627	$ 1,617,698

Financial Highlights:

Operating revenues increased by $89,525 in fiscal year 2005 as compared to fiscal year 2004. Tuition & fee revenue increased by $65,527 as result of increased enrollment and increased fee rates. State grants and contracts increased by $47,878 and private grants and contracts increased by $50,917. Grants and contracts are cyclical by nature and cannot be counted upon for sustained revenue from one year to the next. Sales and services of educational activities decreased by $57,206 due to outsourcing of bookstore operations, however, operating expenses related to the bookstore were reduced by a similar amount. A one-time contribution of $35,000 from Eastern Workforce Opportunity Regional Center occurred in fiscal year 2004. Operating revenues decreased $286,436 in fiscal 2004 as compared to fiscal 2003 which reflects a stabilization of tuition and fee revenue and a decrease in state grants and contracts.

Fiscal Year 2005 operating expenses decreased $541 over the same period in the previous fiscal year, as compared to a $247,029 decrease from fiscal 2003 to fiscal 2004. This decrease in fiscal 2004 is primarily due to a reduction in salaries and wages and benefits as part of a State budget reduction which mandated a 3.4% reduction from personnel services. The decrease in supplies and other services of $103,823 in fiscal year 2005 as compared to fiscal year 2004 occurred as a result of outsourcing the bookstore and moving farther beyond the start-up phase of the institution, with high initial costs, and the gain of efficiencies through operating experience. Salaries & wages and benefits increased by $84,235 and $48,670, respectively, in 2005 due to pay increases, creation of one new position and a shift in staffing that included the hiring of new employees that participate in the college's benefit offerings as compared to the employees they were replacing that had chosen not to participate in the benefit offerings. The decrease in supplies and other services during fiscal year 2004 was a result of maintaining academic program equipment, student support centers and distance learning classrooms during fiscal 2004 as opposed to the start-up costs to fully supply these endeavors which were incurred in fiscal 2003. Depreciation decreased $34,592 in fiscal year 2005 as compared to fiscal year 2004.

Non-operating revenue increased by $1,668 in fiscal year 2005 as compared to fiscal year 2004. This was due to a decrease in state appropriations of $8,741 as compared to the previous year in combination with a $10,409 increase in investment income. Non-operating revenue increased by $1,335 in fiscal 2004 as compared to fiscal 2003. Reflected in the fiscal 2004 increase is $11,375 more in state appropriations as compared to the previous year. However, the total of state appropriations received in FY 2004 was 1.4% less than budgeted due to mid-year State mandated reductions. Investment income in 2004 as compared to 2003 decreased by $10,040. The College participates in the investment pool managed by the state. Through early spring 2001 the interest rate factors were high, the factors dropped in late spring and continued through 2004 with a recovery in 2005.

Other revenues decreased by $22,007 in fiscal year 2005 as the College only received $20,060 from the Commission in fiscal year 2005 as compared to a one-time contribution of donated equipment of $42,067 in 2004.

Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five sections.

The ***first section*** reflects cash in-flows/out-flows generated from operating activities. The ***second section*** reflects cash flows from non-capital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financing purposes. The ***third section*** deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The ***fourth section*** reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The ***fifth section*** reconciles the net cash used to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

	FY 2005	FY 2004	FY 2003
Cash provided by (used in):			
Operating activities	$(2,187,250)	$(1,995,921)	$(1,825,411)
Noncapital financing activities	1,942,813	2,353,967	2,624,716
Capital and related financing activities	(27,339)	(134,148)	(369,917)
Investing activities	15,334	6,539	17,652
Increase (Decrease) in Cash	(256,442)	230,437	447,040
Cash and cash equivalents--beginning of year	992,727	762,290	315,250
Cash and cash equivalents--end of year	$ 736,285	$ 992,727	$ 762,290

Financial Highlights:

Cash used in operating activities increased in fiscal 2005 by $191,329 from the previous fiscal year. Cash flow from tuition and fees increased by $34,985 as result of an increase in enrollment and an increase in tuition and fee rates. Cash flow from contracts and grants increased by $79,712 in fiscal year 2005 as compared to fiscal year 2004. Payments to suppliers increased by $28,480 due to a significant reduction in accounts payable and amounts due to the Commission as detailed in the Liabilities Section of statement of net assets. Payments to and on behalf of employees increased by $143,625 as detailed in the operating expenses narrative in the statement of revenues, expenses and changes in net assets section. By comparison the cash used in operating activities increased by $170,510 from fiscal 2003 to fiscal 2004. The increase in fiscal 2004 reflected a stabilization of cash received for tuition and fees, and a decrease in cash provided by contracts and grants. Payments to and on behalf of employees decreased resulting in an increase in cash flow in fiscal year 2004 as compared to fiscal year 2003. Fiscal year 2004 payments to suppliers and payments to utilities (utilities & rent) increased resulting in corresponding cash flow decreases as compared to fiscal 2003.

Fiscal year 2005 noncapital financing activities reflected a decrease in cash flows of $411,154 from the previous fiscal year. Cash Flow from noncapital financing activities in 2004 decreased by $270,749 as compared to 2003. These decreases are due to the depletion of the State Lottery Funds, which were exhausted during 2004 and seeded the College's start-up phase.

Capital and related financing resulted in a $106,809 increase in cash flows in fiscal 2005 as compared to fiscal year 2004 due mostly to a reduction in the purchase of capital assets from the previous year. In fiscal 2004 capital and related financing resulted in a $235,769 increase in cash flow as compared to fiscal 2003. Fewer capital purchases were made in FY 2004 and FY 2005 as the College moved beyond the start-up phase of growth.

$15,334 in cash provided in 2005 by investing activities reflected a $8,795 increase over fiscal year 2004. $6,539 cash provided in 2004 by investing activities reflected a $11,113 decrease over fiscal year 2003. These fluctuations in cash flow were due to the lower interest rate factors realized by the State's investment pool in 2004 and a higher interest rate factors realized by the State's investment pool in 2005.

Overall cash decreased by $256,442 in fiscal year 2005 as compared to a cash increase of $230,437 for fiscal year 2004.

Capital Activity

During August 2004 the West Virginia Higher Education Policy Commission issued $167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). The College has been approved for $8,000,000 for capital projects from this bond issuance. This bond is to be repaid by excess State lottery funds with no debt responsibility for the College, although College revenues are pledged if lottery funds prove insufficient. The Internal Revenue Service requires that 85% of the funds be drawn down by August 31, 2007.

The project is to be part of a shared campus with several state/federal agencies. The College, as well as the other project partners, shall lease the land from the Hardy County Rural Development Authority. The proposed site is within a mile of the College's current leased facility and located on the soon to opened Corridor H. The College and the other partners are beginning discussions on the possibility of sharing facilities and service costs, as appropriate.

As of June 30, 2005, the College was in the programming phase of design for its first Classroom/Laboratory/General Support building that is being funded through the 2004 Revenue Bond. Currently $64,000 of the $8,000,000 has been committed through a contract for architectural and engineering services for programming. A change order to the contract will be written in fiscal year 2006 for design, development of a ten-year Campus Facility Master Plan, development of a five-year Capital Expenditure Plan and construction administration. The prices for these services were not included in the original contract because specific information on site development costs and furniture, fixture and equipment costs were not available when the original contract was awarded (architectural and engineering services fees are negotiated as percentage, not more than 10%, of the cost of construction). In order to meet the IRS requirements on the draw down of funds, the College decided to begin the programming phase and incorporate the price for the other services into the contract at a later date when it could be more accurately calculated.

The design, Master Plan and Capital Expenditure Plan are scheduled for completion in late fall to early winter 2005. Construction bidding is tentatively scheduled for March/April 2006 with award and ground breaking by July 1, 2006. The building is scheduled for 85% completion by August 2007 and to be occupied by Spring 2008 with first courses scheduled for summer 2008.

Economic Outlook

Fiscal year 2005 marked the fourth consecutive year of academic offerings in the history of the College. Consequently, the most significant factor impacting the College's financial position and its operations during fiscal year 2005 was an increase in enrollment combined with tuition and fee rate increases. Also, significant to the College in 2005 were the creation of its first full-time faculty position, pay increases for employees and the first year of operations following the exhaustion of the initial seed money that funded the start up of the College.

Both enrollment growth and moderate increases in tuition and fee rates are forecast for the College. Located in the second most rapidly developing region in the State, the College's mission is to serve the adult population and to provide increased access for recent high school graduates. In addition, the College's tuition and fee structures compare favorably to other comparably situated Colleges.

Among the other factors impacting the financial position and operations of the College are the changes in economic forecasts for the State and the financial policies of the West Virginia Council for Community and Technical College Education (the "Council"). For fiscal year 2006, all State 2-year higher education institutions were approved for a general revenue budget appropriation request for level funding with fiscal year 2005. Similarly, all State higher education institutions have submitted a budget request for fiscal year 2007 with no reductions from fiscal year 2006 levels. Proposed tuition and fee rate increases for fiscal year 2006 were not approved by the Council in light of level funding approval. Tuition and fee rate increases for community and technical colleges in West Virginia are limited to 4.75% per year. Other factors impacting the financial position and operations of the College are the possibility that the Council may revise the current practices for funding to meet State goals or the State may establish new State goals. As a result, budget constraints may impact the College's strategic plan for growth and development.

As mentioned above the initial seed money which funded the College's start up has been exhausted. In light of the reduction of overall cash balances in fiscal year 2005, the College recognizes the importance of maintaining these balances and plans to more aggressively market programs and courses to students and business and industry clients in 2006. Increased grant and contract income is a goal of the institution for 2006. The College also recognizes the importance of increasing the balance of unrestricted net assets.

As stated previously, as of June 30, 2005, the College was in the programming phase of design for its first Classroom/Laboratory/General Support building that is being funded through West Virginia Higher Education Facilities 2004 Series B Revenue Bonds which were issued by the Commission and are to be repaid by excess state lottery funds. The building is tentatively scheduled for completion in winter 2007. This project will provide the College with a long-term fixed asset that will stop the pattern of declining total assets and should generate increased tuition and fee revenues.

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2005 AND 2004

	2005	2004
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 736,285	$ 992,727
Appropriations due from Primary Government	148,809	123,894
Accounts receivable	54,635	14,809
Total current assets	939,729	1,131,430
NONCURRENT ASSETS:		
Cash and cash equivalents	47,135	32,502
Capital assets—net	657,316	887,091
Total noncurrent assets	704,451	919,593
TOTAL	$ 1,644,180	$ 2,051,023
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 96,777	$ 158,970
Amount due to Commission	4,310	72,670
Amount due to Southern West Virginia Community and Technical College	45,000	56,400
Accrued liabilities and deposits	95,404	90,402
Compensated absences—current portion	59,113	58,536
Deferred revenue	133,149	200,141
Total current liabilities	433,753	637,119
NONCURRENT LIABILITIES—Compensated absences	97,144	83,277
Total liabilities	530,897	720,396
NET ASSETS:		
Invested in capital assets	657,316	887,091
Restricted—expendable for specific purposes by State Code	47,474	32,426
Unrestricted	408,493	411,110
Total net assets	1,113,283	1,330,627
TOTAL	$ 1,644,180	$ 2,051,023

See notes to financial statements.

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
OPERATING REVENUES:		
Student tuition and fees—net	$ 344,344	$ 278,817
Contracts and grants:		
State	219,420	171,542
Private	51,330	413
Sales and services of educational activities	1,494	58,700
Contributions		35,000
Miscellaneous—net	46,244	28,835
Total operating revenues	662,832	573,307
OPERATING EXPENSES:		
Salaries and wages	1,361,160	1,276,925
Benefits	282,244	233,574
Supplies and other services	706,358	810,181
Rent	253,525	251,960
Utilities	21,605	20,295
Depreciation	256,240	290,832
Fees assessed by the Commission for operations	3,620	1,526
Total operating expenses	2,884,752	2,885,293
OPERATING LOSS	(2,221,920)	(2,311,986)
NONOPERATING REVENUES:		
State appropriations	1,967,728	1,976,469
Investment income	16,788	6,379
Nonoperating revenues	1,984,516	1,982,848
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(237,404)	(329,138)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	20,060	
CAPITAL CONTRIBUTION—Donated equipment		42,067
DECREASE IN NET ASSETS	(217,344)	(287,071)
NET ASSETS—Beginning of year	1,330,627	1,617,698
NET ASSETS—End of year	$ 1,113,283	$ 1,330,627

See notes to financial statements.

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 339,989	$ 305,004
Contracts and grants	220,758	141,046
Payments to and on behalf of employees	(1,648,344)	(1,504,404)
Payments to suppliers	(858,121)	(829,641)
Payments to utilities	(276,635)	(272,597)
Sales and service of educational activities	564	58,150
Contributions		35,000
Fees retained by Commission	(3,620)	(1,526)
Other receipts (payments)—net	38,159	73,047
Net cash used in operating activities	(2,187,250)	(1,995,921)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—State appropriations	1,942,813	2,353,967
Cash provided by noncapital financing activities	1,942,813	2,353,967
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(12,706)	(101,646)
Increase in noncurrent cash and cash equivalents	(14,633)	(32,502)
Cash used in capital financing activities	(27,339)	(134,148)
CASH FLOWS FROM INVESTING ACTIVITIES—Interest on investments	15,334	6,539
Cash provided by investing activities	15,334	6,539
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(256,442)	230,437
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	992,727	762,290
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 736,285	$ 992,727
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (2,221,920)	$ (2,311,986)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	256,240	290,832
Loss on disposal of capital assets	301	442
Changes in assets and liabilities:		
Receivables	(313)	60,859
Accounts payable/amounts due	(210,936)	(19,695)
Accrued liabilities and deposits	41,926	64,118
Compensated absences	14,444	(15,184)
Deferred revenue	(66,992)	(65,307)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,187,250)	$ (1,995,921)
NONCASH TRANSACTION:		
Donated equipment	$ -	$ 42,067
CIP additions included in accounts payable	$ 20,060	$ -

See notes to financial statements.

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2005 AND 2004

1. ORGANIZATION

Eastern West Virginia Community and Technical College (the “College”) is governed by the Eastern West Virginia Community and Technical College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

Powers and duties of the Board include, but are 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 its institution.

Senate Bill 448 gives the West Virginia Council for Community and Technical College Education (the “Council”) the responsibility of developing, overseeing and advancing the State’s public policy agenda as it relates to community and technical college education.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The College 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 College is 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 College is a separate entity which, along with all State institutions of higher education, the Council and West Virginia Higher Education Policy Commission (the “Commission”) (which includes West Virginia Network for Educational Telecomputing), 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 authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College’s ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation and another affiliate of the College are not part of the College reporting entity and are not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

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

- *Invested in Capital Assets, net of related debt*—This represents the College's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted Net Assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

  The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by *Article 10, Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted Net Assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2005 or 2004.

- *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 College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

Cash and Cash Equivalents—For purposes of the statement of net assets, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). The State Treasurer's Office is permitted by West Virginia Code §12-1-12A to invest up to $125 million in overnight repurchase agreements. These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the IMB, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The IMB maintains the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local government agencies invest. The IMB also manages other investment pools which include amounts invested by pension funds of the State, as well as certain operating funds of the Workers' Compensation Fund (the "Fund") and other funds. These pools have been structured as multi-participant variable asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's investment operations pool can be found in the IMB's annual report. A copy of the IMB's annual report can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or online at http://www.wvimb.org.

Appropriations Due From Primary Government—For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

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

Capital Assets—Capital assets include furniture and equipment, and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 7 years for library books, and 3 to 10 years for furniture and equipment. The College's capitalization threshold is $1,000.

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

Compensated Absences—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

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

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

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College 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 College 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, sick leave, or extended health or life insurance benefits are recorded as a component of benefits expense on the statement of revenues, expenses, and changes in net assets.

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

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

- *Operating Revenues*—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

- *Nonoperating Revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of*

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

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

***Use of Restricted Net Assets*—**The College 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 College attempts to utilize restricted net assets first when practicable.

Federal Financial Assistance Programs—The College has never made loans to students under the Federal Direct Student Loan Program or Stafford Loan Program.

The College also did not distribute any other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. Pell funds distributed for years ended June 30, 2005 and 2004 were made through Southern West Virginia Community and Technical College ("Southern").

Scholarship Allowances—Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf. The College did not provide any scholarships for 2005 or 2004.

***Government Grants and Contracts*—**Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Income Taxes—The College 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 statement of cash flows.

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

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

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

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. The College has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

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

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

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

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30:

2005	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	$ 735,985	$ 47,135	$ 783,120
Cash on hand	300		300
	$ 736,285	$ 47,135	$ 783,420

2004	Current	Noncurrent	Total
Cash on deposit with the State Treasurer	$ 992,427	$ 32,502	$ 1,024,929
Cash on hand	300		300
	$ 992,727	$ 32,502	$ 1,025,229

Cash held by the State Treasurer includes $47,135 and $32,502 of restricted cash for purposes specified by State Code as of June 30, 2005 and 2004, respectively.

Cash on deposit with the State Treasurer is comprised of the following investment pools.

Cash Liquidity Pool

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

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

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Commercial paper	P1	A-1	$ 598,241,394	37.9 %
U.S. Treasury bills	Aaa	AAA	259,397,648	16.4
Agency bonds	Aaa	AAA	147,955,465	9.4
Corporate notes	Aaa	AAA	155,559,323	9.9
Agency discount notes	P1	A-1	119,564,248	7.6
Certificates of deposit	P1	A-1	152,998,937	9.7
Money market funds	Aaa	AAA	4,241,278	0.3
Total rated investments			$1,437,958,293	91.2 %

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

The College ownership represents 0.04% of the net asset position of this pool.

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

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

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

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

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

Enhanced Yield

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

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

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

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

The College ownership represents 0.06% of the net asset position of this pool.

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

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

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

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

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

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	2005	**2004**
Student tuition and fees, net of allowance for doubtful accounts of $24,754 and $19,475, respectively	$ 12,811	$ 9,007
Grants and contracts receivable		5,000
Due from Commission	22,663	
Due from Council	5,000	
Due from Southern	6,000	
Other accounts receivable	8,161	802
	$ 54,635	$ 14,809

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30:

	2005			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated—				
Construction in progress	$ -	20,060	$ -	$ 20,060
Total capital assets not being depreciated	-	20,060	-	20,060
Other capital assets:				
Equipment	1,632,004	12,705	10,454	1,634,255
Library books	6,477			6,477
Total other capital assets	1,638,481	12,705	10,454	1,640,732
Less accumulated depreciation for:				
Equipment	748,508	255,316	4,154	999,670
Library books	2,882	924		3,806
Total accumulated depreciation	751,390	256,240	4,154	1,003,476
Other capital assets—net	887,091	(243,535)	6,300	637,256
Capital asset summary:				
Capital assets not being depreciated		20,060		20,060
Other capital assets	1,638,481	12,705	10,454	1,640,732
Total cost of capital assets	1,638,481	32,765	10,454	1,660,792
Less accumulated depreciation	751,390	256,240	4,154	1,003,476
Capital assets—net	$ 887,091	$ (223,475)	$ 6,300	$ 657,316

	2004			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 1,489,615	$ 143,713	$ 1,324	$ 1,632,004
Library books	6,477			6,477
Total capital assets	1,496,092	143,713	1,324	1,638,481
Less accumulated depreciation for:				
Equipment	459,482	289,908	882	748,508
Library books	1,958	924		2,882
Total accumulated depreciation	461,440	290,832	882	751,390
Capital assets—net	$ 1,034,652	$ (147,119)	$ 442	$ 887,091

As of June 30, 2005 Eastern had outstanding commitments of approximately $64,000.

6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30:

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 141,813	$ 14,444	$ -	$ 156,257	$ 59,113

	2004				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 156,997	$ -	$ 15,184	$ 141,813	$ 58,536

7. LEASE OBLIGATION

Future minimum payments under noncancelable operating leases, which consist primarily of office space, with initial or remaining terms of one year or more, are as follows:

Year Ending June 30	
2006	$ 253,170
2007	14,435
	$ 267,605

Total rent expense for operating leases amounted to $253,525 and $251,960 for the years ended June 30, 2005 and 2004, respectively.

8. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30:

	2005	2004
Health or life insurance benefits	$ 81,610	$ 72,758
Accrued vacation leave	74,647	69,055
	$ 156,257	$ 141,813

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2005 and 2004, the College made no payments for extended health or life insurance coverage retirement benefits, as there were no retirees currently eligible for these benefits.

9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the College's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's universities and colleges. As of June 30, 2005, the College has no such facilities.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State of West Virginia. The College has been approved to receive $8.0 million of these funds. State lottery funds will be used to repay the debt, although College revenues are pledged if lottery funds prove insufficient.

10. UNRESTRICTED NET ASSETS

The College's unrestricted net assets include certain designated net assets as follows:

	2005	2004
Designated for auxiliaries	$ 11,008	$ 11,967
Undesignated	397,485	399,143
Total unrestricted net assets	$ 408,493	$ 411,110

11. RETIREMENT PLANS

Substantially all full-time employees of the College 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 College 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 Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2005, no employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for both years ended June 30, 2005 and 2004. Required employee contributions were at the rate of six percent of total annual salary for both years ended June 30, 2005 and 2004. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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 two percent of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2005, 2004, and 2003, were $0, $1,202, and $14,013, respectively, which consisted of $0, $858, and $10,009, from the College, and $0, $343, and $4,004 from the covered employees for 2005, 2004, and 2003, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

The TIAA–CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to six percent of total annual compensation. The College matches the employees' six percent contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2005, 2004 and 2003 were $123,398, $117,972, and $128,391, respectively, which consisted of contributions of $61,699, $58,986, and $64,195 for 2005, 2004 and 2003, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2005 and 2004 was $1,394,794 and $1,268,539, respectively; total covered employees' salaries in the STRS and TIAA-CREF were $0 and $1,031,342, respectively, in 2005 and were $5,573 and $1,018,919, respectively, in 2004.

12. FOUNDATION (UNAUDITED)

The Foundation, which was incorporated in fiscal year 2001, is a separate nonprofit organization incorporated in the State and has as its purpose "to support, encourage and assist in the development and growth of the College, …to render service and assistance to the College, and through it to the citizens of the State of West Virginia…" Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements under GASB No. 14 and they are not included in the College's accompanying financial statements under GASB No. 39 because they are not significant.

The Foundation's net assets totaled approximately $32,800 and $25,100 at June 30, 2005 and 2004, respectively. The net assets include amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Contributions to the Foundation, which are not reflected in the accompanying financial statements, totaled approximately $12,050 and $5,250 for the years ended June 30, 2005 and 2004, respectively. During the year ended June 30, 2004, the Foundation made approximately $140 in contributions to the College. No such contributions were made during the year ended June 30, 2005.

13. AFFILIATED ORGANIZATION (UNAUDITED)

The College has an affiliation agreement with Eastern Workforce Opportunity Regional Center and Services ("Eastern WORCS"). Although Eastern WORCS has been created "…to foster and support applied research and workforce development…" at the College, it is a separate nonprofit organization incorporated in the State of West Virginia. Oversight of Eastern WORCS is the responsibility of a separate and independently elected Board of Directors. Accordingly, the financial statements of Eastern WORCS are not included in the accompanying financial statements under GASB No. 14 and they are not included in the College's accompanying financial statements under GASB No. 39 because the economic resources held by WORCS do not entirely or almost entirely benefit the College. During the year ended June 30, 2004, WORCS made $35,000 in contributions to the College. No such contributions were made during 2005.

14. CONTINGENCIES

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

Under the terms of federal grants, periodic audits are requited 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 College's management believes disallowances, if any, will not have a significant financial impact on the College's financial position.

15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The following tables represent operating expenses within both natural and functional classifications for the years ended June 30:

2005

	Salaries and Wages	Benefits	Supplies and Other Services	Rent	Utilities	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 160,472	$ 15,470	$ 227,679	$ 25	$ -	$ -	$ -	$ 403,646
Public service	169,260	40,996	49,459					259,715
Academic support	381,982	72,338	113,895	330				568,545
Student services	256,148	54,984	60,547					371,679
General institutional support	392,518	98,456	213,686					704,660
Operations and maintenance of plant	780		37,365	253,170	21,605			312,920
Depreciation						256,240		256,240
Other			3,727				3,620	7,347
Total	$ 1,361,160	$ 282,244	$ 706,358	$ 253,525	$ 21,605	$256,240	$3,620	$2,884,752

2004

	Salaries and Wages	Benefits	Supplies and Other Services	Rent	Utilities	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 177,786	$ 14,689	$ 278,841	$ 25	$ -	$ -	$ -	$ 471,341
Public service	195,582	42,795	73,793					312,170
Academic support	294,650	61,895	94,297	1,572				452,414
Student services	232,828	45,359	83,209					361,396
General institutional support	374,673	68,728	240,367	55				683,823
Operations and maintenance of plant	1,406	108	39,232	250,308	20,295			311,349
Depreciation						290,832		290,832
Other			442				1,526	1,968
Total	$ 1,276,925	$ 233,574	$ 810,181	$ 251,960	$ 20,295	$290,832	$1,526	$2,885,293

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

To the Governing Board of
Eastern West Virginia Community and Technical College:

We have audited the financial statements of Eastern West Virginia Community and Technical College (the "College"), as of and for the year ended June 30, 2005, and have issued our report thereon dated September 23, 2005. 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 College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the College'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 Eastern West Virginia Community and Technical College Governing Board, managements of the College and the West Virginia Higher Education Policy Commission, the West Virginia Council for Community and Technical College Education and the State of West Virginia and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 23, 2005