Eastern West Virginia Community and Technical College

Financial Statements and Additional Information as of and for the Years Ended June 30, 2006 and 2005, and Independent Auditors' Reports

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

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Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the 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, 2006 and 2005, 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, 2006 and 2005, 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 28, 2006, 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 audits.

Deloitte & Touche LLP

September 28, 2006

Eastern West Virginia Community and Technical College

Management Discussion and Analysis
Fiscal Year 2006

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, 2006 and June 30, 2005 with the primary focus on 2006. 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, 2006, and June 30, 2005. 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, 2006	June 30, 2005	June 30, 2004
Assets:			
Current assets	$920,659	$ 939,729	$1,131,430
Non current assets	903,693	704,451	919,593
Total Assets	1,824,352	1,644,180	2,051,023

Liabilities			
Current liabilities	376,882	433,753	637,119
Non-current liabilities	96,541	97,144	83,277
Total Liabilities	473,423	530,897	720,396
Net Assets			
Invested in capital assets, net of debt	836,196	657,316	887,091
Restricted – expendable	68,154	47,474	32,426
Unrestricted	446,579	408,493	411,110
Total Net Assets	**$1,350,929**	**$1,113,283**	**$1,330,627**

Financial Highlights:

- *Assets*

  Current assets as of June 30, 2006 decreased $19,070 from June 30, 2005. Cash decreased by $148,521 primarily due to reduced grants and contracts activity. Current assets as of June 30, 2005 reflected a decrease of $191,701 from 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.

  Non-current assets increased by $199,242 as of June 30, 2006 from June 30, 2005, which reflected a decrease of $215,142 in comparison to June 30, 2004. The increase from 2005 to 2006 is due to the construction-in-process of a new facility for the College. The decrease from 2004 to 2005 is due to depreciation of equipment which have a short useful life, three-year to seven-year schedule in conjunction with minimal purchase of new assets during fiscal years 2006 and 2005. 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, net capital assets 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 2006 the College was in the construction phase for an institution-owned facility that is tentatively scheduled to open in Fall 2007.

- *Liabilities*

  Current Liabilities as of June 30, 2006 decreased by $56,871 from the previous year as compared to a decrease of $203,366 from June 30, 2004 to June 30, 2005. Accounts payable reflects an increase of $106,886 from June 30, 2005 to June 30, 2006 due to $144,163 in outstanding invoices for the new facility project at June 30, 2006. During the same period of time the amount due to Southern WV Community and Technical College decreased by $44,622. Deferred revenue decreased by $55,810 from June 30, 2005 to June 30, 2006 and 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 decreased by $603 from

June 30, 2005 to June 30, 2006 which reflects a shift in the experience level of the College's staff. The change from June 30, 2004 to June 30, 2005 reflects an increase of $13,867.

- *Net Assets*

  Invested in capital assets reports an increase of $178,880 in fixed assets (net of depreciation) between June 30, 2005 and June 30, 2006. The comparison of June 30, 2004 to June 30, 2005 reflects a decrease of $229,775 in fixed assets (net of depreciation), as described in the above highlighted "Non-current Assets" section.

  Restricted net assets shows an increase of $17,406 and $15,048 between 2006 and 2005 and 2005 and 2004, respectively. This is the result of the increase in collections of education and general tuition & fees capital fee that is expendable but restricted for capital projects.

  Unrestricted net assets increased by $38,086 as of June 30, 2006 in comparison to June 30, 2005 and decreased by $2,617 as of June 30, 2005 in comparison to June 30, 2004.

  In total, net assets as of June 30, 2006 increased by $237,646 from June 30, 2005 as compared to a decrease of $217,344 between June 30, 2005 and 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 2006	FY 2005	FY 2004
Operating revenues	$ 518,849	$ 662,832	$573,307
Operating expenses	2,736,195	2,884,752	2,885,293
Operating income (loss)	(2,217,346)	(2,221,920)	(2,311,986)
Non-operating revenues	2,012,109	1,984,516	1,982,848
Capital projects and bond proceeds	442,883	20,060	0
Donated Equipment	0	0	42,067
Increase (decrease) in Net Assets	237,646	(217,344)	(287,071)
Net Assets—Beginning of Year	1,113,283	1,330,627	1,617,698
Net Assets—End of Year	$ 1,350,929	$ 1,113,283	$ 1,330,627

Financial Highlights:

Operating revenues decreased by $143,893 in fiscal year 2006 as compared to fiscal year 2005. **Tuition and fee** revenue increased by $30,614 due to increased enrollment as the College continues to grow. Revenue from **grants and** contracts reflected a decrease of $171,835 during this period. Grants and contracts are cyclical by nature and cannot be relied upon for sustained revenue from one year to the next.

Operating expenses in fiscal year 2006 decreased by $148,557 from fiscal year 2005 as compared to a decrease of $541 from fiscal year 2004 to fiscal year 2005. The decrease in 2006 is the result of a decrease in salary, wages and benefits, supplies and other services and utilities expenses. **Salary & wages and benefits** decreased by $25,000 in fiscal 2006 as compared to fiscal 2005 due to unfilled positions. This expense category saw an increase of $132,905 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** of $125,513 in fiscal year 2006 as compared to fiscal year 2005 occurred as a result of reduced maintenance costs on equipment and a general reduction in all expenses within this category. 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.

Depreciation reflected only a $1,147 increase in fiscal 2006 as compared to fiscal 2005 and a decrease of $34,522 in fiscal year 2005 as compared to fiscal year 2004.

Non-operating revenue increased by $27,593 in fiscal year 2006 as compared to fiscal year 2005. This resulted from a $15,480 increase in state appropriations and a $12,113 increase in investment income from the previous year. Fiscal year 2005 as compared to fiscal year 2004 resulted in a $1,668 increase in non-operating revenue. During fiscal 2005 state appropriations decreased by $8,741 as compared to 2004 in combination with a $10,409 increase in investment income. 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. These factors remained stable in 2006.

Other revenues increased by $422,823 in fiscal year 2006 from fiscal year 2005 as compared to a decrease of $22,007 in fiscal year 2005 from fiscal 2004. The increase in 2006 is due to the start of the new facility project which increased the draw downs funds from bond proceeds to fund the project.

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 2006	FY 2005	FY 2004
Cash provided by (used in):			
Operating activities	$(2,138,133)	$(2,187,250)	$(1,995,921)
Noncapital financing activities	1,951,432	1,942,813	2,353,967
Capital and related financing activities	9,942	(27,339)	(134,148)
Investing activities	28,239	15,334	6,539
Increase (Decrease) in Cash	(148,520)	(256,442)	230,437
Cash and cash equivalents--beginning of year	736,285	992,727	762,290
Cash and cash equivalents--end of year	$ 587,765	$ 736,285	$ 992,727

Financial Highlights:

Cash flows used in operating activities decreased by $49,117 in fiscal year 2006 from the previous year. An increase of $24,244 in cash flows from tuition and fees was a result of increased enrollment. Cash flow from grants and contracts saw a decrease of $177,653 from fiscal 2005 to fiscal 2006 due to a decrease in grants and contracts received by the College. Cash flows for payments to and on behalf of employees decreased by $44,416 in fiscal 2006 as compared to fiscal 2005. Fiscal year 2006 also experienced a decrease of $158,624 in cash flows for payments to suppliers over fiscal year 2005. Both of the decreases (payments to and on behalf of employees and payments to suppliers) are reflective of the decreases in the “salary & wages” and “benefits” and “supplies and other services” expenses as discussed in the “Statement of Revenues and Expenses and Changes in Net Assets” section. Cash used in operating activities increased in fiscal 2005 by $191,328 from fiscal 2004. 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 2005 as compared to fiscal 2004. Payments to suppliers increased by $28,480 due to a significant reduction in accounts payable and amounts due to the Commission.

Cash flows from noncapital financing activities increased by $8,619 in fiscal year 2006 as compared to fiscal year 2005 as a result of an increase in state appropriations of $15,480. Fiscal year 2005 noncapital financing activities reflected a decrease in cash flows of $411,154 from the previous fiscal year which was in part due to the depletion of State Lottery Funds which seeded the College’s start-up phase and were exhausted in fiscal year 2004.

Cash flows from capital financing increased in fiscal year 2006 from fiscal year 2005 by $37,281 and $106,809 in fiscal 2005 from fiscal year 2004 due mostly to the continued reduction in the purchase of capital assets as compared to the initial startup years of the College. Fixed asset purchases included $429,383 and $20,060 for the new campus in fiscal years 2006 and 2005 respectively. These assets were funded from Lottery funds through the Commission.

Cash flows from investing activities increased in fiscal year 2006 from fiscal year 2005 by $12,905. Fiscal year 2005 resulted in an increase of $8,795 in cash provided by investing activities over fiscal year 2004. Both of these increases are due to increasing interest rate factors realized by the State’s investment pool in 2006 and 2005.

Overall cash decreased by $148,520 in fiscal year 2006 as compared to an overall cash decrease of $256,442 in fiscal year 2005.

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 is purchasing two acres of 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 other partners are beginning discussions on the possibility of sharing facilities and service costs, as appropriate.

As of June 30, 2006, the College completed the programming phase of design for its first Classroom/Laboratory/General Support building that is being funded through the 2004 Revenue Bonds. A ten-year Campus Facility Master Plan, and a five-year Capital Expenditure Plan were developed and approved by the West Virginia Community and Technical College Council.

Construction bidding is scheduled for July 2006 with award by September 19, 2006 and ground breaking by October 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.

As of June 30, 2006 the College has drawn approximately $500,000 of the $8,000,000 commitment from the 2004 Revenue Bonds.

Economic Outlook

Fiscal year 2006 marked the fifth 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 2006 was an increase in enrollment of 27%. Also, significant to the College in 2006 was the second 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 2007, all State 2-year higher education institutions were approved for a general revenue budget appropriation request for level funding with fiscal year 2006. Similarly, all State higher education institutions have submitted a budget request for fiscal year 2008 with no reductions from fiscal year 2007 levels. Proposed tuition and fee rate increases for fiscal year 2007 were approved by the Council in light of level funding approval. Tuition and fee rate increases for community and technical colleges in West Virginia were 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 2006 and 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 2007. Increased grant and contract income is a goal of the institution for 2007. The College also recognizes the importance of increasing the balance of unrestricted net assets.

As of June 30, 2006, the College completed 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 with no debt responsibility for the College. The building is tentatively scheduled for completion in Fall 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, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 587,765	$ 736,285
Appropriations due from Primary Government	180,584	148,809
Accounts receivable	152,310	54,635
Total current assets	920,659	939,729
NONCURRENT ASSETS:		
Cash and cash equivalents	67,497	47,135
Capital assets—net	836,196	657,316
Total noncurrent assets	903,693	704,451
TOTAL	$1,824,352	$1,644,180
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 203,663	$ 96,777
Amount due to the Commission	3,095	4,310
Amount due to Southern West Virginia Community and Technical College	378	45,000
Accrued liabilities and deposits	40,332	95,404
Compensated absences—current portion	52,075	59,113
Deferred revenue	77,339	133,149
Total current liabilities	376,882	433,753
NONCURRENT LIABILITIES—Compensated absences	96,541	97,144
Total liabilities	473,423	530,897
NET ASSETS:		
Invested in capital assets—net of related debt	836,196	657,316
Restricted—expendable for specific purposes by State Code	68,154	47,474
Unrestricted	446,579	408,493
Total net assets	1,350,929	1,113,283
TOTAL	$1,824,352	$1,644,180

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, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Student tuition and fees—net	$ 374,958	$ 344,344
Contracts and grants:		
State	65,794	219,420
Private	33,121	51,330
Sales and services of educational activities		1,494
Contributions	22,000	
Miscellaneous—net	22,976	46,244
Total operating revenues	518,849	662,832
OPERATING EXPENSES:		
Salaries and wages	1,336,539	1,361,160
Benefits	281,865	282,244
Supplies and other services	580,845	706,358
Rent	252,430	253,525
Utilities	20,767	21,605
Depreciation	257,387	256,240
Fees assessed by the Commission for operations	6,362	3,620
Total operating expenses	2,736,195	2,884,752
OPERATING LOSS	(2,217,346)	(2,221,920)
NONOPERATING REVENUES:		
State appropriations	1,983,208	1,967,728
Investment income	28,901	16,788
Total nonoperating revenues	2,012,109	1,984,516
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(205,237)	(237,404)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	442,883	20,060
INCREASE (DECREASE) IN NET ASSETS	237,646	(217,344)
NET ASSETS—Beginning of year	1,113,283	1,330,627
NET ASSETS—End of year	$ 1,350,929	$ 1,113,283

See notes to financial statements.

EASTERN WEST VIRGINIA COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 364,233	$ 339,989
Contracts and grants	43,105	220,758
Payments to and on behalf of employees	(1,603,928)	(1,648,344)
Payments to suppliers	(699,497)	(858,121)
Payments to utilities	(273,384)	(276,635)
Sales and service of educational activities	(1,988)	564
Contributions	22,000	
Fees retained by the Commission	(6,362)	(3,620)
Other receipts (payments)—net	17,688	38,159
Net cash used in operating activities	(2,138,133)	(2,187,250)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES—State appropriations	1,951,432	1,942,813
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital project proceeds from the Commission	342,468	
Purchases of capital assets	(312,164)	(12,706)
Increase in noncurrent cash and cash equivalents	(20,362)	(14,633)
Cash provided by capital financing activities	9,942	(27,339)
CASH FLOWS FROM INVESTING ACTIVITIES—Interest on investments	28,239	15,334
DECREASE IN CASH AND CASH EQUIVALENTS	(148,520)	(256,442)
CURRENT CASH AND CASH EQUIVALENTS—Beginning of year	736,285	992,727
CURRENT CASH AND CASH EQUIVALENTS—End of year	$ 587,765	$ 736,285
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (2,217,346)	$ (2,221,920)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	257,387	256,240
Loss on disposal of capital assets		301
Changes in assets and liabilities:		
Receivables	3,401	(313)
Accounts payable/amounts due	(63,052)	(210,936)
Accrued liabilities and deposits	(55,072)	41,926
Compensated absences	(7,641)	14,444
Deferred revenue	(55,810)	(66,992)
NET CASH USED IN OPERATING ACTIVITIES	$ (2,138,133)	$ (2,187,250)
NONCASH TRANSACTION—CIP additions included in accounts payable	$ 144,163	$ 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, 2006 AND 2005

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.

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 College, the power to prescribe the specific functions and College's budget request, the duty to review at least every five years all academic programs offered at the College, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its College.

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 of West Virginia (the "State") 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 accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board ("GASB"), including GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and GASB 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 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 the College is legally or contractually obligated to spend 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 College. 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, 2006 or 2005.

- *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 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 statements of net assets, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Prior to July 2005, cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") were pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the "IMB"). Effective July 2005, investment of such funds is overseen and managed by the West Virginia Board of Treasury Investments ("BTI"). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools*. The IMB, and subsequently the BTI, were established by the State Legislature and are subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The IMB, and subsequently the BTI, maintain the Consolidated Fund investment fund, which consists of five investment pools and participant-directed accounts in which the state and local government agencies invest. 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 and the BTI's investment operations pool can be found in their respective annual reports. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or online at http://www.wvimb.org or http://www.wvbti.com.

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. During fiscal year 2006, the College implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries* ("GASB No. 42"). The financial statements reflect all adjustments required by GASB No. 42 as of June 30, 2006.

Deferred Revenue—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% 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 statements of revenues, expenses, and changes in net assets.

Risk Management—The State's Board of Risk and Insurance Management ("BRIM") provides general and property and casualty 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.

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

Classification of Revenues—The 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, 2006 and 2005, 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 statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the 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 2006 or 2005.

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 statements of cash flows.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ 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 Governmental Accounting Standards Board—The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. Effective July 1, 2006, the College is required to participate in this multiple-employer cost-sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2006 and 2005, was held as follows:

2006	Current	Noncurrent	Total
State Treasurer	$ 587,465	$ 67,497	$ 654,962
Cash on hand	300		300
	$ 587,765	$ 67,497	$ 655,262

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

Amounts held by the State Treasurer includes $67,497 and $47,135 of restricted cash for purposes specified by State Code as of June 30, 2006 and 2005, respectively.

Amounts with the State Treasurer as of June 30, 2006 and 2005, are comprised of the following investment pools:

2006:

The BTI has adopted an investment policy in accordance with the *Uniform Prudent Investor Act.* The *Uniform Prudent Investment Act* guides those with responsibility for investing 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.

<u>Cash Liquidity Pool</u>

Credit Risk

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

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

Security Type	Credit Rating * Moody's	Credit Rating * S&P	Carrying Value	Percent of Pool Assets
Commercial paper	P1	A-1	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	61,992	3.56
	Aa	AA	55,063	3.16
	Aa	A	12,000	0.69
			129,055	7.41
U.S. agency bonds	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	306,279	17.58
Certificates of deposit	P1	A-1	99,000	5.68
	NR	NR	23,800	1.37
			122,800	7.05
U.S. agency discount notes	P1	A-1	93,851	5.39
Money market funds	Aaa	AAA	758	0.04
Repurchase agreements (underlying securities)				
U.S. treasury notes	Aaa	AAA	73,000	4.19
U.S. agency notes	Aaa	AAA	29,339	1.69
			102,339	5.88
			$1,741,802	100.00 %

* NR = Not Rated

The College's ownership represents 0.03% of these amounts held by the BTI.

Government Money Market Pool

Credit Risk

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

	Credit Rating *			
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	28,346	15.56
U.S. agency discount notes	P1	A-1	112,399	61.70
Money market funds	Aaa	AAA	109	0.06
Repurchase agreements (underlying securities)				
U.S. Treasury strips	Aaa	AAA	15,602	8.56
U.S. agency bonds	Aaa	AAA	4,298	2.36
			19,900	10.92
			$ 182,174	100.00 %

* NR = Not Rated

The College's ownership represents 0.01% of these amounts held by the BTI.

Enhanced Yield Pool

Credit Risk

The BTI limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A- by 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 following table provides information on the credit ratings of the Enhanced Yield Pool's investments (in thousands):

	Credit Rating *			
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	2,448	0.92
	Aa	AA	3,790	1.43
	Aa	A	15,660	5.90
	A	AA	3,048	1.15
	A	A	46,847	17.65
			71,793	27.05
U.S. agency bonds	Aaa	AAA	87,215	32.86 %
U.S. Treasury bills	Aaa	AAA	58,067	21.88
(underlying securities)				
U.S. agency mortgage backed securities	Aaa	AAA	1,346	0.51
			$ 265,384	100.00 %

* NR = Not Rated

The College's ownership represents 0.09% 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 ("WAM") of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 102,339	3
U.S. Treasury bills	306,279	32
Commercial paper	943,057	25
Certificates of deposit	122,800	105
U.S. agency discount notes	93,851	89
Corporate notes	129,055	77
U.S. agency bonds/notes	43,663	208
Money market fund	758	1
	$1,741,802	42

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

Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 19,900	3
U.S. Treasury bills	28,346	42
Commercial paper	112,399	39
Certificates of deposit	21,420	152
Money market fund	109	1
	$ 182,174	49

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

Security Type	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 1,346	3
U.S. Treasury bonds/notes	58,067	894
Corporate notes	71,793	588
Corporate asset backed securities	46,963	688
U.S. agency bonds/notes	87,215	594
	$ 265,384	672

Other Investment Risks

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

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

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

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

2005:

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 U.S. Treasury issues.

The following table provides information on the credit ratings of the Cash Liquidity Pool's investments at June 30, 2005:

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	155,559,323	9.9 %
Corporate notes	P1	A-1	152,998,937	9.7 %
Agency discount notes	Aaa	AAA	147,955,465	9.4 %
Certificates of deposit	P1	A-1	119,564,248	7.6 %
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's ownership represents 0.04% these amounts held by IMB.

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 statements of net assets 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 for the various asset types in the Cash Liquidity Pool.

Security Type	Carrying Value	WAM
Commercial paper	$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Repurchase agreements	155,559,323	53
Agency bonds	152,998,937	42
Corporate notes	147,955,465	88
Agency discount notes	141,050,000	1
Certificates of deposit	119,564,248	52
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.

<u>Government Money Market Pool</u>

Credit risk

The IMB limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard & Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The College's ownership represents 0% of these amounts held by IMB.

Concentration of Credit Risk

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

Custodial Credit Risk

At June 30, 2005, the Government Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statement of assets and liabilities is invested in the lending agent's money market fund.

Interest Rate Risk

The weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities for the various asset types in the Government Money Market Pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U.S. Treasury bills	24,903,836	48
Money market funds	985,190	1
Total assets	$154,819,532	157

Foreign Currency Risk

The Government Money Market Pool has no securities that are subject to foreign currency risk.

<u>Enhanced Yield Pool</u>

Credit Risk

The IMB and the BTI limit 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 U.S. Treasury issues.

The following tables provide information on the weighted average credit ratings of the Enhanced Yield Pool's investments at June 30, 2005.

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's 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 Enhanced Yield 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 and, subsequently, the BTI. Securities lending collateral that is reported in the statements of net assets and liabilities is invested in the lending agent's money market fund.

Interest Rate Risk

The weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities for the various asset types in the Enhanced Yield Pool at June 30, 2005.

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	0.0
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 as of June 30, 2006 and 2005, were as follows:

	2006	2005
Student tuition and fees, net of allowance for doubtful accounts of $36,584 and $24,754, respectively	$ 23,536	$ 12,811
Due from Commission	123,067	22,663
Due from Council		5,000
Due from Southern		6,000
Other accounts receivable	5,707	8,161
	$ 152,310	$ 54,635

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the years ended June 30, 2006 and 2005:

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated—				
Construction in progress	$ 20,060	$ 429,383	$ -	$ 449,443
Other capital assets:				
Equipment	1,634,255	6,884		1,641,139
Library books	6,477			6,477
Total other capital assets	1,640,732	6,884	-	1,647,616
Less accumulated depreciation for:				
Equipment	999,670	256,463		1,256,133
Library books	3,806	924		4,730
Total accumulated depreciation	1,003,476	257,387	-	1,260,863
Other capital assets—net	$ 637,256	$ (250,503)	$ -	$ 386,753
Capital asset summary:				
Capital assets not being depreciated	$ 20,060	$ 429,383	$ -	$ 449,443
Other capital assets	1,640,732	6,884		1,647,616
Total cost of capital assets	1,660,792	436,267	-	2,097,059
Less accumulated depreciation	1,003,476	257,387		1,260,863
Capital assets—net	$ 657,316	$ 178,880	$ -	$ 836,196

	2005			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated—				
Construction in progress	$ -	$ 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

As of June 30, 2006, the College had outstanding commitments of approximately $144,000.

6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2006 and 2005:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	$ 156,257	$ -	$ 7,641	$ 148,616	$ 52,075

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

7. LEASE OBLIGATION

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

Years Ending June 30	
2007	$ 251,865
2008	251,430
2009	251,430
2010	17,428
	$ 772,153

Lease agreements related to the building were renewed in July 2006 for a three-year lease period. However, the College will utilize the option of terminating these leases with a 30-day notice to the Lessor upon the completion of the new building, and, accordingly, are not included in the table above.

Total rent expense for operating leases amounted to $253,170 and $253,525 for the years ended June 30, 2006 and 2005, respectively.

8. COMPENSATED ABSENCES

At June 30, 2006 and 2005, the composition of the compensated absence liability was as follows:

	2006	2005
Health or life insurance benefits	$ 74,541	$ 81,610
Accrued vacation leave	74,075	74,647
	$ 148,616	$ 156,257

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, 2006 and 2005, 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, 2006, 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. The College has been approved to receive $8 million of these funds. State lottery funds will be used to repay the debt, although College revenues are pledged if lottery funds prove insufficient. The College has requested $462,943 from these committed funds through June 30, 2006.

10. UNRESTRICTED NET ASSETS

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

	2006	2005
Designated for auxiliaries	$ 10,114	$ 11,008
Undesignated	436,465	397,485
Total unrestricted net assets	$ 446,579	$ 408,493

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% of each enrolled employee's total annual salary for both years ended June 30, 2006 and 2005. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2006 and 2005. 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 2% 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, 2006, 2005, and 2004, were $0, $0, and $1,202, respectively, which consisted of $0, $0, and $858, from the College, and $0, $0, and $343 from the covered employees for 2006, 2005, and 2004, 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 6% of total annual compensation. The College matches the employees' 6% 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, 2006, 2005, and 2004 were $116,996, $123,398, and $117,972, respectively, which consisted of contributions of $58,498, $61,699, and $58,986 for 2006, 2005, and 2004, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2006 and 2005, was $1,322,990 and $1,394,794, respectively; total covered employees' salaries in the STRS and TIAA-CREF were $0 and $879,992, respectively, in 2006 and were $0 and $1,031,342, respectively, in 2005.

12. FOUNDATION (UNAUDITED)

The Eastern West Virginia Community and Technical College Foundation, Inc. (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 Statement No. 14 and they are not included in the College's accompanying financial statements under GASB Statement No. 39 because they are not significant.

The Foundation's net assets totaled approximately $30,500 and $32,800 at June 30, 2006 and 2005, 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 $2,280 and $12,050 for the years ended June 30, 2006 and 2005, respectively. No contributions were made to the College during either the year ended June 30, 2006 or 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 Statement No. 14 and they are not included in the College's accompanying financial statements under GASB Statement No. 39 because the economic resources held by Eastern WORCS do not entirely or almost entirely benefit the College. No contributions were made to the College during either the year ended 2006 or 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 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 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, 2006 and 2005:

	2006							
	Salaries and Wages	Benefits	Supplies and Other Services	Rent	Utilities	Depreciation	Fees Assessed by the Commission	Total
Instruction	$ 271,874	$ 28,511	$ 141,154	$ 1,000	$ -	$ -	$ -	$ 442,539
Public service	143,289	30,678	57,538	22,261				253,766
Academic support	299,854	79,982	34,564					414,400
Student services	258,270	57,369	36,619					352,258
General institutional support	363,227	85,324	240,331					688,882
Operations and maintenance of plant	25	1	53,240	229,169	20,767			303,202
Depreciation						257,387		257,387
Other			17,399				6,362	23,761
Total	$ 1,336,539	$ 281,865	$ 580,845	$ 252,430	$ 20,767	$257,387	$6,362	$2,736,195

	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

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Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT 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, 2006, and have issued our report thereon dated September 28, 2006. 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 28, 2006