Kanawha Valley Community and Technical College

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009, and
Independent Auditors' Reports

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Kanawha Valley Community and Technical College:

We have audited the statements of net assets of Kanawha Valley Community and Technical College (the "College") as of June 30, 2010 and 2009, 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 the respective financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 respective 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, the financial statements referred to above present fairly, in all material respects, the financial position of the College as of June 30, 2010 and 2009, and the changes in net assets and cash flows of the College for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis on pages 3 to 15, which is the responsibility of the College's management, is not a required part of the financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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 December 22, 2010, 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

December 22, 2010

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2010

History

Kanawha Valley Community and Technical College ("Kanawha Valley" or the "College") is a State-supported institution within the West Virginia Council for Community and Technical College Education. Kanawha Valley offers certificate and associate-degree programs primarily in energy, health and technical areas and customized training in these respective fields through workforce development. Until April, 2004, Kanawha Valley was a component of West Virginia State University ("WV State"). Kanawha Valley became independently accredited by the Higher Learning Commission of the North Central Association in October, 2004, while still under the WV State Board of Governors. In accordance with House Bill 3215 passed by the West Virginia State Legislature in its 2008 session, Kanawha Valley became a separate entity effective July 1, 2008 and received net assets transferred from WV State as of this date. Effective July 1, 2008, HB 3215 provided the College with a separate governing board. In April 2009, the Board of Governors officially changed the college name to Kanawha Valley Community and Technical College. During fiscal year 2009-10, Kanawha Valley began transitioning towards operating as a stand alone college by hiring separate academic support, student services, and financial personnel. The College has also hired additional full-time and part-time faculty to offer the majority of the classes directly to Kanawha Valley students beginning with fall of 2010. The College received funds during 2009 as part of the Community and Technical College lottery funds in the amount of $13.5 million and plans to renovate building 2000 at the WV Education and Research Technical Park. Sometime during 2012, Kanawha Valley will relocate to this new facility and complete the transition to a standalone community and technical college.

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB) standards. This section of Kanawha Valley's annual financial report provides an overview of the College's financial performance during the fiscal years ended June 30, 2010 and 2009, with a focus on 2010. A comparative analysis is presented for fiscal year 2010 compared to fiscal year 2009. Separate information for the College is not available for years prior to 2009.

Kanawha Valley's annual report consists of three basic financial statements: the statement of net assets, the statement of revenues, expenses and changes in net assets, and the statement of cash flows. These statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole. Each of these statements is discussed below.

Financial Highlights

At June 30, 2010, Kanawha Valley's total net assets were $641,896 representing a decrease of $1,785,853 in net assets. This decrease in net assets was primarily attributable to decreases in cash, due from the Council / Commission, and accounts receivable, as well as increases in accounts payable, Other Post Employment Liabilities ("OPEB"), and partially offset by a reduction in deferred revenue.

Total operating revenues decreased by 29% over prior year primarily due to decreases in grants and contracts, tuition and fees, as well as auxiliary enterprises transferred to WV State. During fiscal year 2010, WV State instituted a new billing practice whereby all Kanawha Valley students taking classes at WV State were treated as transient students thus impacting Kanawha Valley's revenue. Total operating expenses increased by 24% over prior year mainly because of increases in all expense categories as the College began the transition to a separate, stand alone College. Effective July 1, 2010, Kanawha Valley began the assumption of many services previously purchased from WV State (including student services, academic support, instruction, and business office functions) which will result in a reduction in the service agreement for fiscal year 2011. Net non-operating revenue increased by nearly 13% primarily due to increases in Pell Grant revenue somewhat offset by reductions in other nonoperating revenue.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the College as of the end of the fiscal year. Assets denote the resources available to continue the operations of the College. Liabilities indicate how much the College owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the College for future periods.

Net Assets are displayed in three major categories:

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

Restricted net assets. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for 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. **Expendable restricted net assets** include resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, and sales and services of educational activities. Unrestricted net assets are used for transactions related to the educational and general operations of the College and may be designated for specific purposes by action of the College's management or the Board of Governors.

Condensed Statements of Net Assets

	As of June 30 2010	As of June 30 2009
Assets		
Current Assets	$ 3,481,918	$ 5,134,129
Noncurrent Assets	124,610	31,741
Total Assets	$ 3,606,528	$ 5,165,870
Liabilities		
Current Liabilities	$ 2,338,410	$ 2,468,015
Noncurrent Liabilities	626,222	270,106
Total Liabilities	$ 2,964,632	$ 2,738,121
Net Assets		
Invested in Capital Assets		
Restricted for:		
Nonexpendable		
Expendable		
Unrestricted	641,896	2,427,749
Total Net Assets	$ 641,896	$ 2,427,749

Total assets decreased by $1,559,342 over the prior year.

- Cash and cash equivalents decreased by $918,773 primarily due to spending from funds that had balances from previous year. For example, there were grants in restricted fund where the cash was received in prior year, but the spending occurred in FY10. This was approximately $545,000.
- Amounts due from the Council / Commission decreased by $697,795 primarily due to no additional special equipment and transition funds in FY 2010 similar to funds received in FY 2009 - $500,000 was appropriated in FY09 and received in FY10 to assist with transitional cost and an additional $175,000 was appropriated in FY09 and received in FY10 for equipment purchases.
- Capital assets – net increased by $92,869.
- Net accounts receivable decreased by $34,887 primarily because other accounts receivable decreased by about $175,910. This decrease was also offset by an increase in net student tuition and fees of $34,347, increase in grants receivable of $72,636 and due from other agencies of $34,040.
- Due from Primary Government increased $30,942 primarily due to the FY09 Special Equipment Appropriation which had this balance of $30,942 and it was reappropriated for FY11 so it could be expended.

Total liabilities increased by $226,511 over the prior year. The increase is primarily attributable to increases in accounts payable and the OPEB liability partially offset by a decrease in deferred revenue.

- OPEB liability increased by $423,744 partially due to a decrease in State contributions for the last two years in the West Virginia Retiree Health to the Benefit Trust Fund (the "Trust") on behalf of Kanawha Valley. The OPEB liability represents Kanawha Valley's accumulated unpaid annual required contribution. The Trust accumulates and manages funds for retiree health benefits under a defined benefit cost-sharing multiple employer OPEB plan. The Public Employees Insurance Agency (PEIA) has been assigned the responsibility for the administration of the Trust. PEIA invoices the participants in the State's OPEB Plan, including the College, on a monthly basis, its contractually required contribution based on current health insurance policy holders. In prior years, the State transferred monies from their general revenues and excess reserves into the Trust as contributions; however there were no such payments in 2010.

- Deferred revenue decreased $438,086 primarily attributable to cash balances in state grants. These balances decreased by about $403,000 from FY09 to FY10. In addition, deferred tuition revenue decreased by about $35,000.

- Accounts payable increased by $167,628 primarily due to additional activity and purchases related to the transition of becoming independent. Several payables were returned by WVSU to KVCTC unprocessed as of 6/30/10.

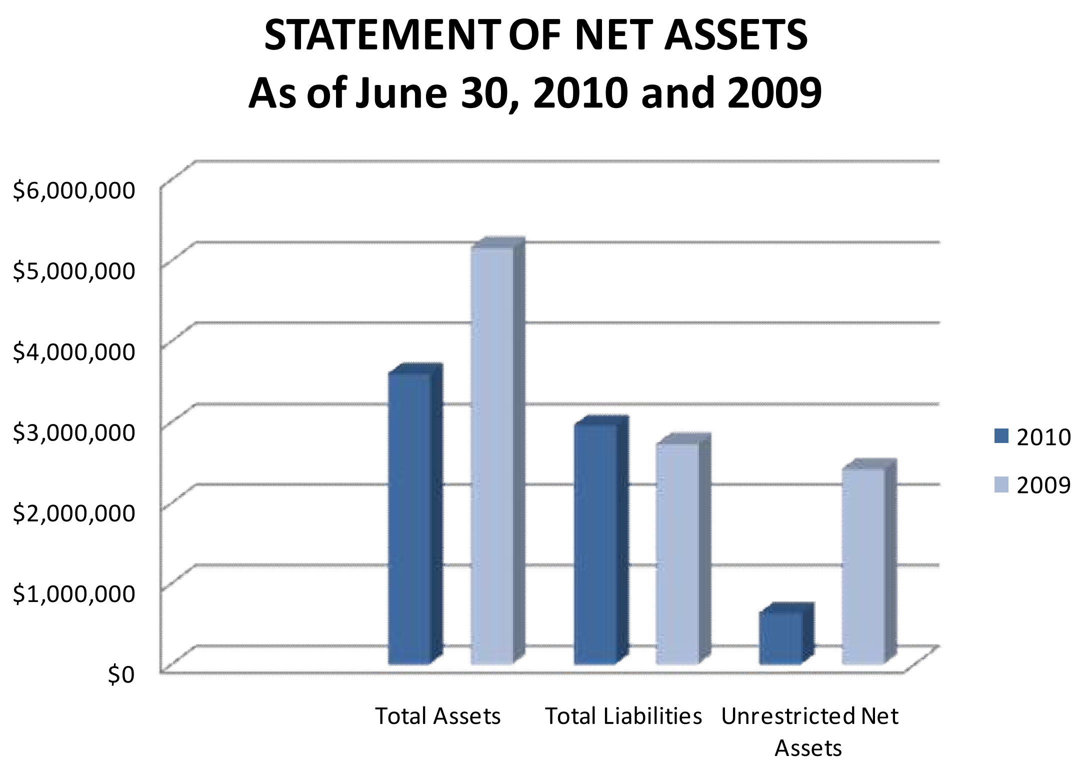
- Debt obligation to the Commission (both current and long-term) decreased by a net $103,000, due to scheduled debt service payments and no new debt in fiscal year 2010.

- Accrued liabilities increased by $66,868 primarily due to accrued payroll as of 6/30/10. There were more employees as of 6/30/10 compared to 6/30/09.

- Compensated absences current portion and noncurrent increased by $50,028 and $39,143 respectively due to the additional hiring of new employees to assume previously purchased services.

- Due to State agencies increased by $20,186 due to an increase in a payable to WVSU Bookstore.

The following is a comparative illustration of the Statement of Net Assets.



Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains or losses of Kanawha Valley for each fiscal year.

State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the "Legislature") to the College without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide –both fiscal year 2010 and 2009 reflect this Pell reporting.

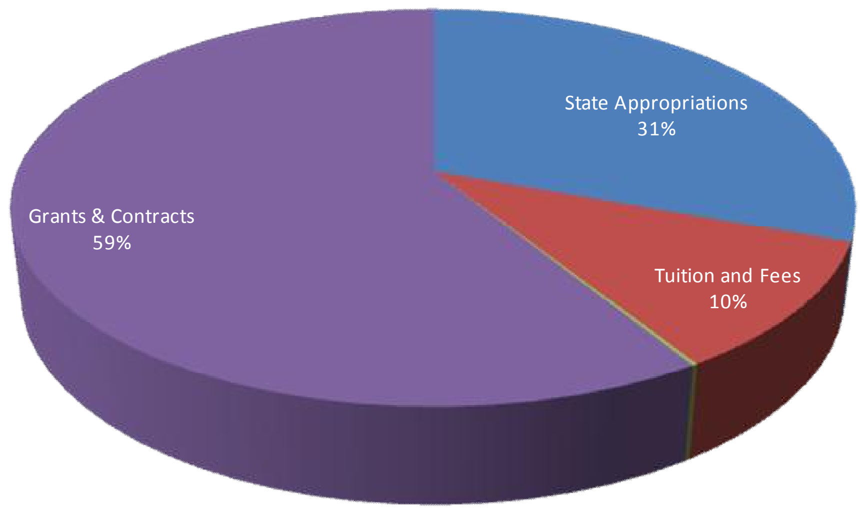
Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Condensed Statements of Revenues, Expenses and Changes in Net Assets

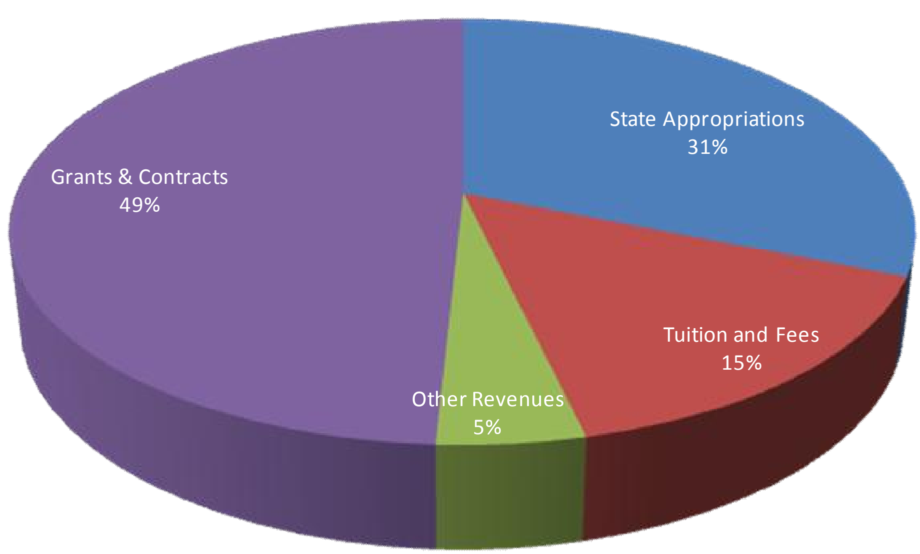
	As of June 30 2010	As of June 30 2009
Operating Revenues	$ 4,004,686	$ 5,640,460
Operating Expenses	14,022,732	11,285,111
Operating Loss	**(10,018,046)**	**(5,644,651)**
Net Nonoperating Revenues	8,217,981	7,285,497
Income before Other Revenues, Expenses, Gains, or Losses	**(1,800,065)**	**1,640,846**
Capital Grants and Gifts	14,212	
Transfer of Net Assets from WVSU		786,903
(Decrease) Increase in Net Assets	**(1,785,853)**	**2,427,749**
Net Assets at Beginning of Year	**2,427,749**	**-**
Net Assets and End of Year	**$ 641,896**	**$ 2,427,749**

Revenues:
The following chart illustrates the composition of revenues by source for 2010 and 2009.

TOTAL REVENUES
For the Year Ended June 30, 2010



STATEMENT OF NET REVENUES
As of June 30, 2009



The most significant sources of revenue for the College are State appropriations, tuition and fees, and grants and contracts. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Grants and contracts revenue increased by $878,544 primarily due to the increase in the Pell Grant revenue of $1,029,787 offset by decreases in State grant revenue of $307,957 and Private grant revenue of $115,271.

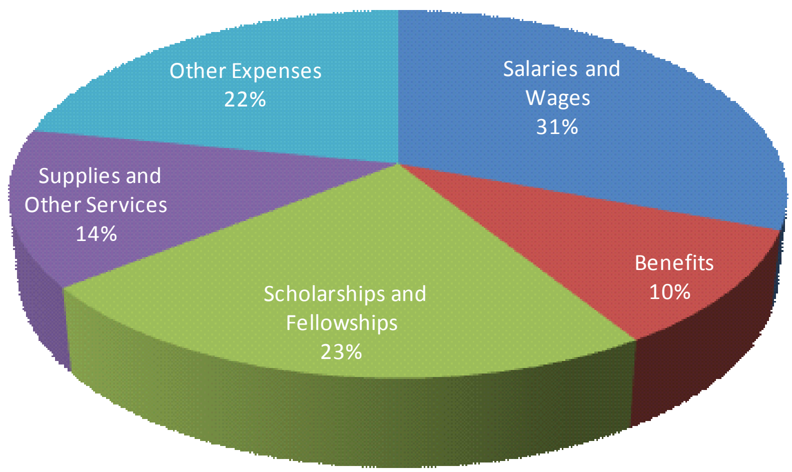
- Net tuition and fee revenue decreased by $757,000 primarily due to a change in 2010 in the agreement between WV State and Kanawha Valley regarding transient students.

- Other revenue decreased by $568,380 primarily due to Continuing Ed FY09 revenue was classified as Other Revenue and in FY10 it is re-classified as Tuition Revenue.

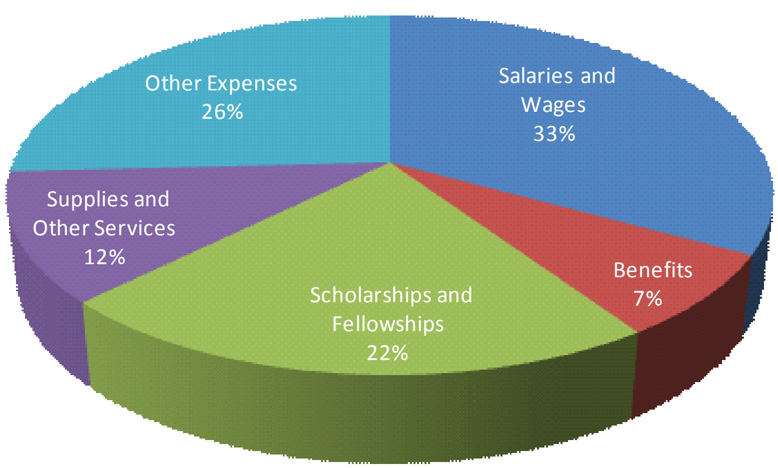
- State appropriations decreased by $262,269 due budget reductions in FY 2010 which were back filled by Federal American Recovery and Reinvestment Act funds and reported as grant revenue in the same amount.

Expenses:
The following is a graphic illustration of total expenses by natural classification for fiscal years 2010 and 2009.

TOTAL EXPENSES For the Year Ended June 30, 2010



TOTAL EXPENSES
For the Year Ended June 30, 2009



Total expenses for fiscal year 2010 were $14,042,065, an increase of $2,731,806 over prior year. This increase is primarily due to increases in several categories of expenses as follows:

- Scholarship and fellowship expense increased by $771,739 mainly due to increases in student aid for Pell and SEOG for FY10.

- Supplies and other services increased by $619,407 due to increases in unrestricted Accounts Payable, increase payable to WVNET, increase in transfer of student activity fees to WVSU FY10.

- Benefits increased by $608,654 partially due to the increase in OPEB liability in the amount of approximately $423,744 and increase in compensated absences liability for annual leave due to addition of new employees with previously accumulated annual leave from other agencies.

- Salaries and wages increased by $569,629 due to the hiring of new employees for assumption of previously purchased services in student affairs, academic affairs and financial affairs.

- Charges from WV State increased by $140,300 as part of the negotiated service agreement for fiscal year 2010.

Cash Flows

The statement of cash flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the College during the year. This statement helps users assess the College's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the College.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

Cash flows from capital financing activities. This section includes cash used for the acquisition and construction of capital and related items.

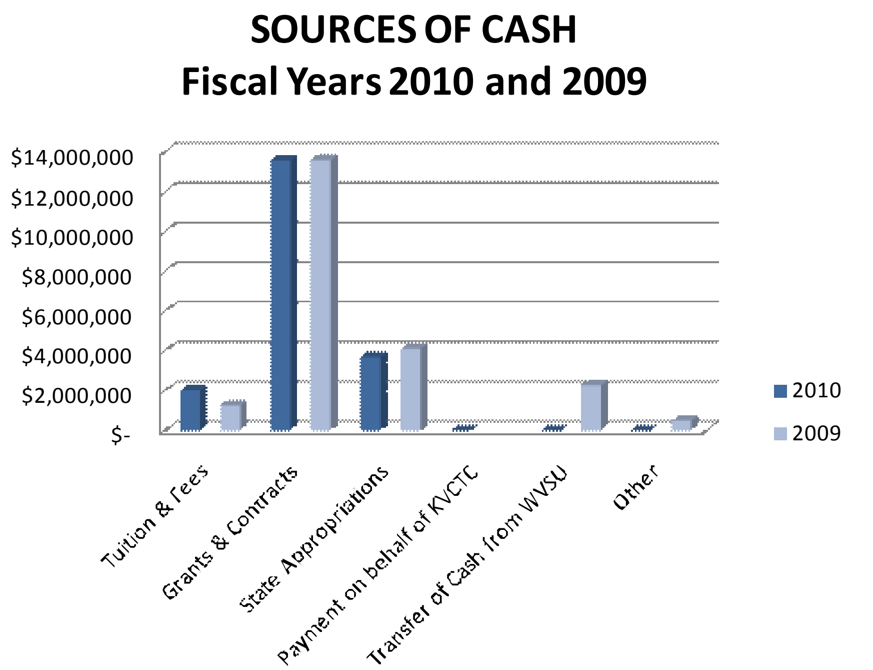
Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

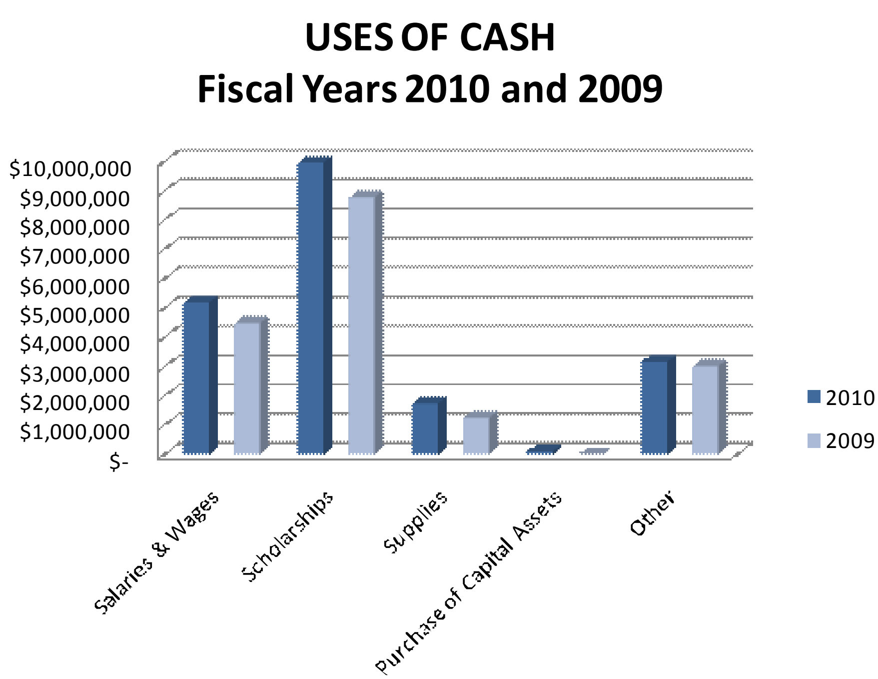
Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

Condensed Statements of Cash Flows

Cash Provided (Used) By:	2010	2009
Operating Activities	$ (8,908,586)	$ (5,197,919)
Noncapital Financing Activities	8,179,588	9,437,323
Capital Financing Activities	(197,226)	(99,429)
Investing Activities	7,451	36,330
(Decrease) Increase in Cash and Cash Equivalents	(918,773)	4,176,305
Cash and Cash Equivalents, Beginning of Year	4,176,305	-
Cash and Cash Equivalents, End of Year	$ 3,257,532	$ 4,176,305

The following graphs illustrate the sources and uses of cash –





Capital Asset and Long Term Debt Activity

During FY 2009 and in accordance with the provisions of House Bill 3215, WV State transferred net assets to Kanawha Valley in the amount of $786,903. WV State also transferred debt in the amount of $258,792.

Kanawha Valley also used a portion of the $13.5 million bond funds, $14,212, as payment for architects in the design of the renovations for the new college to be located over at the WV Education Research Technology Park. These renovations are expected to be completed in 2012. Kanawha Valley made scheduled debt service payments and will pay off debt issued by the WV Higher Education Policy Commission in 2012. System debt associated with the Council's $13.5 million is being repaid through the use of through the lottery funds.

Economic Outlook

The financial position of Kanawha Valley Community and Technical College is closely tied to that of the State of West Virginia. The College is located in the Kanawha Valley of the State, which is an area of the state experiencing significant job losses and a declining population base. The service region of the institution also includes Clay County, a very rural part of the state, and Putnam County an area of the state with a growing population base. The economy of West Virginia is expected to follow the national downturn for the foreseeable future. The national economy is expected to rebound slowly over the next few years and recent data indicate a slow growing recovery beginning in the state. The uncertainty of coal's future and the introduction of gambling in neighboring states raise questions about the path of recovery in West Virginia.

While actual and potential cuts in State funding present a challenge, the enrollment of the college continues to grow. The unofficial full-time equivalent enrollment for the fall term of 2010 is projected to increase approximately 17% over the fall term of 2009.

The College has secured additional space in Cole Complex to house new student services and technology staff. The College continues to develop plans to move to a renovated facility in South Charleston within the next two years. Funding for the facility will come from the State's sale of bonds.

The College has developed a strong Workforce Development partnership with the region's employers. Additionally, the College is developing several new partnerships focused on the needs and demands of regional employers, such as programs in healthcare, energy and the chemical industry.

Currently, the College is in a position to remain financially stable and experience moderate growth.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	$3,257,532	$4,176,305
Due from the Council/Commission	-	698,551
Accounts receivable — net	224,386	259,273
Total current assets	3,481,918	5,134,129
NONCURRENT ASSETS — Capital assets — net	124,610	31,741
TOTAL	$3,606,528	$5,165,870

LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 331,026	$ 163,398
Accrued liabilities	516,179	449,311
Due to State agencies	21,418	1,232
Compensated absences — current portion	112,853	62,825
Debt obligation due to Commission — current portion	106,772	103,001
Deferred revenue	1,250,162	1,688,248
Total current liabilities	2,338,410	2,468,015
NONCURRENT LIABILITIES:		
Other post employment benefits liability	496,523	72,779
Compensated absences	80,679	41,536
Debt obligation due to Commission	49,020	155,791
Total noncurrent liabilities	626,222	270,106
Total liabilities	2,964,632	2,738,121
NET ASSETS:		
Invested in capital assets — net of related debt		
Unrestricted	641,896	2,427,749
Total net assets	641,896	2,427,749
TOTAL	$3,606,528	$5,165,870

See notes to financial statements.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $2,259,919 in 2010 and $1,775,573 in 2009	$ 1,209,246	$ 1,966,246
Contracts and grants:		
Federal	184,015	174,499
State	2,254,445	2,562,402
Private	356,980	472,251
Auxiliary enterprise revenue	-	265,409
Other operating revenues	-	199,653
Total operating revenues	4,004,686	5,640,460
OPERATING EXPENSES:		
Salaries and wages	4,312,712	3,743,083
Benefits	1,455,714	847,060
Supplies and other services	1,932,349	1,312,942
Utilities	35,055	26,157
Student financial aid — scholarships and fellowships	3,259,668	2,487,929
Depreciation	15,569	5,472
Fees assessed by the Commission for operations	65,365	56,468
Charges from West Virginia State University	2,946,300	2,806,000
Total operating expenses	14,022,732	11,285,111
OPERATING LOSS	(10,018,046)	(5,644,651)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	3,776,404	4,038,673
State fiscal stabilization funds (federal)	262,269	-
Pell Grant revenue	4,191,190	3,161,203
Payments on behalf of Kanawha Valley Community and Technical College	-	74,439
Investment income	7,451	36,330
Loss on fixed asset disposal	-	(874)
Fees assessed by the Commission	(19,333)	(24,274)
Net nonoperating revenues	8,217,981	7,285,497
(DECREASE) INCREASE IN NET ASSETS BEFORE REVENUE, EXPENSES, GAINS OR LOSSES, AND TRANSFER	(1,800,065)	1,640,846
CAPITAL PAYMENTS MADE ON BEHALF OF KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE	14,212	-
TRANSFER OF NET ASSETS FROM WEST VIRGINIA STATE UNIVERSITY	-	786,903
(DECREASE) INCREASE IN NET ASSETS	(1,785,853)	2,427,749
NET ASSETS — Beginning of year	2,427,749	-
NET ASSETS — End of year	$ 641,896	$ 2,427,749

See notes to financial statements.

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 2,011,507	$ 1,248,343
Contracts and grants	2,319,473	4,201,995
Payments to and on behalf of employees	(5,188,643)	(4,481,665)
Payments to suppliers	(1,744,535)	(1,255,100)
Charges from West Virginia State University	(2,946,300)	(2,806,000)
Payments for utilities	(35,055)	(26,157)
Payments for scholarships and fellowships	(3,259,668)	(2,487,929)
Auxiliary enterprise charges	-	265,409
Fees retained by Commission	(65,365)	(56,468)
Other receipts — net	-	199,653
Net cash used in operating activities	(8,908,586)	(5,197,919)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	3,675,156	4,115,548
State fiscal stabilization funds (federal)	262,269	-
Federal student loan program — direct lending receipts	6,776,018	6,210,336
Federal student loan program — direct lending payments	(6,705,712)	(6,287,211)
Pell Grant revenue	4,191,190	3,161,203
Transfer of cash from West Virginia State University	-	2,261,721
Fees assessed by the Commission	(19,333)	(24,274)
Net cash provided by noncapital financing activities	8,179,588	9,437,323
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases and construction of capital assets	(108,438)	-
Payments made on behalf of Kanawha Valley Community and Technical College (KVCTC)	14,212	-
Principal paid on payable to Commission	(103,000)	(99,429)
Net cash used in capital financing activities	(197,226)	(99,429)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	7,451	36,330
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(918,773)	4,176,305
CASH AND CASH EQUIVALENTS — Beginning of year	4,176,305	-
CASH AND CASH EQUIVALENTS — End of year	$ 3,257,532	$ 4,176,305

(Continued)

KANAWHA VALLEY COMMUNITY AND TECHNICAL COLLEGE

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

	2010	2009
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (10,018,046)	$ (5,644,651)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	15,569	5,472
Expenses paid on behalf of the College	-	74,439
Changes in assets and liabilities:		
Accounts receivables — net	66,585	(721,907)
Due from the Commission/Council	697,795	1,232
Accounts payable and accrued liabilities	254,682	81,368
Compensated absences	512,915	9,281
Deferred revenue	(438,086)	996,847
NET CASH USED IN OPERATING ACTIVITIES	$ (8,908,586)	$ (5,197,919)

See notes to financial statements. (Concluded)

1. ORGANIZATION

Kanawha Valley Community and Technical College (the "College") is governed by the Kanawha Valley Community and Technical College Board of Governors (the "Board"). The Board was established by House Bill 3215, effective July 1, 2008, which clarified and redefined relationships between and among certain higher education boards and institutions.

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 College 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 gave the West Virginia Council for Community and Technical College the responsibility for developing, overseeing, and advancing the state of West Virginia 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 Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements, 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 that, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (the "Commission", which includes West Virginia Network for Educational Telecomputing (WVNET)) and the Council, form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the 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.

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires 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 accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets — Expendable — This includes resources for which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. The College does not have any restricted expendable net assets at June 30, 2010 or 2009.

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 No. 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, 2010 and 2009.

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.

Cash and cash equivalents balances on deposit with the State Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes and is overseen and managed by the West Virginia Board of Treasury Investments (BTI). 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. The BTI was established by the West Virginia State Legislature and is subject to oversight by the West Virginia State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal, or, on the first day of each month for the WV Short Term Bond Pool, and accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the College may invest in. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd., E. Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

Noncurrent Cash, Cash Equivalents, and Investments — Cash and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted net assets are classified as noncurrent assets in the accompanying statements of net assets.

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 leasehold improvements and equipment. 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. The capital assets transferred in were recorded at net book value. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20–50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3–10 years for furniture and equipment. The College capitalizes all purchases of library books and uses a capitalization threshold of $5,000 for other capital assets.

Deferred Revenue — Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue. Financial aid and other deposits are separately classified as deposits. Additionally, revenues under reimbursement grant contracts are classified as deferred revenue until the costs have been incurred.

Compensated Absences and Other Post Employment Benefits — The College accounts for compensated absences in accordance with the provisions of GASB.

GASB provides standards for the measurement, recognition, and display of other post employment benefits (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The College is required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

GASB 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, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plan approved by the State.

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. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire.

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

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

In addition, through its participation in PEIA and third-party insurers, 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 insurers, 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 nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations and investment income.

Other Revenues — Other revenues consist primarily of capital gains 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 makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's statements of net assets as the loans are repayable directly to the U.S. Department of Education. In 2010 and 2009, the College received and disbursed approximately \$6.7 million and \$6.3 million, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2010 and 2009, the College received and disbursed approximately \$4.3 million and \$3.3 million, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the 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.

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

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The 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 been included as cash and cash equivalents for the purpose of the statements of cash flows.

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2010, the College adopted Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on the financial statements.

The College also adopted Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board—The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The College has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2010 and 2009, are held as follows:

	2010	**2009**
State Treasurer	$ 3,257,532	$ 4,176,305

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2010 and 2009, are comprised of the following investment pools:

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

WV Money Market — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2010 and 2009, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Money Market Pool investments had a total carrying value of $2,876,711,000 and $2,570,261,000, respectively, of which the College's ownership represents 0.11% and 0.14%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2010 and 2009, the WV Government Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Government Money Market Pool investments had a total carrying value of $221,183,000 and $283,826,000, of which the College's ownership represents 0.01% and 0.01%, respectively.

WV Short Term Bond Pool:

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

	Credit Rating*		2010		2009	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 24,330	5.37 %	$ 16,402	5.21 %
	Aaa	NR *	10,353	2.28	5,136	1.63
	Aa3	AAA	1,000	0.22	223	0.07
	Aa2	AAA			461	0.15
	A3	AAA			273	0.09
	Baa2	AAA			831	0.26
	Baa1	BBB**			332	0.10
	Baa2	BBB**			1,376	0.44
	Ba1	CC**	45	0.01		
	Ba2	BB**	219	0.05		
	Ba3	AAA			645	0.20
	B1	AAA			779	0.25
	B1	BBB**	605	0.13		
	B1	CCC**	857	0.19		
	B2	B**			493	0.16
	B2	CCC**	366	0.08	539	0.17
	B3	AAA			949	0.30
	B3	B**	442	0.10		
	B3	BBB**	247	0.05		
	B3	CCC**	554	0.12		
	Caa1	BB**			254	0.08
	Caa1	CCC**	230	0.05		
	Caa2	CCC**	779	0.17		
	NR *	AAA	3,538	0.78	679	0.22
			43,565	9.60	29,372	9.33
Corporate bonds and notes	Aaa	AAA	72,549	16.00	47,204	14.99
	Aaa	AA	2,060	0.46		
	Aa1	AA	5,430	1.20	4,445	1.41
	Aa1	A			2,052	0.65
	Aa2	AAA			3,040	0.96
	Aa2	AA	6,650	1.47	9,066	2.88
	Aa3	AA	6,722	1.48		
	Aa3	A	13,850	3.05	7,831	2.49
	A1	AA	15,485	3.41	4,813	1.53
	A1	A	21,098	4.65	5,522	1.75
	A2	A	41,093	9.06	32,040	10.17
	A3	A	4,158	0.92	7,024	2.23
	Baa3	A			2,067	0.66
			189,095	41.70	125,104	39.72
U.S. agency bonds	Aaa	AAA	40,180	8.86	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	158,423	34.93	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,540	1.00	4,975	1.58
Money market funds	Aaa	AAA	17,715	3.91	6,426	2.04
			$453,518	100 %	$314,932	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2010 and/or 2009. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

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

At June 30, 2010 and 2009, the College's ownership represents 0.06% and 0.02%, respectively, of these amounts held by the BTI.

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

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

	2010		2009	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 174,980	1	$ 212,010	1
U.S. Treasury notes	65,153	140		
U.S. Treasury bills	476,670	35	483,714	69
Commercial paper	855,844	18	592,479	32
Certificates of deposit	281,000	45	128,402	56
U.S. agency discount notes	606,048	52	635,602	57
Corporate bonds and notes	20,000	19	73,812	38
U.S. agency bonds/notes	246,990	55	294,019	70
Money market funds	150,026	1	150,223	1
	$2,876,711	33	$2,570,261	47

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

	2010		2009	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 66,600	1	$ 53,000	1
U.S. Treasury notes	8,526	114		
U.S. Treasury bills	29,982	72	74,424	94
U.S. agency discount notes	36,465	115	87,662	55
U.S. agency bonds/notes	79,532	30	68,608	37
Money market funds	78	1	132	1
	$ 221,183	44	$ 283,826	51

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from the date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool as of June 30, 2010 and 2009:

	2010		2009	
Security Type	**Carrying Value (in Thousands)**	**Effective Duration (Days)**	**Carrying Value (in Thousands)**	**Effective Duration (Days)**
U. S. Treasury bonds/notes	$ 158,423	583	$ 88,805	917
Corporate notes	189,095	560	125,104	559
Corporate asset backed securities	43,565	679	29,372	622
U.S. agency bonds/notes	40,180	288	60,250	752
U.S. agency mortgage backed securities	4,540	360	4,975	540
Money market funds	17,715	1	6,426	1
	$ 453,518	530	$ 314,932	691

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

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

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

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 and 2009, is as follows:

	2010	2009
Student tuition and fees — net of allowance for doubtful accounts of $218,856 in 2010 and $413,151 in 2009	$ 98,288	$ 63,941
Due from other higher education and other State agencies	34,040	
Grants receivable	72,636	
Other accounts receivable	19,422	195,332
	$ 224,386	$ 259,273

5. CAPITAL ASSETS

A summary of capital assets transactions for the College as of June 30, 2010 and 2009, is as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ -	$ -	$ -	$ -
Construction in progress		14,212		14,212
Total capital assets not being depreciated	$ -	$ 14,212	$ -	$ 14,212
Capital assets — equipment	$ 113,336	$ 94,226	$ (12,500)	$ 195,062
Less accumulated depreciation for equipment	(81,595)	(15,569)	12,500	(84,664)
Total accumulated depreciation	(81,595)	(15,569)	12,500	(84,664)
Capital assets — net	$ 31,741	$ 92,869	$ -	$ 124,610

2009	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets — equipment	$ -	$151,068	$ -	$ 37,732	$113,336
Less accumulated depreciation for equipment	-	112,981	5,472	(36,858)	81,595
Total accumulated depreciation	-	112,981	5,472	(36,858)	81,595
Capital assets — net	$ -	$ 38,087	$ (5,472)	$ 74,590	$ 31,741

The College maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

6. LONG-TERM LIABILITIES

A summary of long-term obligation transactions for the College for the years ended June 30, 2010 and 2009, is as follows:

2010	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:						
Accrued compensated absences	$ 104,361	$ -	$ 89,171	$ -	$193,532	$112,853
OPEB liability	72,779		423,744		496,523	
Debt obligation due Commission	258,792			(103,000)	155,792	106,772
Total long-term liabilities	$ 435,932	$ -	$ 512,915	$ (103,000)	$845,847	$219,625

2009	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:						
Accrued compensated absences	$ -	$126,887	$ -	$ (22,526)	$104,361	$ 62,825
OPEB liability		40,973	31,806		72,779	
Debt obligation due Commission		358,221		(99,429)	258,792	103,001
Total long-term liabilities	$ -	$526,081	$ 31,806	$ (121,955)	$435,932	$165,826

7. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2010 and 2009, the noncurrent liability related to OPEB costs was $496,523 and $72,779, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $423,744 and $82,828, respectively, during 2010 and $196,434 and $90,189, respectively, during 2009. As of the years ended June 30, 2010 and 2009, there are two and three retirees, respectively, receiving these benefits.

8. OPERATING LEASES

Total rental expense for the years ended June 30, 2010 and 2009, was $79,238 and $35,924, respectively.

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 the 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, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the University and College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Municipal Bond Commission, as successor to the former Boards.

The Municipal Bond Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for the Municipal Bond Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002.

For the years ended June 30, 2010 and 2009, debt service assessed is as follows:

	2010	2009
Principal	$ 103,000	$ 99,429
Interest	11,115	16,086
Other	8,217	8,188
	$ 122,332	$ 123,703

During December 2009, the Commission, on behalf of the Council, issued $78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (the "2009 Bonds"). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The bond projects listed in the bond offering for the 2009 Bonds proposes bond funding of $13,500,000 for the College. As of June 30, 2010, $14,212 has been recognized by the College. State lottery funds will be used to repay the debt.

10. UNRESTRICTED NET ASSETS

The College did not have any designated unrestricted net assets as of June 30, 2010 and 2009.

	2010	2009
Total unrestricted net assets before OPEB liability	$1,138,419	$2,500,528
Less: OPEB liability	496,523	72,779
Total unrestricted net assets	$ 641,896	$2,427,749

11. RETIREMENT PLANS

Substantially, all full-time employees of the College participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (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 New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the year ended June 30, 2010. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2010. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2010 and 2009, was $34,857 and $33,718, which consisted of $23,628 and $22,778 from the College and $11,229 and $10,940 from the covered employees, respectively.

The contribution rate is set by the West Virginia 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 and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in 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 and Educators Money, which are not matched by the College.

Total contributions to the TIAA-CREF for the years ended June 30, 2010 and 2009, was $391,298 and $346,434, respectively, which consisted of $195,649 and $173,217 from the College and the covered employees.

Total contributions to the Educators Money for the years ended June 30, 2010 and 2009, were $12,570 and $12,442, which consisted of $6,285 and $6,221, respectively, from both the College and covered employees.

The College's total payroll for the years ended June 30, 2010 and 2009, were $3,552,725 and $3,762,721, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $187,164, $3,260,809, and $104,752, respectively, in 2010, and $182,340, $2,886,954, and $103,684, respectively, in 2009.

12. 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 have a significant financial impact on 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.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2010 and 2009.

13. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2010 and 2009, the following table represents operating expenses within both natural and functional classifications:

2010	Salaries and Wages	Benefits	Supplies and Charges From University	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$3,108,109	$1,068,343	$ 821,854	$ 2,680	$ 12,272	$ -	$ -	$ 5,013,258
Public service	329,243	62,675	199,088	633	63,120			654,759
Academic support	482,116	181,884	722,366	31,742	690			1,418,798
Student services	100,394	28,713	382,455		1,000			512,562
General institutional support	292,850	114,099	1,771,696		4,539			2,183,184
Operations and maintenance of plant			524,655					524,655
Student financial aid					3,178,047			3,178,047
Auxiliary enterprise			456,535					456,535
Depreciation						15,569		15,569
Fees assessed by the Commission							65,365	65,365
Total	$4,312,712	$1,455,714	$4,878,649	$35,055	$3,259,668	$15,569	$65,365	$14,022,732

2009	Salaries and Wages	Benefits	Supplies and Charges From University	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	$2,828,697	$664,824	$ 706,418	$17,452	$ 2,433	$ -	$ -	$ 4,219,824
Public service	281,531	54,908	330,896	887	38,738			706,960
Academic support	345,467	93,117	216,050	7,772				662,406
Student services	11,900	1,185	260,673	46				273,804
General institutional support	275,488	33,026	1,602,167					1,910,681
Operations and maintenance of plant			539,556					539,556
Student financial aid					2,446,758			2,446,758
Auxiliary enterprise			463,182					463,182
Depreciation						5,472		5,472
Fees assessed by the Commission							56,468	56,468
Total	$3,743,083	$847,060	$4,118,942	$26,157	$2,487,929	$5,472	$56,468	$11,285,111

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

To the Governing Board of
Kanawha Valley Community and Technical College:

We have audited the financial statements of Kanawha Valley Community and Technical College (the "College") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the College's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Kanawha Valley Community and Technical College Governing Board, managements of the College, and the West Virginia Council for Community and Technical College Education, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Deloitte & Touche LLP

December 22, 2010