

Marshall Community and Technical College

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

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Marshall Community and Technical College:

We have audited the statement of net assets of Marshall Community and Technical College (the "College") as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year 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 audit.

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. 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 audit provides 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, 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 8 is not a required part of the 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 October 7, 2009, 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

October 7, 2009

MARSHALL COMMUNITY & TECHNICAL COLLEGE
MANAGEMENT DISCUSSION AND ANALYSIS
FISCAL YEAR 2009
[Unaudited]

The History of the College

Marshall Community and Technical College (MCTC or the “College”) is one of West Virginia’s ten community and technical colleges. MCTC headcount enrollment for the Fall 2008 term was 2,449 resulting in a Full-Time Equivalent (FTE) of 1,557. MCTC offers 50 Associate degrees and 15 Certificate programs in the areas of Allied Health and Life Sciences, Business and Information Technology, Liberal Arts and Human Services, and Occupational Development.

Marshall Community College was founded in 1975 as a separate college within Marshall University to better serve students by bringing together many of the two-year associate degree programs under one institution. Classes began in the fall of 1975 with a wide range of programs. From the outset, the Marshall Community College’s mission has been to provide two year associate degrees as well as provide continuing education and community service.

In 1991, the Marshall Community College name was changed to Marshall Community and Technical College to better reflect the technical nature of many of the programs offered. On October 30, 2003, Marshall Community and Technical College became accredited as an independent institution by The Higher Learning Commission, a Commission of the North Central Association of Colleges and Schools. This accreditation was continued for ten years on July 3, 2008.

Prior to Fiscal Year 2009, MCTC was a separately accredited institution, administratively-linked to Marshall University. MCTC’s financial information was included with the Marshall University Financial Statements through Fiscal Year 2008. With the passage of House Bill 3215 during the 2008 session of the West Virginia Legislature, MCTC became a free-standing and independent institution no longer administratively-linked to the four-year institution effective July 1, 2008. Due to the separation of the College from Marshall University in FY 2009, only one year of financial information is presented in the financial statements. Note 1 to the financial statements details the amount of net assets transferred from the University to the College.

MCTC is now governed by a separate Board of Governors. This twelve (12) member Board was established by House Bill 3215, effective July 1, 2008. The 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 MCTC.

Overview of the Financial Statements and Financial Analysis

Since MCTC is a new institution under the changes mandated by House Bill 3215, comparative data for years prior to Fiscal Year 2009 is not available. 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. The Governmental Accounting Standards Board (GASB) issues directives for presentation of college and university financial statements. This report format places emphasis on the overall economic resources of the College.

Statement of Net Assets

A Statement of Net Assets presents the assets, liabilities, and net assets of MCTC as of the end of the fiscal year. A Statement of Net Assets is a point in time financial statement and provides a fiscal snapshot of the College. A Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). Current assets and liabilities are typically associated with resources or obligations that will be used within the fiscal year. Noncurrent assets and liabilities are not typically used within the fiscal year. From the data presented, readers of a Statement of Net Assets are able to determine the assets available to continue the operations of the College. They are also able to determine how much the College owes vendors, employees, lenders and others. Finally, a Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the College's equity in or ownership of property, plant and equipment. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets include endowments. The corpus of nonexpendable restricted resources is only available for investment purposes. MCTC does not have any nonexpendable restricted net assets at June 30, 2009. Expendable restricted net assets are available for expenditure by the College but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of these assets. The final category is unrestricted net assets. Unrestricted net assets are available for general use by the College.

Condensed Statement of Net Assets (In Thousands)

	FY 2009
Assets	
Current Assets	\$ 8,574
Other noncurrent assets	<u>4,707</u>
Total Assets	<u><u>\$ 13,281</u></u>
Liabilities	
Current liabilities	\$ 2,559
Noncurrent liabilities	<u>2,165</u>
Total Liabilities	<u><u>\$ 4,724</u></u>
Net Assets	
Invested in capital assets, net of related debt	\$ -
Restricted	16
Unrestricted	<u>8,541</u>
Total Net Assets	<u><u>8,557</u></u>
Total	<u><u>\$ 13,281</u></u>

Major Items of Note in the Condensed Statement of Net Assets include:

- Total current assets of \$8.6 million exceeded total current liabilities of \$2.6 million for a net working capital of \$6.0 million.
- Noncurrent assets total \$4.7 million compared to noncurrent liabilities of \$2.2 million.
- The net assets total \$8.6 million.
- Invested in Capital Assets, net of related debt shows no balance. This is because the \$2,686,956 Debt Obligation of the Higher Education Policy Commission at July 1, 2008 was transferred to the College. The debt required to be assumed by the College is more than the book value of its Capital Assets; therefore, no balance is shown on this line. This negative balance of \$822,966 is a reduction of the Unrestricted Net Assets balance.

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 this statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains and losses received or spent by the College.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the College. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the Legislature to the College without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Federal Pell grants are reported as nonoperating because of specific guidance in the AICPA industry audit guide.

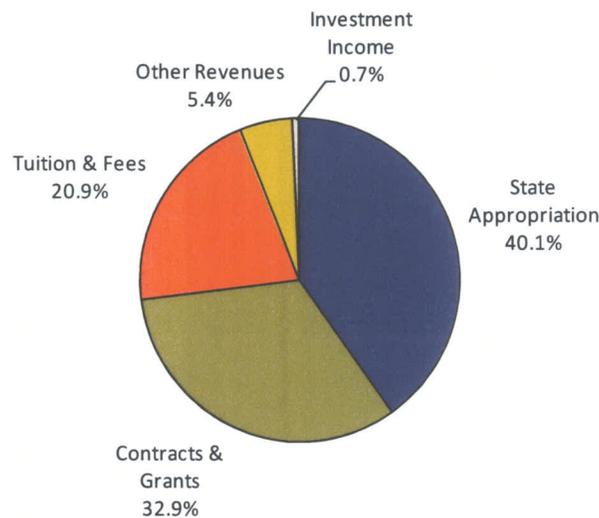
Condensed Statement of Revenues, Expenses and Changes in Net Assets
(In Thousands)

	FY 2009
Operating revenues	\$ 5,919
Operating expenses	<u>(16,880)</u>
Operating Loss	(10,961)
Nonoperating revenues	9,724
Nonoperating expenses	<u>(163)</u>
Net Decrease in Net Assets before Transfer	(1,400)
Capital bond proceeds from the Commission	75
Transfer of assets from Marshall University	<u>9,882</u>
Net Increase in Net Assets	<u>8,557</u>
Net Assets - Beginning of Year	<u>-</u>
Net Assets - End of Year	<u><u>\$ 8,557</u></u>

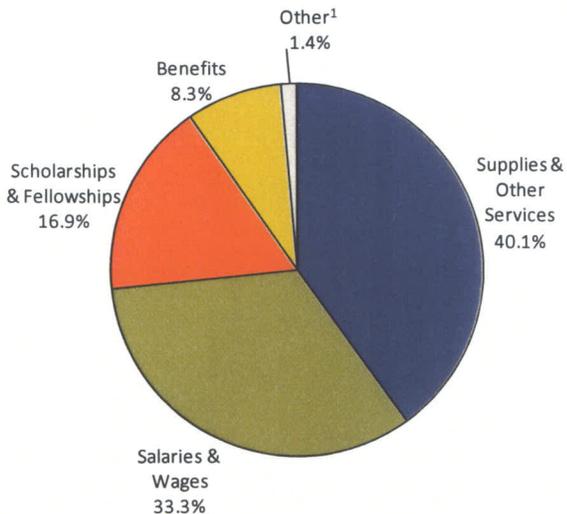
Major Items of Note in the Condensed Statement of Revenue, Expenses, and changes in Net Assets include:

- The total operating and nonoperating revenues of the College amount to \$15.6 million. The most significant sources of revenue to the College are State appropriations accounting for 40% of the revenue. Student tuition and fees account for 21% of the revenue.
- Operating revenues totaled \$5.9 million compared to operating expenses of \$16.9 million, resulting in an \$11 million operating loss.
- Nonoperating revenues of \$9.7 million were used to help fund the operating expenses.
- Increase in Net Assets of \$8.6 million is attributable to the \$1.4 million net decrease in Net Assets for FY 2009 before capital bond proceeds of \$75,000 and the \$9.9 million transfer of Net Assets from Marshall University.

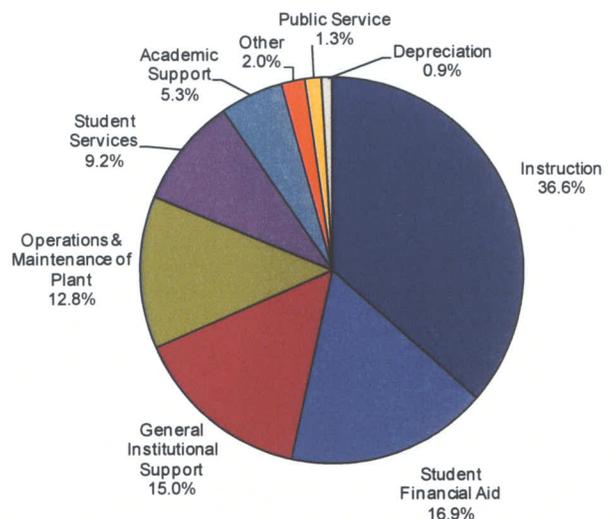
**FY 2009
Total Operating and Nonoperating Revenues**



**FY 2009
Operating Expenses
by Object**



**FY 2009
Operating Expenses
by Function**



Statement of Cash Flows

The final statement presented by Marshall Community and Technical 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 deals with operating cash flows and shows the net cash used by the operating activities of the College. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Condensed Statement of Cash Flows *(In Thousands)*

	FY 2009
Cash flows provided by (used in):	
Operating activities	\$ (10,537)
Noncapital financing activities	18,631
Capital and related financing activities	(544)
Investing activities	<u>122</u>
Net change in current cash	7,672
Current cash, beginning of year	<u>-</u>
Current cash, end of year	<u>\$ 7,672</u>

Capital Asset and Debt Administration

The College continues to expand its facilities utilizing the Marshall University campus through Fiscal Year 2011 along with additional leased facilities. The College is expecting to receive \$13.5 million to obtain its own facilities by Fiscal Year 2011 from an eighty million dollar bond issue of the Higher Education Policy Commission on behalf of the West Virginia Council for Community and Technical College Education. These funds will be used to provide a campus in the Huntington area, completing the separation from the University.

The College does not anticipate issuing any debt on its own. The debt currently reflected in MCTC's financial statements represents the Higher Education Policy Commission System Debt that the College must pay. Additional details regarding the Capital Assets and Debt Administration can be found in the notes to the financial statements.

Other Factors impacting the Financial Position and Operational Results of the College

As noted previously, House Bill 3215 established the College as a separate institution from Marshall University, effective July 1, 2008. The administration of the College decided that effective with the Fall Term 2009, the College would no longer contract for various administrative services with Marshall University, but would develop its own Student Information, Finance, and Human Resource/Payroll management systems.

In order to implement these systems, the College began to hire additional personnel in the second half of Fiscal Year 2009, thus utilizing significant additional resources in Fiscal Year 2009, while still buying these services from the University.

Within the Student Services and Business Services Divisions, additional employees were hired to take over the support services previously provided by the University effective July 1, 2009. These administrative services will be phased out of the agreement with the University in Fiscal Years 2010 and 2011. This should significantly decrease future costs for MCTC when comparing expenditures with Fiscal Year 2009.

Economic Outlook

Although the economic forecasts for the State and the nation are not positive, the College is looking forward to continued growth in students due to the need for its services. The federal government is increasing financial aid to students and the outlook for federal grants to the College looks promising. The College's emphasis on access and affordability along with controlling the finance and student information systems effective in Fiscal Year 2010 and obtaining a separate and distinct campus will enable the college to better meet the needs of its students and implement its mission.

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF NET ASSETS

AS OF JUNE 30, 2009

ASSETS

CURRENT ASSETS:

Cash and cash equivalents	\$ 7,672,300
Due from the Council/Commission	445,099
Due from Marshall University - current portion	350,000
Accounts receivable — net	<u>106,609</u>
Total current assets	<u>8,574,008</u>

NONCURRENT ASSETS:

Due from Marshall University - noncurrent	3,150,000
Capital assets — net	<u>1,557,316</u>
Total noncurrent assets	<u>4,707,316</u>

TOTAL \$ 13,281,324

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:

Accounts payable	\$ 100,542
Due to State agencies	80,770
Due to Commission	94,628
Accrued liabilities	385,624
Compensated absences	290,868
Debt obligation due to Commission — current portion	319,821
Deferred revenue	<u>1,286,967</u>
Total current liabilities	<u>2,559,220</u>

NONCURRENT LIABILITIES:

Other post employment benefits liability	104,338
Debt obligation due to Commission	<u>2,060,461</u>
Total noncurrent liabilities	<u>2,164,799</u>
Total liabilities	<u>4,724,019</u>

NET ASSETS:

Invested in capital assets — net of related debt	-
Restricted for — expendable — scholarships	8,481
Restricted for — expendable — sponsored projects	7,553
Unrestricted	<u>8,541,271</u>
Total net assets	<u>8,557,305</u>

TOTAL \$ 13,281,324

See notes to financial statements.

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

OPERATING REVENUES:

Student tuition and fees — net of scholarship allowance of \$2,363,029	\$ 3,262,281
Contracts and grants:	
Federal	204,949
State	1,646,438
Private	99,978
Sales and services of educational activities	58,466
Other operating revenues	<u>647,108</u>
Total operating revenues	<u>5,919,220</u>

OPERATING EXPENSES:

Salaries and wages	5,629,132
Benefits	1,401,830
Supplies and other services	6,756,407
Utilities	11,856
Student financial aid — scholarships and fellowships	2,860,690
Depreciation	153,278
Fees assessed by the Commission for operations	<u>66,694</u>
Total operating expenses	<u>16,879,887</u>

OPERATING LOSS

(10,960,667)

NONOPERATING REVENUES (EXPENSES):

State appropriations	6,286,742
Payments on behalf of Marshall Community and Technical College	102,279
Federal Pell grants	3,188,482
Gifts	38,276
Investment income	108,082
Interest on indebtedness	(18)
Other nonoperating expenses	(34,780)
Fees assessed by the Commission	<u>(127,919)</u>
Net nonoperating revenues	<u>9,561,144</u>

LOSS BEFORE OTHER REVENUE, EXPENSES, GAINS OR LOSSES, AND TRANSFER (1,399,523)

CAPITAL BOND PROCEEDS FROM THE COMMISSION 75,028

TRANSFER OF NET ASSETS FROM MARSHALL UNIVERSITY 9,881,800

NET INCREASE IN NET ASSETS 8,557,305

NET ASSETS — Beginning of year

NET ASSETS — End of year \$ 8,557,305

See notes to financial statements.

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

CASH FLOWS FROM OPERATING ACTIVITIES:

Student tuition and fees	\$ 3,209,236
Contracts and grants	2,493,639
Payments to and on behalf of employees	(6,675,316)
Payments to suppliers	(6,937,590)
Payments to utilities	(11,856)
Payments for scholarships and fellowships	(2,860,690)
Sales and service of educational activities	58,466
Auxiliary enterprise charges	272,101
Fees assessed by Commission	(66,694)
Other expenses — net	<u>(18,517)</u>

Net cash used in operating activities (10,537,221)

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:

State appropriations	6,226,214
Federal Pell grants	3,188,482
Gift receipts	38,276
Transfer from Marshall University	9,178,516
Federal student loan program — direct lending receipts	6,855,052
Federal student loan program — direct lending payments	<u>(6,854,961)</u>

Net cash provided by noncapital financing activities 18,631,579

CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:

Capital bond proceeds from the Commission	31,347
Purchases of capital assets	(138,547)
Principal paid on debt	(1,694)
Interest paid on debt	(18)
Principal payment on debt obligation due to the Commission	(306,674)
Fees assessed by the Commission	<u>(127,919)</u>

Net cash used in capital financing activities (543,505)

CASH FLOWS FROM INVESTING ACTIVITY — Investment income 121,447

INCREASE IN CASH AND CASH EQUIVALENTS 7,672,300

CASH AND CASH EQUIVALENTS — Beginning of year _____

CASH AND CASH EQUIVALENTS — End of year \$ 7,672,300

(Continued)

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:

Operating loss	\$ (10,960,667)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation expense	153,278
Expenses paid on behalf of the College	102,279
Changes in assets and liabilities:	
Accounts receivables — net	(387,840)
Accounts payable	(181,184)
Accrued liabilities	98,883
Compensated absences	100,051
Accrued other post employment benefits liability	45,232
Deferred revenue	<u>492,747</u>
Net cash used in operating activities	<u>\$ (10,537,221)</u>

NONCASH TRANSACTIONS:

Loss on disposal of assets	<u>\$ 34,780</u>
Transfer from Marshall University (exclusive of \$9,178,516 of cash)	<u>\$ 703,284</u>

See notes to financial statements.

(Concluded)

MARSHALL COMMUNITY AND TECHNICAL COLLEGE

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

1. ORGANIZATION

Marshall Community and Technical College (the “College”) is governed by the Marshall 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. This legislation defines the statewide network of independently accredited community and technical colleges. As required, the newly established College Board of Governors and Marshall University (the “University”) Board of Governors jointly agreed on a division of assets and liabilities of the University. The division of all assets and liabilities was effective July 1, 2008. The amount of net assets transferred from the University to the College is summarized as follows:

Cash and cash equivalents	\$ 9,178,516
Other assets	3,565,108
Capital assets - net	1,606,826
Compensated absences	(190,817)
Debt obligation to Commission	(2,686,956)
Other liabilities	<u>(1,590,877)</u>
	<u>\$ 9,881,800</u>

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.

The University continued to provide services to the College and the College recorded \$4.1 million in supplies and other services expense in connection with service agreements. A contractual arrangement can be negotiated for the University to provide services to the College until July 1, 2011 or until the governing boards of both institutions mutually agree to end the contract arrangement.

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 the College.

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 Statement No. 34, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, and Statement No. 35, *Basic Financial Statements — and Management’s Discussion and Analysis — for Public Colleges and Universities — an amendment of GASB Statement No. 34*. The financial statement presentation

required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows 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 Council, and the West Virginia Higher Education Policy Commission (the "Commission", which includes West Virginia Network for Educational Telecomputing (WVNET)), 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 Statements No. 35 and No. 38 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 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.

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, 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 focus on the flow of economic resources measurement. Revenues are reported when earned and expenditures when materials or services are received.

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

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

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which the Commission 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. East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

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 3–10 years for furniture and equipment. Leasehold improvements are amortized over the period of the lease. The financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*.

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.

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

The College accounts for other post employment benefits (OPEB) in accordance with GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provides standards for the measurement, recognition and display of 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>.

These statements require entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The 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 1½ 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. 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 forward 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 statement of revenues, expenses, and changes in net assets.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and 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 No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state 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 unsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College's statement of net assets as the loans are repayable directly to the U.S. Department of Education. In 2009, the College received and disbursed approximately \$6,855,052 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 statement 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 2009, the College was awarded approximately \$3,340,000 under these federal student aid programs. The distribution of these awards was made on their behalf by the University.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the College, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. 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.

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.

Newly Adopted Statements Issued by the GASB — During 2009, the College adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. The adoption of this statement had no impact on the financial statements.

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The College adopted GASB Statement No. 55 upon issuance.

During 2009, the GASB also issued GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. This statement establishes accounting and financial reporting standards for related party transactions, subsequent events, and going concern considerations. The College adopted GASB Statement No. 56 upon issuance.

Recent Statements Issued by the GASB — The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The College has not yet determined the effect that the adoption of GASB Statement No. 51 may have on its financial statements.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It

also improves disclosure requirements surrounding the entity’s derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument’s significant terms and risks. The College has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

State Treasurer	\$7,663,790
In bank	8,460
On hand	<u>50</u>
	<u>\$7,672,300</u>

The combined carrying amount of cash in the bank was \$8,460, as compared with the combined bank balance of \$17,528 at June 30, 2009. The difference is primarily caused by outstanding checks. The bank balances were covered by federal depository insurance or were collateralized by securities held by the State’s agent.

Amounts with the State Treasurer as of June 30, 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 to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI’s Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI’s Consolidated Fund. Of the BTI’s Consolidated Fund pools and accounts which the Commission may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, and WV Short Term Bond Pool.

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 year ended June 30, 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, 2009, the WV Money Market Pool investments had a total carrying value of \$2,570,261,000, of which the College's ownership represents 0.27%.

WV Government Money Market Pool

Credit Risk — For the year ended June 30, 2009, the WV Government Market Pool has been rated AAAM by Standard & Poor's. A Fund rated "AAAM" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAM" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, 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, 2009, the WV Government Money Market Pool investments had a total carrying value of \$283,826,000, of which the College's ownership represents 0.02%.

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) at June 30, 2009:

Security Type	Credit Rating*		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate asset backed securities				
	Aaa	AAA	\$ 16,402	5.21 %
	Aaa	NR	5,136	1.63
	Aa3	AAA	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
	Ba3	AAA	645	0.20
	B1	AAA	779	0.25
	B2	B**	493	0.16
	B2	CCC**	539	0.17
	B3	AAA	949	0.30
	Caal	BB**	254	0.08
	NR	AAA	679	0.22
			<u>29,372</u>	<u>9.33</u>
Corporate bonds and notes				
	Aaa	AAA	47,204	14.99
	Aa1	AA	4,445	1.41
	Aa1	A	2,052	0.65
	Aa2	AAA	3,040	0.96
	Aa2	AA	9,066	2.88
	Aa3	A	7,831	2.49
	A1	AA	4,813	1.53
	A1	A	5,522	1.75
	A2	A	32,040	10.17
	A3	A	7,024	2.23
	Baa3	A	2,067	0.66
			<u>125,104</u>	<u>39.72</u>
U.S. agency bonds	Aaa	AAA	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,975	1.58
Money market funds	Aaa	AAA	6,426	2.04
			<u>\$ 314,932</u>	<u>100%</u>

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 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, 2009, the College's ownership represents 0.04% of these amounts held by the BTI.

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

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool at June 30, 2009:

Security Type	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 212,010	1
U.S. Treasury bills	483,714	69
Commercial paper	592,479	32
Certificates of deposit	128,402	56
U.S. agency discount notes	635,602	57
Corporate bonds and notes	73,812	38
U.S. agency bonds/notes	294,019	70
Money market funds	<u>150,223</u>	1
	<u>\$2,570,261</u>	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 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 at June 30, 2009:

Security Type	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 53,000	1
U.S. Treasury bills	74,424	94
U.S. agency discount notes	87,662	55
U.S. agency bonds/notes	68,608	37
Money market funds	<u>132</u>	1
	<u>\$ 283,826</u>	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 date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2009:

Security Type	Carrying Value (in Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ 88,805	917
Corporate notes	125,104	559
Corporate asset backed securities	29,372	622
U.S. agency bonds/notes	60,250	752
U.S. agency mortgage backed securities	4,975	540
Money market funds	<u>6,426</u>	1
	<u>\$ 314,932</u>	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, 2009, are as follows:

Student tuition and fees — net of allowance for doubtful account of \$76,937	\$ 8,500
Due from other State agencies	77,825
Other accounts receivable	580
Grants and contracts receivable	<u>19,704</u>
	<u>\$ 106,609</u>

5. CAPITAL ASSETS

Summary of capital assets transactions for the College as of June 30, 2009, is as follows:

	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated —					
Land	\$ -	\$ 356,909	\$ -	\$ -	\$ 356,909
Construction in progress	<u>-</u>	<u>273,448</u>	<u>64,948</u>	<u>-</u>	<u>338,396</u>
Total capital assets not being depreciated	<u>-</u>	<u>630,357</u>	<u>64,948</u>	<u>-</u>	<u>695,305</u>
Other capital assets:					
Building leasehold improvements	-	677,684			677,684
Equipment	<u>-</u>	<u>1,437,581</u>	<u>73,599</u>	<u>(318,853)</u>	<u>1,192,327</u>
Total other capital assets	<u>-</u>	<u>2,115,265</u>	<u>73,599</u>	<u>(318,853)</u>	<u>1,870,011</u>
Less accumulated depreciation for:					
Building leasehold improvements	-	125,371	13,554		138,925
Equipment	<u>-</u>	<u>1,013,425</u>	<u>139,724</u>	<u>(284,074)</u>	<u>869,075</u>
Total accumulated depreciation	<u>-</u>	<u>1,138,796</u>	<u>153,278</u>	<u>(284,074)</u>	<u>1,008,000</u>
Other capital assets — net	<u>\$ -</u>	<u>\$ 1,606,826</u>	<u>\$ (14,731)</u>	<u>\$ (34,779)</u>	<u>\$ 1,557,316</u>
Capital asset summary:					
Capital assets not being depreciated	\$ -	\$ 630,357	\$ 64,948	\$ -	\$ 695,305
Other capital assets	<u>-</u>	<u>2,115,265</u>	<u>73,599</u>	<u>(318,853)</u>	<u>1,870,011</u>
Total cost of capital assets		2,745,622	138,547	(318,853)	2,565,316
Less accumulated depreciation		<u>(1,138,796)</u>	<u>(153,278)</u>	<u>284,074</u>	<u>(1,008,000)</u>
Capital assets — net	<u>\$ -</u>	<u>\$ 1,606,826</u>	<u>\$ (14,731)</u>	<u>\$ (34,779)</u>	<u>\$ 1,557,316</u>

Title for certain assets recorded above has not yet been transferred from the University.

6. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the College for the year ended June 30, 2009, is as follows:

	Beginning Balance	Transfer	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:						
OPEB liability	\$ -	\$ 59,106	\$ 151,106	\$(105,874)	\$ 104,338	
Debt obligation due to Commission		<u>2,686,956</u>		<u>(306,674)</u>	<u>2,380,282</u>	\$319,821
Total long-term liabilities	<u>\$ -</u>	<u>\$ 2,746,062</u>	<u>\$ 151,106</u>	<u>\$(412,548)</u>	<u>\$ 2,484,620</u>	

7. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2009, the noncurrent liability related to OPEB costs was \$104,338. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$262,430 and \$114,920, respectively, during 2009. As of the year ended June 30, 2009, there were two retirees receiving these benefits.

8. 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 Commission, as successor to the former Boards.

The 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 internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the 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.

For the year ended June 30, 2009, debt service assessed is as follows:

Principal	\$ 306,674
Interest	122,530
Other	<u>5,389</u>
	<u>\$ 434,593</u>

During the year ended June 30, 2005, the Commission issued \$167,000,000 of 2005 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 \$4,253,559 of these funds. The College has recognized \$4,068,571 of this approved amount as of June 30, 2009. State lottery funds will be used to repay the debt, although the College revenues are pledged if lottery funds prove insufficient.

9. UNRESTRICTED NET ASSETS

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

10. 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.

Total contributions to the Educators Money for the year ended June 30, 2009, were approximately \$10,000, which consisted of approximately \$5,000 from both the College and from covered employees.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the 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, 2009. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2009. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the year ended June 30, 2009, were approximately \$73,000, which consisted of approximately \$52,000 from the College and approximately \$21,000 from the covered employees.

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 year ended June 30, 2009, were approximately \$480,000, which consisted of equal contributions from the College and covered employees of approximately \$240,000.

The College's total payroll for the year ended June 30, 2009, was approximately \$5,630,000 and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$349,000, \$4,005,000, and \$76,000, respectively.

11. 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.

12. MARSHALL UNIVERSITY FOUNDATION, INC.

The Marshall University Foundation, Inc. (the "Foundation") is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of the University and its affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 37 members, including the President of the University as a nonvoting ex-officio member. 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. The MCTC administration does not control the resources of the Foundation. Since the College was a part of the University for many years, the Foundation has obtained resources designated for MCTC programs and/or students. As of June 30, 2009, there were five funds within the Foundation of approximately \$170,000.

13. MCTC FOUNDATION, INC.

With the change in State law to establish the College as a separate entity, a separate nonprofit MCTC Foundation was incorporated in the State, effective July 1, 2009, whose purpose is to benefit the work and services of the College. The Foundation has a three-member Board and expects to expand its membership soon. There was no activity in the MCTC Foundation in fiscal year 2009.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

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

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assessed by the Commission	Total
Instruction	\$ 4,620,185	\$ 1,074,025	\$ 467,341	\$	\$	\$	\$	\$ 6,161,551
Public service	56,446	27,779	142,004					226,229
Academic support	78,896	9,447	805,834					894,177
Student services	232,288	94,191	1,226,741					1,553,220
General institutional support	641,317	196,388	1,692,530					2,530,235
Operations and maintenance of plant			2,149,856	11,856				2,161,712
Student financial aid					2,860,690			2,860,690
Depreciation						153,278		153,278
Other			272,101				66,694	338,795
Total	<u>\$ 5,629,132</u>	<u>\$ 1,401,830</u>	<u>\$ 6,756,407</u>	<u>\$ 11,856</u>	<u>\$ 2,860,690</u>	<u>\$ 153,278</u>	<u>\$ 66,694</u>	<u>\$ 16,879,887</u>

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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
Marshall Community and Technical College:

We have audited the financial statements of Marshall Community and Technical College (the "College") as of and for the year ended June 30, 2009, and have issued our report thereon dated October 7, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the 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.

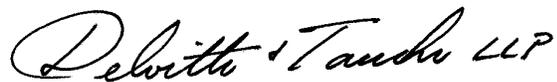
A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, 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 was not designed to identify all deficiencies in internal control over financial reporting 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 Marshall 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.

A handwritten signature in cursive script that reads "Delwith & Tausch LLP".

October 7, 2009