WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

Financial Statements for the
Years Ended June 30, 2007 and 2006 and
Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

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Deloitte.

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

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

INDEPENDENT AUDITORS' REPORT

To the West Virginia University Research Corporation Board of Directors:

We have audited the accompanying statements of net assets of West Virginia University Research Corporation (the "Corporation") as of June 30, 2007 and 2006 and the related statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the respective financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the Corporation at June 30, 2007 and 2006, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 10 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Corporation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 24, 2007, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

September 24, 2007

Member of
Deloitte Touche Tohmatsu

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2007

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) Statements No. 34 and 35. This section of the West Virginia University Research Corporation's (the "Corporation") annual financial report provides an overview of the Corporation's financial performance during the fiscal year ended June 30, 2007 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2006 compared to fiscal year 2005.

The Corporation'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 Corporation, the results of operations, and cash flows of the Corporation as a whole. Each of these statements is discussed below.

Financial Highlights

The Corporation's total net assets decreased from the previous year-end by $5.6 million. This decrease is mainly attributable to the Corporation providing additional support in the amount of $7.2 million to West Virginia University (WVU or the "University") in the form of capital improvements to property owned by the University. Total net assets had increased from fiscal year 2005 to fiscal year 2006 as a result of an increase in capital assets, net, and net accounts receivable and amounts due from the Higher Education Policy Commission (the "Commission") as well as a decrease in accounts payable to the University and other accounts payable. During fiscal year 2007, total revenues grew at a rate of 3% whereas total expenses increased by 5% compared to prior year, mainly due to an increase in salaries and benefits expense. Overall, management believes that the Corporation continues to be financially sound.

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 Corporation as of the end of the fiscal years. Assets denote the resources available to continue the operations of the Corporation. Liabilities indicate how much the Corporation owes vendors, employees and the University. Net assets measure the equity or the availability of funds of the Corporation for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the Corporation'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 University 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 facilities and administrative earnings and revenues from royalties and investments. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Corporation's Board of Directors.

Condensed Statements of Net Assets (in thousands)

	As of June 30		
	2007	**2006**	**2005**
Assets			
Current Assets	$ 46,709	$ 45,556	$ 46,202
Noncurrent Assets	26,068	27,126	25,869
Total Assets	72,777	72,682	72,071
Liabilities			
Current Liabilities	28,719	29,256	31,627
Noncurrent Liabilities	6,253	-	-
Total Liabilities	34,972	29,256	31,627
Net Assets			
Invested in Capital Assets	17,136	21,495	20,022
Restricted	824	218	-
Unrestricted	19,845	21,713	20,422
Total Net Assets	$ 37,805	$ 43,426	$ 40,444

Total assets of the Corporation increased by $95,000 to a total of $72.8 million as of June 30, 2007. The increase was primarily due to an increase in cash, net accounts receivable and due from the Commission. This increase was partially offset by a decrease in capital assets, net. The increase in total assets is consistent with, but lower than, the increase from fiscal year 2005 to fiscal year 2006.

- Net accounts receivable, including amounts due from the Commission, increased by $770,000 over prior year. The increase in net accounts receivable is primarily due to an increase in receivables associated with new and existing federal and private awards including awards for renovation of Oglebay Hall to house a forensic science facility; evaluation of transit vehicle exhaust emissions, analysis of tailpipe emissions, and characterization of emissions from heavy-duty vehicles under the Alternative Fuels Center; and Food Stamp Nutrition Education program. The increase in amounts due from the Commission is associated with awards that fund research in the areas of biotechnology and biometrics. This increase is consistent with an increase in accounts receivable balance from fiscal year 2005 to fiscal year 2006.

- Cash and cash equivalents increased by $451,000 primarily due to loan proceeds received from a draw against the West Virginia Housing Development Fund (WVHDF) line of credit for the construction of the Biomedical

Research Center, matured investments deposited as cash into the Corporation's money market account, and an increase in unpaid commitment for facilities and administrative and information technology support to the University at fiscal year-end. Cash and cash equivalents had decreased from fiscal year 2005 to fiscal year 2006 due to expenditures incurred on a new award for the construction of a Biomedical Science Research Center that remained unreimbursed at the end of fiscal year 2006.

- Capital assets, net decreased by $650,000 primarily due to the transfer of the carrying cost of construction of the Research Park in the amount of $7.2 million from the Corporation to the University. Capital assets, net had increased from fiscal year 2005 to fiscal year 2006 because of the construction-in-progress associated with the construction of the Research Park.

Total liabilities of the Corporation as of June 30, 2007 increased by $5.7 million to a total of $35.0 million. The increase is mainly due to an increase in notes payable, accounts payable to the University, other accounts payable and accrued payroll. The decrease in total liabilities from fiscal year 2005 to fiscal year 2006 was caused by a decrease in other accounts payable, accounts payable to West Virginia University, and deferred revenue.

- Notes Payable increased by $3.9 million due to a draw against the WVHDF loan during fiscal year 2007 for the construction of the Biomedical Research Center. Such liability did not exist in fiscal year 2006.

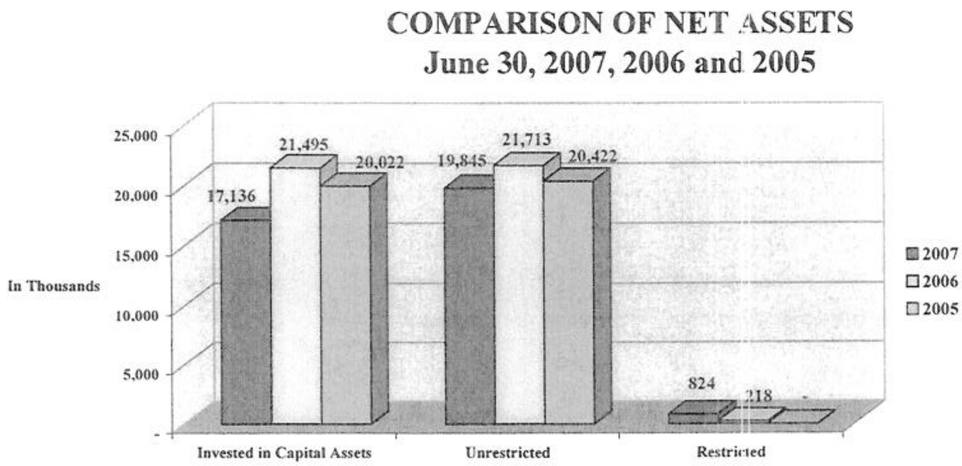
- Accounts payable to West Virginia University increased by approximately $750,000 primarily due to unpaid commitment for facilities and administrative and information technology support to the University at fiscal year-end. The Corporation made a strategic decision to defer payment of this liability to the University for the last two quarters of fiscal year 2007 and to invest the excess cash with the WVU Foundation. Such investment did not occur until August 2007. Accounts payable to West Virginia University had decreased from fiscal year 2005 to fiscal year 2006 due to a decrease in the recognized facilities and administration earnings payable to the University.

- Other accounts payable increased by approximately $400,000 primarily due to an increase, in fiscal year 2007, of open invoices accrued at year-end and subsequently disbursed. Other accounts payable had decreased from fiscal year 2005 to fiscal year 2006 because there were no significant invoices payable to vendors at the end of fiscal year 2006.

- Accrued payroll increased by approximately $390,000 over prior year mainly due to an increase in number of employees paid in arrears. The West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. A similar increase was noted in this category from fiscal year 2005 to fiscal year 2006.

The Corporation's current assets of $46.7 million were sufficient to cover current liabilities of $28.7 million indicating that the Corporation has sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.



Invested in capital assets, net of related debt decreased by $4.4 million from prior year primarily due to the transfer of construction-in-progress related to the Research Park construction from the Corporation to the University. An additional decrease is attributable to a note payable in the amount of $3.9 million recorded as a result of draw down of the WVHDF line of credit. This category had experienced an increase from fiscal year 2005 to fiscal year 2006 due to an increase in capital assets, net.

Net assets restricted for debt service increased by approximately $610,000 as a result of cash transferred to a debt service reserve account in accordance with the provisions of a borrowing plan by the Corporation to finance certain improvements at the University's Health Sciences Center (HSC). The Corporation is required to fund such reserve account for the payment of debt service on the HSC loans. This category had experienced a slight increase from fiscal year 2005 to fiscal year 2006.

Unrestricted net assets decreased by $1.9 million mainly due to support provided by the Corporation to the University in the form of capital improvements to property owned by the University. This decrease was partially offset by positive operations during fiscal year 2007. Unrestricted net assets had increased from fiscal year 2005 to fiscal year 2006 due to a decrease in accounts payable to vendors and to the University and positive operations.

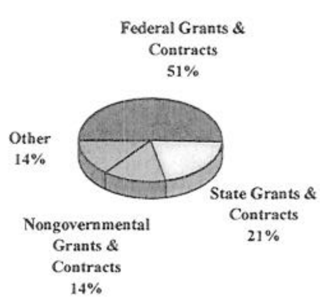
Revenues, Expenses and Changes in Net Assets

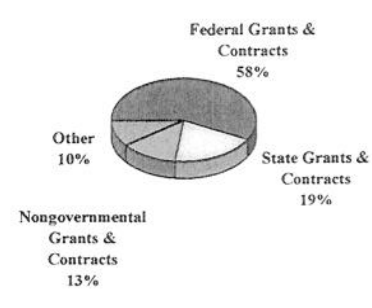
The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains, or losses of the Corporation. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

	Years Ended June 30		
	2007	2006	2005
Operating Revenues	$ 109,073	$ 110,508	$ 110,313
Operating Expenses	105,740	100,309	104,522
Operating Income	3,333	10,199	5,791
Net Nonoperating Revenues	1,717	1,231	725
Income before Other Revenues, Expenses, Gains, or Losses	5,050	11,430	6,516
Capital Grants and Gifts	15,843	10,898	6,111
Transfer of Assets to the University	(26,514)	(19,346)	(10,278)
Increase (Decrease) in Net Assets	(5,621)	2,982	2,349
Net Assets at Beginning of Year	43,426	40,444	38,095
Net Assets at End of Year	$ 37,805	$ 43,426	$ 40,444

Revenues:
The following charts illustrate the composition of revenues by source for 2007 and 2006.





The total revenues for fiscal year 2007 were $126.7 million, an increase of $4.1 million over the previous year. The increase in total revenues can be attributed to increased revenues from capital grants and gifts, state and nongovernmental grants and investments. This increase was partially offset by a decrease in federal grants and contracts revenues.

- Capital grants and gifts revenue increased by $4.9 million primarily due to increased revenues from existing capital grants. During fiscal year 2007 revenues from grants related to the construction of the Biomedical Research Center and a forensic and biometric research facility at Oglebay Hall increased. The increase is consistent with, but lower than the increase in capital grants and gifts from fiscal year 2005 to fiscal year 2006.

- State grants and contracts revenue increased by $2.9 million primarily due to revenues from several new awards in fiscal year 2007 including: Energy Express AmeriCorps for youth development; West Virginia Wisewomen aimed at health promotion and risk reduction; West Virginia Disability Navigator Services; Family Care Medley Program; Rational Drug Therapy Program; Next Generation Biometrics for achieving strength in molecular recognition; and Food Stamp Nutrition Education Program. An increase in facilities and administrative revenues generated from state grants and contracts also contributed to this increase. State grants and contracts revenue had decreased from fiscal year 2005 to fiscal year 2006 mainly due to closure of several awards during fiscal year 2006.

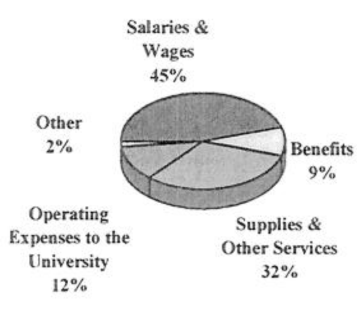
- Nongovernmental grants and contracts revenue increased by $2.3 million primarily due to increased revenues from new and existing awards including: the West Virginia IDeA Network of Biomedical Research Excellence from Marshall University; WVU Data Analysis from BrickStreet Mutual; a grant to prevent solidification defects for large super alloy castings used in advanced electric power systems from the National Association of State Energy Officials; and Development of Avionics Prototypes and Development of Intelligent Control System for SWARM UAV from Augusta Systems, Inc. Part of this increase is due to an increase in facilities and administrative revenues generated from nongovernmental grants and contracts. This category had experienced a similar increase from fiscal year 2005 to fiscal year 2006.

- Investment income increased by approximately $490,000 attributable to an increase in interest receipts, dividend income and the fair value of investments. This increase is consistent with the increase in investment income from fiscal year 2005 to fiscal year 2006.

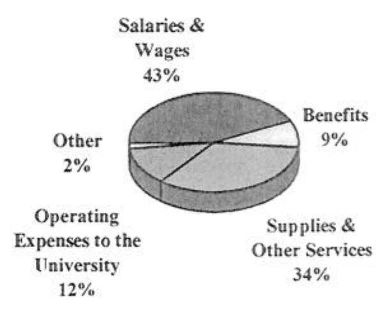
- Federal grants and contracts revenue decreased by $6.8 million mainly because of a decrease in revenues from several existing awards and closure of some awards during fiscal year 2007 including: COBRE for Signal Transduction and Cancer; West Virginia prepares: Operation and Maintenance of the NASA IV&V Facility; Continuing Education Partnership; Heavy Duty Engine Emission; National Small Flows Clearinghouse; and Operation of the Job Accommodation Network. This category had experienced a similar decrease from fiscal year 2005 to fiscal year 2006.

Expenses:
The following is a graphic comparison of total expenses by category between 2007 and 2006.

2007



2006



Total expenses for the Corporation increased by $5.5 million compared to prior year, to $105.8 million. This increase is primarily due to an increase in salaries and wages, and benefits. This increase was partially offset by a decrease in

- Salaries and wages increased by $4.8 million from the prior year primarily due to an increase in the number of Corporation employees during fiscal year 2007 and mid-year salary raises provided to employees in October 2006. A similar, but smaller, increase was noted in salaries and wages from fiscal year 2005 to fiscal year 2006.

- Benefits increased from the prior year by $1.1 million primarily due to an increase in employer's matching share of federal social security taxes corresponding to an increase in salaries and wages. A similar, but smaller, increase was noted in benefits expense from fiscal year 2005 to fiscal year 2006.

- Supplies and other services decreased by approximately $460,000 primarily because certain items were capitalized to construction-in-progress as a result of major construction activity during fiscal year 2007. An overall decrease in sponsored awards compared to prior year also caused a corresponding decrease of supplies expenses. A similar, but larger, decrease was noted in this category from fiscal year 2005 to fiscal year 2006.

Cash Flows

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

The statement of cash flows is divided into four sections:

Cash flows from operating activities. This section shows the net cash provided by the operating activities of the Corporation.

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 income to net cash provided by operating activities. This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash provided by operating activities.

Condensed Statements of Cash Flows (in thousands)

	Years Ended June 30		
	2007	**2006**	**2005**
Cash Provided (Used) By:			
Operating Activities	$ 6,028	$ 7,769	$ 1,319
Noncapital Financing Activities	98	34	(150)
Capital Financing Activities	(7,764)	(10,556)	(4,271)
Investing Activities	2,089	1,587	821
(Decrease) Increase in Cash and Cash Equivalents	451	(1,166)	(2,281)
Cash and Cash Equivalents, Beginning of Year	23,720	24,886	27,167
Cash and Cash Equivalents, End of Year	$ 24,171	$ 23,720	$ 24,886

Total cash and cash equivalents increased by $451,000 during fiscal year 2007 to $24.2 million.

- Net cash provided by operating activities decreased by $1.7 million primarily due to an increase in payments to employees of the Corporation and University, payments for benefits and a decrease in cash inflows from grants and contracts. This decrease was partially offset by a decrease in payments to suppliers and payment of operating expenses to the University.

- No significant change was noted in net cash provided by (used in) noncapital financing activities. This category had changed by $184,000 from fiscal year 2005 to fiscal year 2006 due to cash inflow from gifts in fiscal year 2006 and cash outflows related to purchase of preferred stock in a business incubator company in fiscal year 2005.

- Net cash used in capital financing activities decreased by $2.8 million primarily due to an increase in cash inflows from capital gifts and grants and loan proceeds received from a draw against the West Virginia Housing Development Fund (WVHDF) line of credit for the construction of the Biomedical Research Center. This was partially offset by an increase in cash outflows for assets purchased and transferred to the University. An increase was noted in cash flows used in financing activities from fiscal year 2005 to fiscal year 2006.

- Net cash provided by investing activities increased by $502,000 primarily due to an increase in cash inflows from investment income and a decrease in cash outflows from purchase of investments. A similar, but higher, increase was noted in net cash provided by investing activities from fiscal year 2005 to fiscal year 2006.

Capital Asset and Long Term Debt Activity

During fiscal year 2007, the site preparation and infrastructure work associated with the construction of a Research Park was substantially completed. Future Research Park construction is currently under review and consideration.

During fiscal year 2006, the Board of Directors of the Corporation had approved a borrowing plan by the Corporation of up to $24.4 million to finance certain improvements at the HSC including financing the construction of the Biomedical Research Building, the Blanchette Rockefeller Neurosciences Institute Building and the HSC Learning Center and Library

Addition. The Corporation has entered into construction loan and pledge agreements with the West Virginia Housing Development Fund, the West Virginia Economic Development Authority, and the West Virginia Infrastructure and Jobs Development Council to finance such projects. $3.9 million was drawn down on the West Virginia Housing Development Fund during fiscal year 2007 and is recorded as a note payable.

On August 20, 2007, the Corporation entered into an agreement with Union Carbide Corporation ("Union Carbide") to receive a gift of 58.1 acres of land and several buildings located in Union Carbide's Technical Center in South Charleston, WV. The Corporation has also entered into a license agreement with Union Carbide for the purpose of conducting due diligence on the donated property prior to the closing date. The title to the property has not yet been conveyed to the Corporation.

The Corporation transferred assets to the University in the amount of $26.5 million. The transfer of assets to the University included the transfer of construction-in-progress and equipment in the amount of $20.8 million and $5.7 million, respectively. The amount transferred in fiscal year 2006 was $19.3 million. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Corporation.

Economic Outlook

Research is an integral part of the University's mission. The Corporation provides valuable support in advancing the stature of the University's research by acting as the University's fiscal agent in applying for, receiving and administering funds awarded by external agencies for the pursuit of research and other activities. The University's strategic plan for research and economic development, which was endorsed by the Corporation's Board of Directors, emphasizes growing and enriching research, improving infrastructure for research, interdisciplinary collaborations, mutually beneficial partnerships with government agencies and private sector, and promoting economic development through technology transfer.

The Corporation continues to expand its business incubator program to nurture start-up companies. The business incubator is housed in the Chestnut Ridge Research Building on the Evansdale campus in Morgantown. The Corporation provides business services such as business plan development, marketing, advertising, finance, and information technology assistance to the start-up companies. Initial operating expenses were funded by a Benedum Foundation grant. The Corporation is also involved in technology transfer activities such as invention disclosures, copyrights, trademarks, and patents received. The expansion of business incubator and technology transfer activities is expected to continue, creating new jobs and establishing a research base for economic development in the State of West Virginia.

Consistent with the University's commitment to economic development, the Corporation is engaged in efforts to develop a research park in Morgantown, WV. The park will be linked to the University through the Corporation and will be designed to attract high technology businesses and start-up companies.

The challenges faced by the University in light of the continued state budget cuts require the University to focus on its strengths. One of the University's strengths is its record of research and sponsored program funding. Through the Corporation's efforts, the University will strive to further improve its competitive research position and continue the growth in its research activity.

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006
(Dollars in Thousands)

	2007	2006
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 24,171	$ 23,720
Accounts receivable, net of allowances for doubtful accounts of $339 and $342	21,962	21,489
Due from the Commission	537	236
Prepaid expenses	39	111
Total current assets	46,709	45,556
Noncurrent Assets:		
Investments	5,052	5,457
Capital assets, net	21,016	21,669
Total noncurrent assets	26,068	27,126
TOTAL ASSETS	72,777	72,682
LIABILITIES		
Current Liabilities:		
Accounts payable	3,703	3,299
Accounts payable - West Virginia University, current portion	8,205	9,723
Accrued liabilities	5	-
Accrued payroll	2,200	1,814
Deferred revenue	14,551	14,394
Compensated absences	55	26
Total current liabilities	28,719	29,256
Noncurrent Liabilities:		
Notes payable	3,880	-
Accounts payable - West Virginia University	2,274	-
Other noncurrent liabilities	99	-
Total noncurrent liabilities	6,253	-
TOTAL LIABILITIES	34,972	29,256
NET ASSETS		
Invested in capital assets, net of related debt	17,136	21,495
Restricted for debt service (expendable)	824	218
Unrestricted	19,845	21,713
TOTAL NET ASSETS	$ 37,805	$ 43,426

See notes to financial statements.

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in Thousands)

	2007	2006
OPERATING REVENUES		
Federal grants and contracts	$ 64,107	$ 70,886
State grants and contracts	26,539	23,588
Local grants and contracts	195	170
Nongovernmental grants and contracts	17,974	15,718
Sales and services of educational departments	195	101
Other operating revenues	63	45
Total operating revenues	109,073	110,508
OPERATING EXPENSES		
Salaries and wages to the University	48,019	43,253
Benefits to the University	9,768	8,630
Scholarships and fellowships	1,011	1,040
Utilities	629	565
Supplies and other services	33,707	34,168
Depreciation	424	461
Operating expenses to the University	12,182	12,192
Total operating expenses	105,740	100,309
OPERATING INCOME	3,333	10,199
NONOPERATING REVENUES (EXPENSES)		
Gifts	84	34
Investment income	1,684	1,197
Interest on capital asset-related debt	(65)	-
Other nonoperating revenues - net	14	-
Net nonoperating revenues	1,717	1,231
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	5,050	11,430
Capital grants and gifts	15,843	10,898
INCREASE IN NET ASSETS BEFORE TRANSFER	20,893	22,328
TRANSFER OF ASSETS TO THE UNIVERSITY	(26,514)	(19,346)
INCREASE (DECREASE) IN NET ASSETS	(5,621)	2,982
NET ASSETS--BEGINNING OF YEAR	43,426	40,444
NET ASSETS--END OF YEAR	$ 37,805	$ 43,426

See notes to financial statements.

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in Thousands)

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	$ 108,343	$ 109,155
Payments to suppliers	(32,222)	(35,410)
Payments to employees of the University and Corporation	(47,633)	(42,823)
Payments for benefits to the University and Corporation	(9,677)	(8,606)
Payments to utilities	(566)	(572)
Payments for scholarships and fellowships	(1,017)	(1,019)
Payment of operating expenses to the University	(11,427)	(13,109)
Other receipts	227	153
Net cash provided by operating activities	6,028	7,769
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts	84	34
Other nonoperating payments	14	-
Net cash provided by noncapital financing activities	98	34
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts and grants received	15,844	10,898
Purchases of capital assets	(27,423)	(21,454)
Interest paid on capital debt	(65)	-
Proceeds from loan	3,880	-
Net cash used in capital financing activities	(7,764)	(10,556)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,452	1,295
Purchase of investments	637	292
Net cash provided by investing activities	2,089	1,587
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	451	(1,166)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	23,720	24,886
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 24,171	$ 23,720

(continued)

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2007 AND 2006
(Dollars in Thousands)

		2007		2006
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	$	3,333	$	10,199
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense		424		461
Changes in assets and liabilities:				
Accounts receivable, net		(473)		(934)
Due from the Commission		(301)		80
Prepaid expenses		72		334
Accounts payable		2,296		(2,479)
Accrued liabilities		490		429
Deferred revenue		157		(344)
Compensated absences		30		23
Net cash provided by operating activities	$	6,028	$	7,769
Noncash Transactions:				
Unrealized gain (loss) on investments	$	232	$	(98)
Assets transferred to WVU	$	26,514	$	19,346
Land swap	$	-	$	705

See notes to financial statements.

1. ORGANIZATION

West Virginia University Research Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1986, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster and support research at West Virginia University (the "University") and to provide commercial outlets for the research activities of the University faculty, staff and students. With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry or government and encourages the acceptance of gifts, grants, contracts and equipment, and the sharing of facilities, equipment and skilled personnel to promote and develop joint, applied research and development, technical assistance and instructional programs in the State. The Corporation receives grants on behalf of the University, some of which are for the construction or acquisition of capital assets. These expenditures are recorded on the Corporation's records and the completed asset is transferred to the University as the beneficiary of the asset. The Corporation exists as an organization separate from the University. West Virginia state code allows the Corporation to employ personnel separate from the University. The Corporation chose to exercise this option effective January 1, 2005. The Corporation maintains a payroll and human resources information system separate from the University. The Corporation first began fulfilling its purpose in 1990.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Corporation have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus,* and No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the Corporation's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

The Corporation follows all GASB pronouncements as well as Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989 and amendments thereof, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989 to its financial statements.

a. *Reporting Entity* – The Corporation is combined with the University (its parent), as the University is the sole member of the non-stock not-for-profit corporation. The University 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 University is a separate entity, which, 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 West Virginia Council for Community and Technical College Education 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.

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

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

d. *Investments* – Investments are presented at fair value, based upon quoted market values. The Corporation's investments are categorized as to credit risk as insured and registered.

e. *Allowance for Doubtful Accounts* – It is the Corporation's policy to provide for future losses on uncollectible contracts and grants receivable based on an evaluation of the underlying contract and grant balances, the historical collectibility experienced by the Corporation on such balances and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts.

f. *Noncurrent Cash, Cash Equivalents and Investments* – Cash and investments that are externally restricted to purchase capital or other noncurrent assets are classified as a noncurrent asset on the statement of net assets.

g. *Capital Assets* – Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 50 years for buildings. The Corporation's capitalization threshold is $5,000. During fiscal year 2006, the Corporation implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. The financial statements reflect all adjustments required by GASB Statement No. 42 as of June 30, 2007 and 2006.

h. *Deferred Revenue* – Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including advance payments on sponsored awards.

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

The Corporation's full-time employees earn up to 2 days paid time off for each month of service and are entitled to compensation for accumulated, unpaid leave upon termination.

The estimated expense and expense incurred for paid time off is recorded as a component of benefits expense on the statement of revenues, expenses, and changes in net assets.

j. *Noncurrent Liabilities* – Noncurrent liabilities include liabilities that will not be paid within the next fiscal year, including certain amounts due to the University for research cost recovery.

k. *Net Assets* – GASB Statements No. 34 and No. 35 report equity as "net assets" rather than "fund balance." Net assets are classified according to external donor restrictions or availability of assets for satisfaction of Corporation obligations. The Corporation's net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the Corporation'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 which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets: Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from investment income and sales and services of educational activities. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Board of Directors.

l. *Classification of Revenues:* The Corporation 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) most federal, state, local and nongovernmental grants and contracts, and (2) sales and services of educational activities.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statements No. 34 and No. 35, such as investment income.

Other Revenues: Other revenues primarily consist of capital grants and gifts.

m. *Use of Restricted Net Assets* – The Corporation has 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. The Corporation attempts to utilize restricted net assets first when practicable. The Corporation did not have any designated net assets as of June 30, 2007 or 2006.

n. *Government Grants and Contracts* – Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Corporation 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 three years.

o. *Income Taxes* – The Corporation has received from the Internal Revenue Service an exemption from taxation under Section 501 (c) (3) of the Internal Revenue Code as an entity organized for educational, research and economic development purposes.

p. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.

q. *Risk Management* – The State's Board of Risk and Insurance Management (BRIM) provides general liability, property and auto insurance coverage to the Corporation. Such coverage is provided to the Corporation through a self-insurance program maintained by BRIM for general liability and auto insurance coverage. BRIM maintains a self-insurance program to pay the first $1,000,000 of each property insurance claim and purchases excess property insurance from commercial insurance market to cover individual claims that exceed $1,000,000. BRIM self-insurance programs may involve experience and exposure related premiums.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of future premium adjustments to the Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

r. *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.

s. *Risks and Uncertainties* – The University utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

t. *Reclassifications* – Certain reclassifications have been made to the 2006 financial statements to conform to the current year presentation.

u. *Recent Statements Issued by GASB* – The GASB has issued Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues,* effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

   The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations,* effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

   The GASB has issued Statement No. 50, *Pensions Disclosure* (an amendment of GASB Statements No. 25 and No. 27), effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pensions with those for other postemployment benefits, thus enhancing the information disclosed in the notes to the financial statements or presented as required supplementary information. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

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

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at June 30, 2007 and 2006 consisted of bank deposits and money market funds, with carrying amounts at June 30, 2007 and 2006 of $24.2 million and $23.7 million, respectively, as compared with bank balances of $22.7 million and $27.8 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank balances and deposits with the money market funds are insured by the Federal Deposit Insurance Corporation or collateralized by securities, held as collateral by the bank.

At June 30, 2007, deposits with Huntington National Bank ("Huntington") for the Corporation in the amount of $21.0 million were subject to custodial credit risk. The uninsured deposits are collateralized with Huntington through a Repurchase Agreement. The collateral pool for the Repurchase Agreement consists of securities issued by the U.S. Treasury, and federally guaranteed or sponsored agencies with a market value equal to or greater than 102% of the Corporation's bank balance and are held by Huntington but not in the name of the Corporation.

4. INVESTMENTS

Investments consist of the following at June 30 (dollars in thousands):

	2007	2006
U.S. Government securities	$ 2,437	$ 2,810
Corporate obligations	1,071	1,257
Equity securities	1,544	1,390
Total Investments	$ 5,052	$ 5,457

The Corporation had the following investments as of June 30 (dollars in thousands):

	Investment Type		2007 Fair Value		2006 Fair Value
Equities	Corporate Stocks - Domestic	$	1,093	$	953
	Corporate Stocks - Foreign		56		93
	Mutual Stock Funds		395		344
Fixed Income	Corporate Bonds		1,071		1,257
	U.S. Government Agencies		1,773		2,151
	U.S. Treasury Obligations		664		659
		$	5,052	$	5,457

Credit Risk. The Corporation's investment policy limits individual equity investments to those trading on national exchanges and fixed income securities to no less than investment grade as rated by Moody's and Standard & Poor's ratings services. The fixed income portion contains exposure to U.S. Government, Agency and corporate bonds with an average maturity of 4 years. At June 30, 2007 and 2006, the Corporation's investments in corporate bonds were rated Baa and Baa, respectively, by Moody's Investors Service and BBB and BBB, respectively, by Standard & Poor's rating services. The Corporation's investments in U.S. Government Agencies were rated Aaa and Aaa, respectively, by Moody's Investors Service and AAA and AAA, respectively, by Standard & Poor's rating services. Investments in the mutual funds have not been rated.

Concentration of Credit Risk. To minimize risk, the Corporation's investment policy allows no more than five percent (5%) of the total equity portfolio or the total fixed income portfolio to be invested in any one issue, except for U.S. Treasury and Agency obligations.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All of the Corporation's investments are subject to interest rate risk. The Corporation's investment policy limits investments to those with minimal fluctuation of market value and volatility of returns over the investment time horizon of at least three years.

5. CAPITAL ASSETS

Balances and changes in capital assets were as follows at June 30 (dollars in thousands):

2007	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 705	$ -	$ -	$ 705
Construction in progress	3,946	20,559	(20,788)	3,717
Total capital assets not being depreciated	$ 4,651	$ 20,559	$ (20,788)	$ 4,422
Other capital assets:				
Buildings	$ 23,050	$ -	$ -	$ 23,050
Equipment	-	5,726	(5,726)	-
Total other capital assets	23,050	5,726	(5,726)	23,050
Less accumulated depreciation for:				
Buildings	(6,032)	(424)	-	(6,456)
Other capital assets, net	$ 17,018	$ 5,302	$ (5,726)	$ 16,594
Capital Assets Summary:				
Capital assets not being depreciated	$ 4,651	$ 20,559	$ (20,788)	$ 4,422
Other capital assets	23,050	5,726	(5,726)	23,050
Total cost of capital assets	27,701	26,285	(26,514)	27,472
Less accumulated depreciation	(6,032)	(424)	-	(6,456)
Capital assets, net	$ 21,669	$ 25,861	$ (26,514)	$ 21,016

2006	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 705	$ -	$ -	$ 705
Construction in progress	1,838	15,929	(13,821)	3,946
Total capital assets not being depreciated	$ 2,543	$ 15,929	$ (13,821)	$ 4,651
Other capital assets:				
Buildings	$ 23,050	$ -	$ -	$ 23,050
Equipment	-	5,514	(5,514)	-
Total other capital assets	23,050	5,514	(5,514)	23,050
Less accumulated depreciation for:				
Buildings	(5,571)	(461)	-	(6,032)
Other capital assets, net	$ 17,479	$ 5,053	$ (5,514)	$ 17,018
Capital Assets Summary:				
Capital assets not being depreciated	$ 2,543	$ 15,929	$ (13,821)	$ 4,651
Other capital assets	23,050	5,514	(5,514)	23,050
Total cost of capital assets	25,593	21,443	(19,335)	27,701
Less accumulated depreciation	(5,571)	(461)	-	(6,032)
Capital assets, net	$ 20,022	$ 20,982	$ (19,335)	$ 21,669

6. LONG-TERM LIABILITIES

Balances and changes in long-term liabilities were as follows at June 30 (dollars in thousands):

2007	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Notes payable	$ -	$ 3,880	$ -	$ 3,880	$ -
Accounts payable - West Virginia University	-	2,274	-	2,274	-
Other noncurrent liabilities	-	104	-	104	5
Total long-term liabilities	$ -	$ 6,258	$ -	$ 6,258	$ 5

During fiscal year 2007, the Corporation drew down on the WVHDF line of credit in the amount of $3.88 million which is recorded as a note payable.

The proceeds of the WVHDF loan are disbursed on a draw basis as construction progresses. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The rate is calculated on the basis of a 360-day year on amounts advanced. The note is due 240 months from the closing date of October 24, 2005. Interest is due and payable quarterly.

7. RETIREMENT PLANS

Substantially all eligible employees of the Corporation participate in the Teachers Insurance and Annuities Association – College Retirement Equities Fund (TIAA-CREF).

The TIAA-CREF is a defined-contribution benefit plan in which benefits are based upon amounts contributed plus investment earnings. Each employee who elects to participate in these plans is required to make a contribution equal to 3% of their total annual compensation. The Corporation simultaneously matches the employees' 3% contribution. Employees have the option of contributing an additional 1-3% of their total annual compensation to the plan, which is also matched by the Corporation. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF were approximately as follows:

Fiscal Year Ending June 30,	Corporation	Employees	Total
2007	$ 142,000	$ 142,000	$ 284,000
2006	$ 58,000	$ 58,000	$ 116,000
2005	$ 5,000	$ 5,000	$ 10,000

The Corporation's total payroll expense for fiscal years 2007 and 2006 was $48.0 million and $43.3 million, respectively (including payroll expense for employees of the University); total covered employees' salaries in the TIAA-CREF were $2.7 million in fiscal year 2007 and $1.1 million in fiscal year 2006.

8. NONMONETARY TRANSACTIONS

During fiscal year 2006, the Corporation entered into a land swap agreement with the West Virginia High Technology Consortium Foundation (the "WVHTC Foundation") that involved a transfer of a 1.16 acre parcel of the Corporation's property located in the I-79 Technology Park in exchange for a 1.16 acre parcel of the WVHTC Foundation's land. Accounting for the land exchange is based on the recorded amount of the Corporation's property.

9. AFFILIATED ORGANIZATIONS

The University (the Corporation's parent) is the sole member of the not-for-profit corporation. The Corporation receives grants on behalf of the University, some of which are for the construction and acquisition of capital assets. These expenditures are recorded on the Corporation's records and the completed asset is transferred to the University as the beneficiary of the asset. The Corporation also receives facilities and administration earnings generated from such grants, a portion of which is shared with the University. A liability has been recorded to reflect the facilities and administration earnings due to the University. The University and the Corporation have entered into an operating agreement whereby the University provides staffing to meet the Corporation's needs; the Corporation reimburses the University for the related salaries and benefits.

10. COMMITMENTS AND CONTINGENCIES

a. *Commitments* – On September 7, 2005, the Board of Directors of the Corporation approved a borrowing plan by the Corporation of up to $24.4 million to finance certain improvements at the University's Health Sciences Center (HSC). The West Virginia University Board of Governors has approved the Corporation entering into such transaction. The Corporation has entered into construction loan and pledge agreements with the West Virginia Housing Development Fund (WVHDF), the West Virginia Economic Development Authority (WVEDA), and the West Virginia Infrastructure and Jobs Development Council (IJDC).

WVHDF loan. WVHDF will make a construction and term loan in the principal amount of up to $6.0 million for the purpose of financing the construction of the Biomedical Research building and the HSC Learning Center and Library addition, and renovations to the existing HSC laboratories.

A note modification agreement dated April 26, 2007 allows the Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009 and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2007 was $65,000.

The loan is pledged by facilities and administrative revenues received by the Corporation under any grants, contracts, and other agreements on behalf of the HSC as follows:

1) 30% of the total HSC facilities and administrative revenues, up to a total of $6.8 million ("threshold amount") received by the Corporation in any single fiscal year.

2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

WVEDA loan. WVEDA will make a construction and term loan in the principal amount of up to $9.0 million for the purpose of financing a portion of the Blanchette Rockefeller Neurosciences Institute building

IJDC loan. IJDC will make a construction and term loan in the principal amount of up to $9.4 million for the purpose of financing a portion of the construction of certain improvements to the Blanchette Rockefeller Neurosciences Institute building and the Biomedical Research building.

b. *Contingencies* – The nature of the educational industry is such that, from time to time, claims will be presented against universities and their operating units 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 Corporation would not have a material effect on the financial position of the Corporation.

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 Corporation's management believes disallowances, if any, will not have a material financial impact on the Corporation's financial position.

11. SUBSEQUENT EVENTS

On August 20, 2007, the Corporation entered into an agreement with Union Carbide Corporation ("Union Carbide") to receive a gift of 58.1 acres of land and several buildings located in Union Carbide's Technical Center in South Charleston, WV. The Corporation has also entered into a license agreement with Union Carbide for the purpose of conducting due diligence on the donated property prior to the closing date. The title to the property has not yet been conveyed to the Corporation.

12. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION
(Dollars in Thousands)

The Corporation's operating expenses by functional and natural classification are as follows:

Year Ended June 30, 2007
Natural Classification

Functional Classification	Salaries & Wages to the University	Benefits to the University	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Operating Expenses to the University	Total
Instruction	$ 3,505	$ 631	$ -	$ 12	$ 4,273	$ -	$ -	$ 8,421
Research	33,553	6,813	-	564	23,043	-	-	63,973
Public Service	9,674	1,965	-	24	5,571	-	-	17,234
Academic Support	418	90	-	-	288	-	-	796
Operation and Maintenance of Plant	-	-	-	8	104	-	-	112
General Institutional Support	869	269	-	21	428	-	-	1,587
Student Financial Aid	-	-	1,011	-	-	-	-	1,011
Depreciation	-	-	-	-	-	424	-	424
Operating Expenses to the University	-	-	-	-	-	-	12,182	12,182
Total Expenses	$ 48,019	$ 9,768	$ 1,011	$ 629	$ 33,707	$ 424	$ 12,182	$ 105,740

Year Ended June 30, 2006
Natural Classification

Functional Classification	Salaries & Wages to the University	Benefits to the University	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Operating Expenses to the University	Total
Instruction	$ 3,127	$ 585	$ -	$ 10	$ 2,780	$ -	$ -	$ 6,502
Research	28,715	5,485	-	510	20,112	-	-	54,822
Public Service	10,475	2,330	-	30	6,361	-	-	19,196
Academic Support	305	73	-	4	855	-	-	1,237
Operation and Maintenance of Plant	-	-	-	8	3,558	-	-	3,566
General Institutional Support	631	157	-	3	502	-	-	1,293
Student Financial Aid	-	-	1,040	-	-	-	-	1,040
Depreciation	-	-	-	-	-	461	-	461
Operating Expenses to the University	-	-	-	-	-	-	12,192	12,192
Total Expenses	$ 43,253	$ 8,630	$ 1,040	$ 565	$ 34,168	$ 461	$ 12,192	$ 100,309

Deloitte.

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

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

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

To the West Virginia University Research Corporation Board of Directors:

We have audited the accompanying financial statements of West Virginia University Research Corporation (the "Corporation") as of June 30, 2007, and have issued our report thereon dated September 24, 2007. 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 Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entities ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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*.

Member of
Deloitte Touche Tohmatsu

This report is intended solely for the information and use of the West Virginia University Research Corporation Board of Directors, management of the Corporation, West Virginia University and the West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

September 24, 2007