WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

Financial Statements for the
Years Ended June 30, 2008 and 2007, and
Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

TABLE OF CONTENTS

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

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

INDEPENDENT AUDITORS' REPORT

To the 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, 2008 and 2007 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, 2008 and 2007, 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 11 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 October 6, 2008, 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

October 6, 2008

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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, 2008 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2007 compared to fiscal year 2006.

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, 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 increased from the previous year-end by $2.3 million. This increase is mainly attributable to an increase in investments, net capital assets, and net accounts receivable. This increase was partially offset by an increase in notes payable, accounts payable to the University, other deferred revenue and other non-current liabilities. Total net assets had decreased from fiscal year 2006 to fiscal year 2007 as a result of the Corporation providing additional support to West Virginia University (WVU or the "University") in the form of capital improvements to property owned by the University which was $9.7 million higher in fiscal year 2007 than fiscal year 2008. During fiscal year 2008, the decline in total revenues of $2.0 million exceeded the decline in total expenses of approximately $230,000. 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		
	2008	**2007**	**2006**
Assets			
Current Assets	$ 41,457	$ 46,709	$ 45,556
Noncurrent Assets	56,473	26,068	27,126
Total Assets	$ 97,930	$ 72,777	$ 72,682
Liabilities			
Current Liabilities	$ 33,371	$ 28,719	$ 29,256
Noncurrent Liabilities	24,452	6,253	-
Total Liabilities	$ 57,823	$ 34,972	$ 29,256
Net Assets			
Invested in Capital Assets	$ 19,094	$ 17,136	$ 21,495
Restricted	699	824	218
Unrestricted	20,314	19,845	21,713
Total Net Assets	$ 40,107	$ 37,805	$ 43,426

Total assets of the Corporation increased by $25.2 million to a total of $97.9 million as of June 30, 2008. The increase was primarily due to an increase in investments, net capital assets, and net accounts receivable. This increase was partially offset by a decrease in cash and cash equivalents. The increase in total assets is significantly higher than the increase from fiscal year 2006 to fiscal year 2007.

- Investments increased by $17.3 million primarily due to the investment of Corporation's cash with the WVU Foundation and purchase of auction rate certificates (ARCs). During fiscal year 2008, the Corporation invested $10 million of its cash and amounts due WVU for administrative support with the WVU Foundation. The Corporation also liquidated its investments with Huntington Bank and acquired the University's ARCs in the amount of $6.5 million pursuant to SEC guidance that permitted municipal issuers to repurchase their own debt. No significant variance was noted in this category from fiscal year 2006 to fiscal year 2007.

- Capital assets, net increased by $13.1 million primarily due to an increase in construction-in-process related to the construction of the Health Sciences Center Biomedical Research Facility and the National Education and Technology Center. The increase is also attributable to completion of upgrades to the NASA IV & V building during fiscal year 2008. Capital assets, net had decreased from fiscal year 2006 to fiscal year 2007 due to the transfer of the carrying cost of construction of the Research Park from the Corporation to the University.

- Net accounts receivable increased by $3.7 million over prior year. This increase is primarily due to an increase in receivables associated with new and existing federal and state awards including awards for operation and maintenance of the NASA IV & V building; construction of the Biomedical Research Facility; evaluation of transit vehicle exhaust emissions; achieving strength in next generation biometrics; and Food Stamp Nutrition Education program. This increase is consistent with, but higher than, an increase in accounts receivable balance from fiscal year 2006 to fiscal year 2007.

- Cash and cash equivalents decreased by $9.1 million primarily because during fiscal year 2008 the Corporation's cash was invested with the WVU Foundation. Additionally, the Corporation also used cash to purchase ARCs during the year. Cash and cash equivalents had experienced a modest increase from fiscal year 2006 to fiscal year 2007 due to draw down on a line of credit with the WVHDF, 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.

Total liabilities of the Corporation as of June 30, 2008 increased by $22.9 million to a total of $57.8 million. The increase is mainly due to an increase in notes payable, accounts payable to the University, other deferred revenue and other non-current liabilities. This increase is consistent with, but higher than, the increase in liabilities from fiscal year 2006 to fiscal year 2007.

- Notes Payable increased by $11.1 million as a result of draws against the West Virginia Housing Development Fund and the West Virginia Economic Development Authority loan commitments established to finance construction costs of the Health Sciences Center Laboratory and Library addition as well as the Neurosciences Center. Notes payable had experienced a similar, but lower, increase from fiscal year 2006 to fiscal year 2007 due to a draw against the WVHDF loan commitment during fiscal year 2007 for the construction of the Biomedical Research Center.

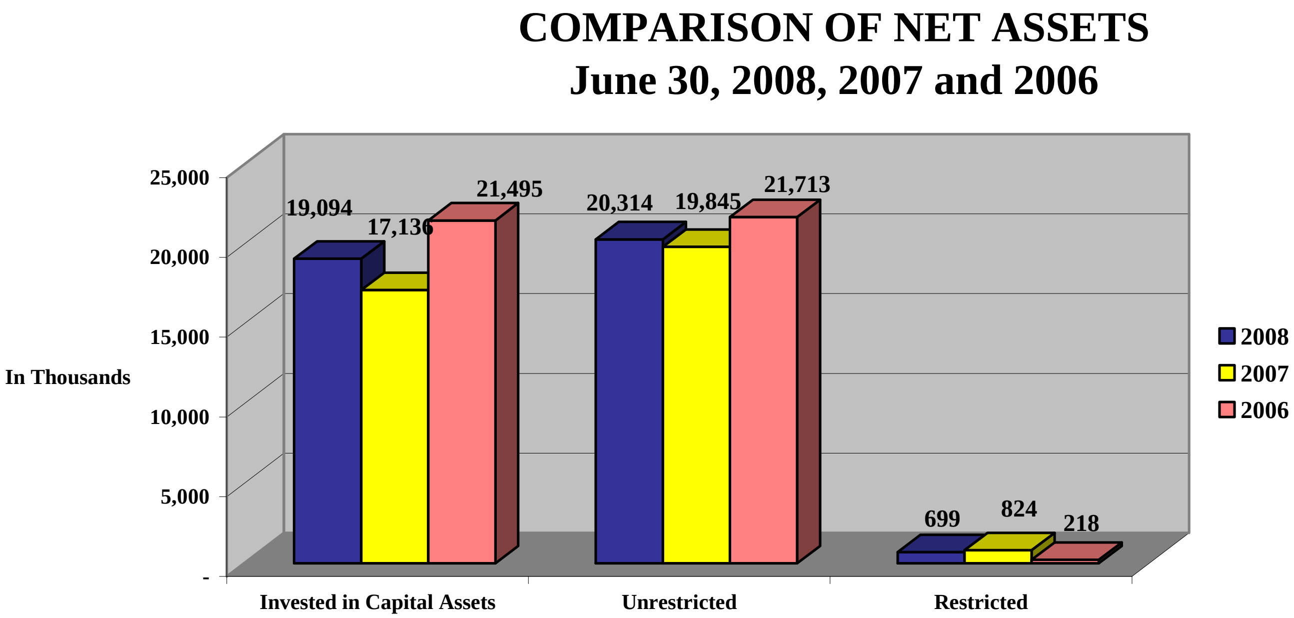
- Accounts payable to West Virginia University increased by $5.7 million primarily due to unpaid commitment for facilities and administrative and information technology support to the University at fiscal year-end. The Corporation has made a strategic decision to defer payment of this liability to the University and to invest the excess cash with the WVU Foundation. A similar, but lower, increase was noted in this category from fiscal year 2006 to fiscal year 2007.

- Other deferred revenue increase of $5.0 million is primarily attributable to receipt of several scheduled or advance payment sponsored awards during fiscal year 2008. No significant change was noted in this category from fiscal year 2006 to fiscal year 2007.

- Other non-current liabilities increased by approximately $590,000 due to accrual of interest expense associated with the notes payable to the West Virginia Housing Development Fund and the West Virginia Economic Development Authority. These interest payments are deferred and therefore are recognized as a non-current liability. No change was noted in this category from fiscal year 2006 to fiscal year 2007.

The Corporation's current assets of $41.5 million were sufficient to cover current liabilities of $33.4 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 increased by $2.0 million from prior year primarily due to significant increases in construction-in-process and completion of building improvements that are recorded as capital assets. This increase was partially offset by an increase in notes payable to the West Virginia Housing Development Fund and the West Virginia Economic Development Authority. This category had experienced a decrease from fiscal year 2006 to fiscal year 2007 mainly due to the transfer of construction-in-progress related to the Research Park construction from the Corporation to the University.

Unrestricted net assets increased by approximately $470,000 mainly due to positive operations during fiscal year 2008. Unrestricted net assets had decreased from fiscal year 2006 to fiscal year 2007 due to support provided by the Corporation to the University in the form of capital improvements to property owned by the University.

Revenues, Expenses and Changes in Net Assets

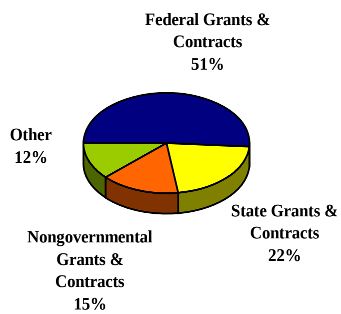
The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains, or losses of the Corporation. The utilization of capital assets is reflected in the financial statements as depreciation,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

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

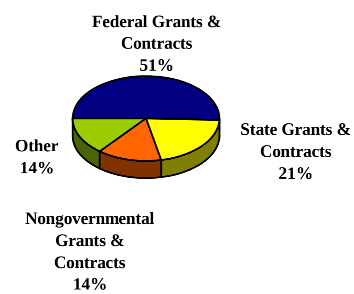
	Years Ended June 30		
	2008	**2007**	**2006**
Operating Revenues	$ 110,356	$ 109,073	$ 110,508
Operating Expenses	105,059	105,740	100,309
Operating Income	5,297	3,333	10,199
Net Nonoperating Revenues	561	1,717	1,231
Income before Other Revenues, Expenses, Gains, or Losses	5,858	5,050	11,430
Capital Grants and Gifts	13,280	15,843	10,898
Transfer of Assets to the University	(16,836)	(26,514)	(19,346)
Increase (Decrease) in Net Assets	2,302	(5,621)	2,982
Net Assets at Beginning of Year	37,805	43,426	40,444
Net Assets at End of Year	$ 40,107	$ 37,805	$ 43,426

Revenues:
The following charts illustrate the composition of revenues by source for 2008 and 2007.

2008



2007



Total revenues for fiscal year 2008 were $124.7 million, a decrease of $2.0 million compared to the previous year. The decrease in total revenues can be attributed to decreased revenues from capital grants and gifts, investments, and federal grants. This increase was partially offset by an increase in non-governmental and state grants and contracts revenues.

- Capital grants and gifts revenue decreased by $2.6 million primarily due to a decrease in revenues from existing awards. During fiscal year 2008 revenues from grants related to the construction of the National Education and Technology Center and a forensic and biometric research facility at Oglebay Hall decreased. This decrease was partially offset by an increase in revenues from other capital construction awards during fiscal year 2008 including an award related to the construction of a Biomedical Research Facility. This category had experienced a significant increase from fiscal year 2006 to fiscal year 2007 due to increased revenues from existing capital grants in fiscal year 2007.

- Investment income decreased by approximately $750,000 attributable to lower returns on investments reflecting market performance. Investment income had increased from fiscal year 2006 to fiscal year 2007 due to an increase in interest receipts, dividend income and the fair value of investments.

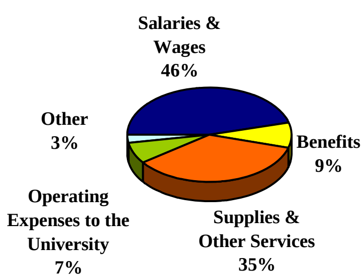
- Federal grants and contracts revenue decreased by approximately $390,000 mainly because of a decrease in revenues from closure of several awards during fiscal year 2008 including: Transit Vehicle Emissions Evaluation II; WV Health Education Centers Program; Forensics Grants Program; and Academy for Mine Training and Energy Technologies. Part of this decrease is due to a decrease in facilities and administrative revenues generated from federal grants and contracts. This decrease was partially offset by increased revenues from new and existing awards including the operation of the Job Accommodation Network and the WV Health Education Centers Program. This category had experienced a much larger decrease from fiscal year 2006 to fiscal year 2007.

- Nongovernmental grants and contracts revenue increased by $1.2 million primarily due to increased revenues from new and existing awards including: the West Virginia IDeA Network of Biomedical Research Excellence from Marshall University; Collaboratory for Multiphase Flow Research from Research and Development Solutions, LLC; Evaluation of Childhood Obesity Components of WV House Bill 2816 from the Robert Wood Johnson Foundation; and Resilient Tunnel System – Flood Containment Plug from the Battelle Memorial Institute. This category had experienced a similar increase from fiscal year 2006 to fiscal year 2007.

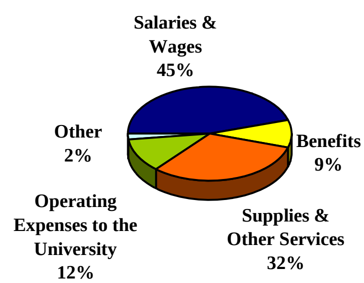
- State grants and contracts revenue increased by approximately $380,000 primarily due to revenues from several new and existing awards in fiscal year 2008 including: Energy Express AmeriCorps; Specialized Family Care Medley Program; Food Stamp Nutrition Education Program; Positive Behavior Support and Crisis Services; West Virginia Wisewoman aimed at health promotion and risk reduction; and West Virginia Disability Navigator Services. State grants and contracts revenue had a higher increase from fiscal year 2006 to fiscal year 2007.

<u>Expenses</u>:
The following is a graphic comparison of total expenses by category between 2008 and 2007.

<u>2008</u>



<u>2007</u>



Total expenses for the Corporation decreased by approximately $230,000 compared to prior year, to $105.6 million. This decrease is primarily due to a decrease in operating expenditure to the University and benefits. This decrease was partially offset by an increase in supplies and other services, interest on capital related debt, salaries and wages, and scholarship and fellowship expense. Total expenses had increased from fiscal year 2006 to fiscal year 2007 as a result of an increase in salaries and wages, and benefits.

- Operating expenditures to the University decreased by $4.7 million compared to prior year primarily due to a decrease in the amount of expenses attributable to Deans' overhead accounts that were moved to the University. An additional decrease was attributable to accrual of fringes payable by the Corporation for WVU employees in fiscal year 2007. No corresponding additional accrual was reported in fiscal year 2008. No such change was experienced in this category from fiscal year 2006 to fiscal year 2007.

- Benefits expense decreased by approximately $590,000 from prior year mainly due to a decrease in fringes paid by the Corporation for WVU employees. This category had experienced an increase from fiscal year 2006 to fiscal year 2007 due to an increase in employer's matching share of federal social security taxes corresponding to an increase in salaries and wages.

- Supplies and other services increased by $3.8 million primarily in correlation with an overall increase in sponsored awards compared to prior year. An additional increase was noted due to payments made to Union Carbide Corporation for a building rental in South Charleston to house the Extended Education offices of the Montgomery Campus. This category had experienced a decrease from fiscal year 2006 to fiscal year 2007 because certain items were capitalized to construction-in-progress as a result of major construction activity during fiscal year 2007.

- Interest on capital related debt increased by approximately $450,000 as a result of an increase in amounts drawn down by the Corporation on loans established with the West Virginia Housing Development Fund and the West Virginia Economic Development Authority to finance construction costs of the Health Sciences Center Laboratory and Library addition as well as the Neurosciences Center. A very modest increase was noted in this category from fiscal year 2006 to fiscal year 2007.

- Salaries and wages increased by approximately $390,000 from the prior year primarily due to an increase in the number of Corporation employees during fiscal year 2008 and mid-year salary raises provided to employees in October 2007. This increase was partially offset by a decrease in salaries paid by the Corporation for WVU employees. A much higher increase was noted in salaries and wages from fiscal year 2006 to fiscal year 2007.

- Scholarship and fellowship expense increased by approximately $360,000 with an overall increase in sponsored awards compared to prior year. No such increase was noted in this category from fiscal year 2006 to fiscal year 2007.

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		
	2008	**2007**	**2006**
Cash Provided (Used) By:			
Operating Activities	$ 13,088	$ 6,028	$ 7,769
Noncapital Financing Activities	142	98	34
Capital Financing Activities	(6,005)	(7,764)	(10,556)
Investing Activities	(16,361)	2,089	1,587
(Decrease) Increase in Cash and Cash Equivalents	(9,136)	451	(1,166)
Cash and Cash Equivalents, Beginning of Year	24,171	23,720	24,886
Cash and Cash Equivalents, End of Year	$ 15,035	$ 24,171	$ 23,720

Total cash and cash equivalents decreased by $9.1 million during fiscal year 2008 to $15.0 million.

- Net cash provided by operating activities increased by $7.1 million primarily due to a decrease in payment of operating expenses to the University and an increase in cash inflows from grants and contracts. This increase was partially offset by an increase in payments to suppliers. A decrease was noted in cash flows provided by operating activities from fiscal year 2006 to fiscal year 2007.

- No significant change was noted in net cash provided by (used in) noncapital financing activities. No significant change was noted in this category from fiscal year 2006 to fiscal year 2007.

- Net cash used in capital financing activities decreased by $1.8 million primarily due to an increase in cash inflows from loan proceeds received from draws against the WVHDF and WVEDA lines of credit for the construction of the Health Sciences Center Laboratory and Library addition as well as the Neurosciences Center offset by a decrease in cash inflows from capital grants and gifts and an increase in cash outflows for capital assets purchased and transferred to the University. A similar decrease was noted in this category from fiscal year 2006 to fiscal year 2007.

- Net cash provided by investing activities decreased by $18.5 million primarily due to the investment of Corporation's cash with the WVU Foundation and purchase of auction rate certificates (ARCs) during fiscal year 2008. An increase in this category was noted from fiscal year 2006 to fiscal year 2007.

Capital Asset and Long Term Debt Activity

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. During fiscal year 2008, $2.1 million was drawn down on the West Virginia Housing Development Fund and $9 million on the West Virginia Economic Development Authority and is recorded as notes payable. Upgrades to the NASA IV & V building were also completed in the amount of $2.6 million during fiscal year 2008.

The Corporation transferred assets to the University in the amount of $16.8 million. The transfer of assets to the University included the transfer of construction-in-progress and equipment in the amount of $12.8 million and $4.0 million, respectively. The amount transferred in fiscal year 2007 was $26.5 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 supports this mission by 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 acts 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 Corporation has dedicated efforts to increase faculty competitiveness for federal agency funding by sponsoring grant-writing seminars, workshops and mentorship programs and using external peer reviewers to critique proposals prior to submission.

The Corporation has also expanded its efforts to foster relationships with external partners to identify significant funding opportunities for the University. During fiscal year 2008, the Corporation entered into a partnership with Carnegie Mellon University and University of Pittsburgh to form the CWP Consortium, Inc. that will provide opportunities to the University's faculty and students in science and engineering to work collaboratively with the National Energy Technology Laboratory on advanced energy research. The three institutions will receive approximately $26.0 million over the next two years. The Center for Identification Technology Research, sponsored by the National Science Foundation (NSF), will allow University researchers to collaborate with FBI personnel in identification technology and will bring in funding in excess of $1 million. The WVNano Initiative, an NSF sponsored University collaborative, will focus on nanobiosciences and is expected to bring in $2.0 million per year in NSF funding over a three year period.

The faculty and academic research leaders have finalized a Strategic Plan for the Advanced Energy Initiative that will focus resources on addressing and solving critical energy issues during the next 5 to 10 years. The Corporation is providing funding for researchers and research infrastructure to grow energy research programs by an additional $50.0 million through the end of calendar year 2012.

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.

The challenges faced by the University in light of insufficient state appropriations 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, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 15,035	$ 24,171
Accounts receivable, net of allowances for doubtful accounts of $489 and $339	25,683	21,962
Due from the Commission	605	537
Prepaid expenses	134	39
Total current assets	41,457	46,709
Noncurrent Assets:		
Investments	22,351	5,052
Capital assets, net	34,122	21,016
Total noncurrent assets	56,473	26,068
TOTAL ASSETS	$ 97,930	$ 72,777
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 3,979	$ 3,703
Accounts payable - West Virginia University, current portion	7,453	8,205
Accrued liabilities	-	5
Accrued payroll	2,318	2,200
Deferred revenue	19,527	14,551
Compensated absences	94	55
Total current liabilities	33,371	28,719
Noncurrent Liabilities:		
Notes payable	15,000	3,880
Accounts payable - West Virginia University	8,760	2,274
Other noncurrent liabilities	692	99
Total noncurrent liabilities	24,452	6,253
TOTAL LIABILITIES	$ 57,823	$ 34,972
NET ASSETS		
Invested in capital assets, net of related debt	$ 19,094	$ 17,136
Restricted for debt service (expendable)	699	824
Unrestricted	20,314	19,845
TOTAL NET ASSETS	$ 40,107	$ 37,805

See notes to financial statements.

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
OPERATING REVENUES		
Federal grants and contracts	$ 63,720	$ 64,107
State grants and contracts	26,917	26,539
Local grants and contracts	254	195
Nongovernmental grants and contracts	19,147	17,974
Sales and services of educational departments	87	195
Other operating revenues	231	63
Total operating revenues	110,356	109,073
OPERATING EXPENSES		
Salaries and wages to the University	48,411	48,019
Benefits to the University	9,181	9,768
Scholarships and fellowships	1,370	1,011
Utilities	594	629
Supplies and other services	37,471	33,707
Depreciation	565	424
Operating expenses to the University	7,467	12,182
Total operating expenses	105,059	105,740
OPERATING INCOME	5,297	3,333
NONOPERATING REVENUES (EXPENSES)		
Gifts	146	84
Investment income	938	1,684
Interest on capital asset-related debt	(519)	(65)
Other nonoperating revenues - net	(4)	14
Net nonoperating revenues	561	1,717
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	5,858	5,050
Capital grants and gifts	13,280	15,843
INCREASE IN NET ASSETS BEFORE TRANSFER	19,138	20,893
TRANSFER OF ASSETS TO THE UNIVERSITY	(16,836)	(26,514)
INCREASE (DECREASE) IN NET ASSETS	2,302	(5,621)
NET ASSETS--BEGINNING OF YEAR	37,805	43,426
NET ASSETS--END OF YEAR	$ 40,107	$ 37,805

See notes to financial statements.

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Grants and contracts	$ 111,080	$ 108,343
Payments to suppliers	(37,707)	(32,222)
Payments to employees of the University and Corporation	(48,294)	(47,633)
Payments for benefits to the University and Corporation	(8,736)	(9,677)
Payments for utilities	(638)	(566)
Payments for scholarships and fellowships	(1,341)	(1,017)
Payments of operating expenses to the University	(1,732)	(11,427)
Other receipts	456	227
Net cash provided by operating activities	13,088	6,028
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Gifts	146	84
Other nonoperating (payments) receipts	(4)	14
Net cash provided by noncapital financing activities	142	98
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital gifts and grants received	13,280	15,844
Purchases of capital assets	(30,405)	(27,423)
Interest paid on capital debt	-	(65)
Proceeds from loan	11,120	3,880
Net cash used in capital financing activities	(6,005)	(7,764)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	1,525	1,452
Sale of investments	509	637
Purchase of investments	(18,395)	-
Net cash (used in) provided by investing activities	(16,361)	2,089
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,136)	451
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	24,171	23,720
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 15,035	$ 24,171

(continued)

WEST VIRGINIA UNIVERSITY RESEARCH CORPORATION

STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 5,297	$ 3,333
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	565	424
Changes in assets and liabilities:		
Accounts receivable, net	(3,721)	(473)
Due from the Commission	(68)	(301)
Prepaid expenses	(94)	72
Accounts payable	5,981	2,296
Accrued liabilities	113	490
Deferred revenue	4,976	157
Compensated absences	39	30
Net cash provided by operating activities	$ 13,088	$ 6,028
Noncash Transactions:		
Unrealized (loss) gain on investments	$ (587)	$ 232
Assets transferred to WVU	$ 16,836	$ 26,514

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 are reported 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. The returns on Auction Rate Certificates are deposited into a Money Market account which is classified as cash and cash equivalents.

d. *Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by the Corporation's management and are primarily based on quoted market values for underlying investments. The Corporation believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. The majority of the alternative investments have a readily determinable market value. Because certain alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

The Corporation's investments held with the Foundation and other agents are governed by investment policies that determine the permissible investments by category. The holdings include appropriately rated U.S. debt and equity securities, foreign debt and equity securities as well as alternative investments. The respective investment policies outline the acceptable exposure to each category of investment and generally outline a liquidity goal. Those policies also state that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 5% of the portfolio.

The University, through its Board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Starting in December 2007, the market for ARCs and other Auction Rate Securities experienced significant turmoil. To address the ARC market's ability to function, the Securities and Exchange Commission (SEC) issued a letter which allowed issuers and/or their affiliates to bid on such ARCs to allow for a more reasonable interest rate relative to the issuers credit rating.

Based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and on a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the University's ARCs in the April 23, 2008 auction. Of the $15.45 million of the University's ARCs outstanding, the Corporation owned $6.50 million, or 42%, at June 30, 2008. The University's ARCs mature in October 2012. The University intends to issue additional bonds before the ARCs mature, the proceeds of which may be used to retire the ARCs.

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* – Investments held for more than one year and not used for current operations are classified as a noncurrent asset.

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. Under GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*, the financial statements reflect all adjustments required as of June 30, 2008 and 2007.

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, 2008 or 2007.

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. *Recent Statements Issued by GASB* – 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. 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 University has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the 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 Corporation 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

Cash and cash equivalents at June 30, 2008 and 2007 consisted of bank deposits and money market funds, with carrying amounts at June 30, 2008 and 2007 of $15.0 million and $24.2 million, respectively, as compared with bank balances of $16.0 million and $22.7 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, 2008 and 2007, deposits with Huntington National Bank ("Huntington") for the Corporation in the amount of $16.0 and $21.0 million, respectively, 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 in the name of the Corporation.

Cash in Money Market. Deposits with the money market funds are collateralized by securities held as collateral by the bank.

4. INVESTMENTS

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

Investment Type	2008 Fair Value	2007 Fair Value
SSGA Money Market	$ 1,537	$ -
Auction Rate Certificates	6,500	
Corporate Stocks - Domestic		1,093
Corporate Stocks - Foreign		56
Mutual Stock Funds		395
Corporate Bonds		1,071
U.S. Government Agencies		1,773
U.S. Treasury Obligations		664
Investments without a readily determinable market value:		
Multi-Stategy Equity Fund - Commonfund Institutional	4,491	
Multi-Stategy Bond Investors Fund - Commonfund	7,487	
Multi-Stategy Commodities Fund - Commonfund Institutional	1,177	
Absolute Return Investors B Blue - Commonfund	1,159	
	$ 22,351	$ 5,052

The Corporation believes that the carrying amount of its investments without a readily determinable fair value is a reasonable estimate of market value as of June 30, 2008 and 2007. Because investments without a readily determinable fair value are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed.

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, the Corporation's investments in corporate bonds were rated Baa by Moody's Investors Service and BBB by Standard & Poor's rating services. The Corporation's investments in U.S. Government Agencies were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's rating services. Investments in the mutual funds were not rated. At June 30, 2008, the investments in the Multi-Strategy Bond Investors Fund – Commonfund were rated AA by Standard & Poor's. The investments in the Multi-Strategy Commodities Fund – Commonfund Institutional were rated AA+ by Standard & Poor's. The investments in the Multi-Strategy Equity Fund – Commonfund Institutional, Absolute Return Invertors B Blue, SSGA Money Market and Auction Rate Certificates 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. The Corporation's investments in the fixed income portfolio are subject to interest rate risk.

5. CAPITAL ASSETS

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

2008	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:				
Land	$ 705	$ -	$ -	$ 705
Construction in progress	3,717	25,349	(16,456)	12,610
Total capital assets not being depreciated	$ 4,422	$ 25,349	$ (16,456)	$ 13,315
Other capital assets:				
Buildings	$ 23,050	$ 4,778	$ -	$ 27,828
Equipment	-	4,038	(4,038)	-
Total other capital assets	23,050	8,816	(4,038)	27,828
Less accumulated depreciation for:				
Buildings	(6,456)	(565)	-	(7,021)
Other capital assets, net	$ 16,594	$ 8,251	$ (4,038)	$ 20,807
Capital Assets Summary:				
Capital assets not being depreciated	$ 4,422	$ 25,349	$ (16,456)	$ 13,315
Other capital assets	23,050	8,816	(4,038)	27,828
Total cost of capital assets	27,472	34,165	(20,494)	41,143
Less accumulated depreciation	(6,456)	(565)	-	(7,021)
Capital assets, net	$ 21,016	$ 33,600	$ (20,494)	$ 34,122

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

The Corporation capitalized interest on borrowings, net of interest earned on related debt of $75,000 during fiscal year 2008. There was no interest capitalization in fiscal year 2007.

6. LONG-TERM LIABILITIES

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

2008	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Notes payable	$ 3,880	$ 11,120	$ -	$ 15,000	$ -
Accounts payable - West Virginia University	2,274	6,486	-	8,760	-
Other noncurrent liabilities	104	593	5	692	-
Total long-term liabilities	$ 6,258	$ 18,199	$ 5	$ 24,452	$ -

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

7. NOTES PAYABLE

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 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.

During fiscal year 2007, the Corporation drew down on the WVHDF loan commitments in the amount of $3.88 million which is recorded as a note payable. During fiscal year 2008, an additional $2.12 million was drawn down, 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.

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, 2008 and June 30, 2007 was $305,000 and $65,000, respectively.

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.

During fiscal year 2008, the Corporation drew down the entire WVEDA loan commitment in the amount of $9.0 million which is recorded as a note payable.

The proceeds of the WVEDA loan are disbursed on a draw basis as construction progresses. The principal balance of the WVEDA loan bears interest at a fixed rate of 5.51% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest is due and payable monthly.

Interest on the loan will accrue but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2008 was $354,000.

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.

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. No amounts were drawn down on the IJDC loan commitment as of June 30, 2008.

Total principal and interest payments remaining to be paid at June 30, 2008 are approximately $26.8 million. Total facilities and administrative revenues earned by the HSC during fiscal year 2008 were $8.16 million. Total pledged revenue was $2.98 million.

8. 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**
2008	$ 232,000	$ 232,000	$ 464,000
2007	142,000	142,000	284,000
2006	58,000	58,000	116,000

The Corporation's total payroll expense for fiscal years 2008 and 2007 was $48.4 million and $48.0 million, respectively (including payroll expense for employees of the University); total covered employees' salaries in the TIAA-CREF were $4.6 million in fiscal year 2008 and $2.7 million in fiscal year 2007.

9. COMMITMENTS

The Corporation has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately $14.4 million at June 30, 2008.

10. 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.

11. 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.

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, 2008
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	$ 3,662	$ 665	$ -	$ 11	$ 3,479	$ -	$ -	$ 7,817
Research	34,611	6,349	-	531	26,282	-	-	67,773
Public Service	8,649	1,799	-	26	4,874	-	-	15,348
Academic Support	320	58	-	-	234	-	-	612
Operation and Maintenance of Plant	1	-	-	4	279	-	-	284
General Institutional Support	1,168	310	-	22	2,323	-	-	3,823
Student Financial Aid	-	-	1,370	-	-	-	-	1,370
Depreciation	-	-	-	-	-	565	-	565
Operating Expenses to the University	-	-	-	-	-	-	7,467	7,467
Total Expenses	$ 48,411	$ 9,181	$ 1,370	$ 594	$ 37,471	$ 565	$ 7,467	$ 105,059

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

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

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

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS 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, 2008, and have issued our report thereon dated October 6, 2008. 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*.

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

October 6, 2008