West Virginia State University

Research and Development Corporation

Institute, West Virginia
Financial Statements as of and for the Years Ended
June 30, 2008 and 2007, and Independent Auditors' Report
and Reports Required by OMB Circular A-133
for the Year Ended June 30, 2008

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

We have audited the accompanying statements of net assets of West Virginia State University Research and Development Corporation (the "Corporation") as of June 30, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2008 and 2007, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the Corporation adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*

The management's discussion and analysis on pages 3 through 9 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated October 9, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Hayflich & Steinberg, CPA's, PLLC

October 9, 2008

West Virginia State University
Research and Development Corporation

Management Discussion and Analysis
Fiscal Year Ended June 30, 2008

I. Introduction

A. *Historical Background*

The West Virginia State University Research and Development Corporation (the Corporation) was incorporated in 1991 with the purpose of providing West Virginia State University (the University) with financial flexibility in the administration of external grants, contracts, sponsored agreements, and gifts. The Corporation operates as a nonprofit entity exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenues code of 1986, as amended. The Corporation is the University's primary fiscal agent for federal, state, municipal, corporate, foundation grants, contracts, and gifts awarded to the institution.

B. *Overview of the Financial Statements and the Financial Analysis*

West Virginia State University is a Land-Grant institution of higher education which main mission is to provide its State's citizens and stakeholders with quality instruction, research opportunities, and public educational outreach. As it is the case for most institutions of higher education in the country, external supplemental funding has become important in the enhancing of the University's mission. To that fact, the University encourages its faculty, administrators, and staff to actively pursue sponsored programs that can result in the furtherance of its educational activities. In the past 8 years, the University has experienced a gradual increase in external support which is reflected in the respective growth of the Corporation's operating revenues and expenses, assets and liabilities during this time.

The discussion and analysis of the Corporation's financial statements are required supplemental information prescribed by the Governmental Accounting Standards Board ("GASB") No. 34 & 35. This financial information is structured into an *activity-based* reporting format and provides an overview of the Corporation's fiscal activities focusing on the year ended June 30, 2008. The analysis is based on the position of three main financial statements: (1) Net Assets, (2) Revenues, Expenses, and Changes in Net Assets, and (3) Cash Flows. Additional information relevant to fiscal years 2006 and 2007 is also included in this analysis to facilitate the reader a comparative analysis between immediate past and present financial positions of the organization.

II. Statement of Net Assets

The "Statement of Net Assets" reflects the Corporation's assets, liabilities, and its net assets status at the end of the fiscal year. This statement provides to the University's stakeholders fiscal information of the Corporation at a point in time.

Net assets are divided into three main categories: (1) investment in capital assets, net of debt, (2) restricted net assets, and (3) unrestricted net assets. The first asset category provides information on the Corporation's interest in property, and plant and equipment owned by the institution. The second category is further divided into non-expendable and expendable restricted net assets. Non-expendable restricted net assets are only available for investment purposes; usually the Corporation does not operate these restricted net assets. Expendable restricted assets are to be expended by the institution for the purpose in which the donor or grantor have intended (time and purpose restriction). Finally, unrestricted net assets are not restricted as to use, but only available to the institution for allowable expenditures.

Net Assets

	FY 2008	FY 2007	FY 2006
Assets			
Current assets	$1,263,859	$1,706,168	$1,195,653
Non-current assets:			
Cash and cash equivalents	0	0	0
Capital assets, net	1,186,709	1,226,621	1,292,894
Total Assets	**$2,450,568**	**$2,932,789**	**$ 2,488,547**
Liabilities			
Current liabilities	530,955	569,322	597,484
Non-current liabilities	375,061	312,056	265,845
Total Liabilities	**906,016**	**881,378**	**863,329**
Net Assets			
Invested in capital assets, net of debt	1,186,709	1,226,621	1,292,894
Restricted – expendable	146,125	620,245	317,126
Unrestricted	211,718	204,545	15,198
Total Net Assets	**1,544,552**	**2,051,411**	**1,625,218**
Total Liabilities and Net Assets	**$2,450,568**	**$2,932,789**	**$2,488,547**

In fiscal year 2008, the Corporation's total assets decreased from the previous year by $482,221 (a 16% reduction). A gain in total assets of $444,242 (an 18% increase) was experienced in the previous year. The overall decrease in total assets was due to a significant reduction in current assets (26% contraction) and a slight reduction in non-current assets (3%). In terms of current assets, the contraction was largely caused due to a significant reduction in cash and cash equivalents (56% reduction from the previous year). The cash and cash equivalents position of the Corporation is largely variable from year because it depends on the level of grant activity at the time the report is prepared. In other words, it is affected by receivables and payables in transit as well as by outstanding items (checks). The portion of the current assets derived from grants and contracts receivable increased by 25% this year, despite an overall decrease in current assets. In terms of non-current assets, the value of capital assets decreased slightly (3%) from the previous year. Therefore, the overall change in total assets suggests that the Corporation operated with less cash and cash equivalents to conduct its activities compared to the previous year.

The balance of total liabilities during the current fiscal year increased from $881,378 to $906,016, an increase of $24,368 (3%). This increase was driven by an increase in accounting for compensated absences. More specifically, the overall decrease in current liabilities was caused by accounts payable fluctuation and a decrease in the current portion of compensated absences. The volume of accounts payable increased by $7,568 (3%) and the current portion of compensated absences decreased by $45,935 (17%). The Corporation's accounts payable values are variable throughout the year and also vary from year to year. Accounts payable depend upon the level of activity related to the Corporation's primary activities. In terms of non-current liabilities, the non-current portion of compensated absences increased by $63,005 (20%) compared to the previous year. Current liabilities this year represented 59% of the total liabilities, which is a similar value compared to the 65 and 69% from the last previous two years, respectively.

The overall 25% decrease in total net assets, this year, is largely attributed to a significant decrease in the Corporation's restricted expandable net assets. In fact, the portions of net assets derived from investments in capital assets and unrestricted assets only change slightly compared to the previous year, 3% reduction and 4% increase, respectively. Capital assets net continue to gradually decrease since FY 2003: $2,134,325 (FY 2003) to $1,717,054 (FY 2004) to $1,394,347 (FY 2005) to $1,292,894 (FY 2006), to $1,226,621 (FY 2007), to $1,186,709, presently. As it was the case last year, the downward trend in capital assets this year can be largely attributed to the value of accumulated depreciation and equipment reductions ($310,190) relative to the value of capital assets additions ($270,278) to capital assets. Investment in capital assets comprises the purchase of fixed assets that are required to fulfill the goals and objectives established for each of the grants and contracts. Unrestricted net assets are utilized by the Corporation as supporting funding to cover for expenses of reimbursable grants in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in the conduction of research or other educational grants. Thus, the Corporation's unrestricted net assets mainly derived from external donors and thè recovery of indirect costs from grants and sponsored agreements.

III. Revenue, Expenses, and Changes in Net Assets

The statement of "Revenue, Expenses, and Changes in Net Assets" reveals the financial activities that propitiated changes in the total net assets. The main purpose of this statement is to show the revenues earned and the expenses incurred by the Corporation. Both, the revenues earned and the expenses incurred by the Corporation, are disclosed as operating and non-operating. Any other revenues, expenses, gains, and losses are also part of this statement.

Operating revenues are normally derived from grants, contracts, and sponsored agreements to cover for providing goods and services to the Corporation's funding agencies or constituents. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Non-operating revenues are those revenues not linked to the providing of goods and/or services.

Revenues, Expenses and Changes in Net Assets

	FY 2008	FY 2007	FY 2006
Operating revenues	$11,735,310	$10,736,163	$10,311,001
Operating expenses	12,870,572	10,583,937	10,608,811
Operating Income (Loss)	**(1,135,262)**	**152,226**	**(297,810)**
Non-operating revenues and expenses:	391,319	273,967	338,281
Cumulative effect of adoption of accounting principle:	237,084	0	0
Increase (Decrease) in Net Assets	(506,859)	426,193	40,471
Net – Assets Beginning of Year	2,051,411	1,625,218	1,584,747
Net Assets – End Year	**$1,544,552**	**$2,051,411**	**$1,625,218**

The Corporation's operating revenues derive from federal, state, and private funding sources. Operating revenues this year increased by approximately 9% ($991,147) compared to 4 and 28% increases in the previous two years, respectively. This year's moderate increase in operating revenues resulted from increases in federal ($1,057,881) and state ($160,787) funding; a 15 and 7% increase, respectively. The significant increase in the level of federal funds was derived mainly from a corresponding increase in funding from competitive grants used to enhance the University's Land-Grant research and extension activities. The modest increase in state funds derived from revenues received from the state's Legislature to match its federal funds. In terms of private funding, there was a 15% decrease in revenues compared to last year's revenue level. The Corporation's revenue composition varies from year to year depending upon the availability of funds from each source, and the overall level of combined effort exercised by the Corporation and University's faculty, staff and administrators. Overall, there has been a positive trend growth in relation to the Corporation's operating revenues for the past 4 years, averaging an 11% growth during this time frame. This positive trend in the Corporation's growth reflects proactive efforts in part of the University's faculty and staff in actively and continuously seeking to enhance educational programs via external sources of funds; and should be commended.

The Corporation's total operating expenses increased by 22%, from $10,583,937 to $12,870,572, this year. Normally, operating expenses are closely associated to the level of operating revenues. The more revenues the Corporation brings, the higher the level of expenditures incurred by the Corporation. The increase of the Corporation's total operating expenses of $2,286,635 reflects an overall effort by the Institution to continue enhancing its educational activities through funding beyond state appropriations and tuition fees. All the categories comprising the operating expenses except one, including salary and wages (9%), supplies (39%), benefits (30%), and utilities (20%), increased from its previous year's value. The level of depreciation this year was the only operating expense that contracted from $337,502 to $297,298 (a $40,204 difference).

The Statement of Revenues, Expenses, and Changes in Net Assets, shows an operating loss for the year of $1,135,262, compared to last year's income of $152,226. The activity-based financial reporting format, to which the Corporation now subscribes through GASB 34 and 35, must account for the value of depreciation of its capital assets. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are recorded as capital expenses and capitalized by the Corporation or the University's fiscal entities. The cost of depreciation of these assets is seldom recovered by the institution due to the fact that it cannot be charged back to federal or state grants and/or contracts in the following years. Thus, the value of accumulated depreciation can possibly result in an overall loss to the institution when this is greater than the value of assets acquired in a particular year. Furthermore, the fact that the majority of the Corporation's funds are managed in a reimbursable basis, results in a temporary deficit status, as the Corporation incurs in expenditures which are later reimbursed.

Non-operating revenues and expenses increased (43%) from $273,967 to $391,319 this year, in relation to the previous one. Capital grants and gifts to the institution remained basically at the same levels of previous year ($270,278 compared to $271,229). The operating deficit between the Corporation's operating revenues and expenses, resulted in an overall decrease ($506,859) in relation to its net assets. The lost value of net assets is mainly attributed to the level of depreciation relatively to the lower investment in capital assets, as well as a contraction in cash and cash equivalents this year.

IV. Cash Flows

The last statement presented by the Corporation is the "Statement of Cash Flows". This statement provides detail information regarding the Corporation's cash activities during the present year. The statement of cash flows is comprised of five components. The first component relates to operating cash flows, which shows the net cash used by the Corporation in carrying out its operating activities. The second section reflects the cash flow activities from non-capital financial activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financial purposes. The third component provides information on cash flows from investing activities, which shows the level of purchases, proceeds, and interests received from investing activities. The Corporation does not purposely engage in investing activities. The fourth section provides information on cash flows from capital and related financing activities. The Corporation engages in the acquisition of fixed assets and construction activities. The last section reconciles the net cash used to the operating income or losses reflected on the Statement of Revenues, Expenses, and Changes in Nest Assets.

The Corporation's cash and cash equivalents as of June 30, 2008 was $451,327. The significant contraction between this and last year's values was largely due to the deficit from the cash used by the operating activities ($572,750). The cash and cash equivalents of the previous two years was $1,022,431 and $602,418, respectively. Cash flow provided by financing activities represented only $1,646 and was solely derived from interest income. Income derived from federal and state agencies is drawn down on a reimbursable or encumbrance basis, once drawn down it is expended within 7-10 days. Thus, investment gain in the form of interests from these funds is not a primary target activity.

Cash Flows

	FY 2008	FY 2007	FY 2006
Cash provided (used) by:			
Operating activities	($572,750)	$417,275	$9,620
Investing activities	1,646	2,738	1,711
Capital and related financing activities	0	0	5,685
Net Increase (Decrease) in Cash and Cash Equivalents	**(571,104)**	**420,013**	**17,016**
Cash, beginning of year	1,022,431	602,418	585,402
Cash, end of year	**$451,327**	**$1,022,431**	**$602,418**

The total value of cash and cash equivalents, in relation to the total value of operational revenues for fiscal year 2008 was 4% compared to 9, 6, and 7% of the three previous respective years. The fact that the level of overall cash, as a percentage of operating revenues, was smaller than all three previous years, suggests that the Corporation operated with lower level of cash to meet its obligations at the end of this closing year compared to previous years.

V. Capital Assets and Debt Administration

The Corporation's primary activity is the fiscal management of all grants, contracts, and sponsored agreements. A number of these grants allow purchases of capital assets including educational and research equipment, land and/or buildings, new construction and renovation of educational facilities, and motor vehicles. This year, the purchase of capital assets in terms of additions totaled $270,278 compared to the $271,229 and $365,875 additions from the respective previous two years. It is the Corporation's policy that major assets (excluding vehicles), such as real state and capital improvements, be generally titled to the University and recorded on the University's financial statements as such. Thus, these major assets are normally recorded as expenditures within the Corporation and transferred to the University as assets. The assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2007 or 2008.

VI. Economic Outlook

The University has been successful in attaining external funding to enhance its Land-Grant mission in relation to research, outreach and teaching activities. As the institution fully re-establishes its research and outreach programming, the need for more and more sophisticated programs becomes apparent. In fact, the regaining of the University's Land-Grant and University status and the implementation of graduate programs has augmenting activities related to research, teaching and public service. To that end, the University encourages its academic faculty and staff to seek opportunities for enhancing research, teaching, and public service programs through external sponsored funding. Although the University receives external entitlements, including Federal formula funds, state matching appropriations and other funds exclusive of 1890 Universities, there is still great need for competitive and unsolicited resources. These resources, mainly derived from federal and state governments, have become scarcer in the last decade as more applicants and shrinking (or leveled off) funds are the current norm. Thus, the University continues seeking opportunities of funding from non-traditional sources. These sources include partnerships with the private and non-private institutions and foundations, and generating program income through the sale of services and the establishment of intellectual property. Thus, the aforementioned Institutional initiative is already paying off by providing the University and the Corporation with increased benefits derived from greater opportunities of funding via grants, contracts, and sponsored agreements with diverse public and private funding agencies; which is in turn reflected in the University (including the Corporation's) revenue increase.

The separation of the University and its Community and Technical College, mandated by the State's legislature, has had an adverse effect on the funds received by the University through its Title III-B Program. To that fact, the Legislature is currently compensating accordingly those institutions which have been impacted by the reductions in Title III-B funding programs. Moreover, the University is also actively seeking funding from the U.S. Department of Education to support its graduate programs.

The Corporation continues playing a vital role in the administration and advancement of research, teaching and public service for the University. The Corporation has managed to sustain a moderate increase in revenues in spite of an overall latent economy. All funding streams captured by the University and administered by the Corporation have had great impacts on the economic development, research capacity, and expansion of educational facilities of the University and the communities served throughout the state.

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF NET ASSETS AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 451,327	$ 1,022,431
Grants and contracts receivable	717,430	571,695
Other receivables	13,752	18,605
Due from West Virginia State University	14,897	22,813
Prepaid expense	66,453	70,624
Total current assets	1,263,859	1,706,168
NONCURRENT ASSETS:		
Capital assets — net	1,186,709	1,226,621
Total noncurrent assets	1,186,709	1,226,621
TOTAL	$ 2,450,568	$ 2,932,789
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	$ 300,444	$ 292,876
Compensated absences — current portion	230,511	276,446
Total current liabilities	530,955	569,322
NONCURRENT LIABILITIES:		
Compensated absences — non-current portion	216,566	312,056
Other post employment benefits liability	158,495	
Total noncurrent liabilities	375,061	312,056
Total liabilities	906,016	881,378
NET ASSETS:		
Invested in capital assets	1,186,709	1,226,621
Restricted for — expendable for — sponsored projects	146,125	620,245
Unrestricted	211,718	204,545
Total net assets	1,544,552	2,051,411
TOTAL	$ 2,450,568	$ 2,932,789

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES — Contracts and grants:		
Federal	$ 8,030,682	$6,972,801
State	2,485,929	2,325,142
Private	1,218,699	1,438,220
Total operating revenues	11,735,310	10,736,163
OPERATING EXPENSES:		
Salaries and wages	5,539,360	5,097,188
Supplies and other services	5,416,653	3,900,735
Benefits	1,566,361	1,206,072
Depreciation	297,298	337,502
Utilities	50,900	42,440
Total operating expense	12,870,572	10,583,937
OPERATING INCOME (LOSS)	(1,135,262)	152,226
NONOPERATING REVENUES (EXPENSES)		
Investment income	1,646	2,738
Loss on disposal of capital assets	(12,892)	
Payment on behalf of West Virginia State University Research and Development Company	132,287	
Capital grants and gifts	270,278	271,229
INCREASE (DECREASE) IN NET ASSETS BEFORE CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	(743,943)	426,193
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	237,084	
INCREASE (DECREASE) IN NET ASSETS	(506,859)	426,193
NET ASSETS — Beginning of year	2,051,411	1,625,218
NET ASSETS — End of year	$ 1,544,552	$2,051,411

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Contracts and grants	$ 11,602,344	$ 10,634,314
Payments to and on behalf of employees	(6,719,280)	(6,185,902)
Payments to suppliers	(5,404,914)	(3,988,697)
Payments to utilities	(50,900)	(42,440)
Other receipts — net	-	-
Net cash provided (used) by operating activities	(572,750)	417,275
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	270,278	271,229
Purchases of capital assets	(270,278)	(271,229)
Net cash provided by capital financing activities	-	-
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES — Investment Income	1,646	2,738
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(571,104)	420,013
CASH AND CASH EQUIVALENTS — Beginning of year	1,022,431	602,418
CASH AND CASH EQUIVALENTS — End of year	$ 451,327	$ 1,022,431
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating income (loss)	$ (1,135,262)	$ 152,226
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation expense	297,298	337,502
Expenses paid on behalf of the entity	132,287	
Grants/Contracts receivable	(145,735)	
Changes in assets and liabilities:		
Receivable — net	4,853	(93,666)
Due from West Virginia State University	7,916	(8,184)
Prepaid expenses	4,171	11,348
Accounts payable	7,568	(99,310)
Compensated absences	254,154	117,359
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (572,750)	$ 417,275
SIGNIFICANT NONCASH TRANSACTIONS		
Cumulative effect of adoption of accounting principle	$ 237,084	$ -

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). 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, technical assistance, and instructional programs in the State. The Corporation is governed by a Board of Directors, the Chairperson of which is the President of the University.

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 (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the 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 has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

Reporting Entity — The Corporation is combined with the University (its Parent), as the University is the sole member of the Nonstock 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 (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), 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.

Financial Statement Presentation — GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities,* as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures* establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the Corporation as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the Corporation as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance." Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The Corporation's net assets are classified as follows:

- *Invested in Capital Assets* — This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

- *Restricted Net Assets, Expendable* — This includes resources in which the Corporation is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

- *Restricted Net Assets, Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation does not have any restricted nonexpendable net assets at June 30, 2008 or 2007.

- *Unrestricted Net Assets* — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Corporation, and may be used at the discretion of the Board of Directors to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

Basis of Accounting — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

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

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

Capital Assets — Capital assets include property, plant and equipment, software, books, and materials that are part of a catalogued library and infrastructure 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 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The Corporation's threshold for capitalizing capital assets is $5,000.

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.

Effective July 1, 2007, the Corporation adopted GASB Statement No. 45, Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions. This statement provided standards for the measurement, recognition, and display of other postemployment benefit ("OPEB") expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, the Corporation was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency ("PEIA"), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or http://www.wvpeia.com.

The Corporation's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. The liability is now provided for under the multiple employer cost-sharing plan sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3⅓ years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

For the year ended June 30, 2007, the estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the Corporation identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the Corporation for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

Risk Management — The State's Board of Risk and Insurance Management ("BRIM") provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the 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.

Classification of Revenues — The Corporation has classified its revenues as either operating or nonoperating 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, (2) federal appropriations, and (3) sales and services of educational activities.

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

- *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

Use of Restricted Net Assets — The Corporation has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, the Corporation attempts to utilize restricted net assets first when practical.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs subject to an 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 five years.

Tax Status — The Corporation has applied for and 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.

Cash Flows — Any cash and cash equivalents escrowed, restricted, or in funded reserves have not been included as cash and cash equivalents for the purpose of the statements of cash flows.

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

Recent Statements Issued By the Governmental Accounting Standards Board — 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 College has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

Reclassifications — Certain prior year balances have been reclassified to conform to the 2008 fiscal year presentation.

3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2008 and 2007, was $451,327 and $1,022,431, respectively, compared with the combined bank balance of $920,157 and $1,325,121, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2008 and 2007, $300,000 and $200,000, respectively, were covered by Federal depository insurance, while $620,157 and $1,125,121, respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

4. CAPITAL ASSETS

The following is a summary of capital asset transactions for the years ended June 30, 2008 and 2007:

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 3,635,998	$ 270,278	$ (178,675)	$ 3,727,601
Motor vehicles	365,758			365,758
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	4,547,770	270,278	(178,675)	4,639,373
Less accumulated depreciation for:				
Equipment	2,469,203	265,123	(165,783)	2,568,543
Motor vehicles	325,083	19,656		344,739
Software	340,069			340,069
Library books	186,794	12,519		199,313
Total accumulated depreciation	3,321,149	297,298	(165,783)	3,452,664
Capital assets — net	$ 1,226,621	$ (27,020)	$ (12,892)	$ 1,186,709
Capital asset summary:				
Capital assets	$ 4,547,770	$ 270,278	$ (178,675)	$ 4,639,373
Less accumulated depreciation	3,321,149	297,298	(165,783)	3,452,664
Capital assets — net	$ 1,226,621	$ (27,020)	$ (12,892)	$ 1,186,709

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$3,364,769	$ 271,229	$	$3,635,998
Motor vehicles	365,758			365,758
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	4,276,541	271,229		4,547,770
Less accumulated depreciation for:				
Equipment	2,175,157	294,046		2,469,203
Motor vehicles	295,611	29,472		325,083
Software	339,778	291		340,069
Library books	173,101	13,693		186,794
Total accumulated depreciation	2,983,647	337,502		3,321,149
Capital assets — net	$1,292,894	$ (66,273)	$	$1,226,621
Capital asset summary:				
Capital assets	$4,276,541	$ 271,229	$	$4,547,770
Less accumulated depreciation	2,983,647	337,502		3,321,149
Capital assets — net	$1,292,894	$ (66,273)	$	$1,226,621

Title for motor vehicles is with the University.

5. COMPENSATED ABSENCES AND OTHER POST EMPLOYMENT BENEFITS

Compensated absences and other post employment benefits liability at June 30, 2008 and 2007, is as follows:

	2008					
		Current		Noncurrent		Total
Other post employment benefits	$	-	$	158,495	$	158,495
Accrued vacation leave		230,511		216,566		447,077
Total	$	230,511	$	375,061	$	605,572

	2007					
		Current		Noncurrent		Total
Health or life insurance benefits	$	88,240	$	148,844	$	237,084
Accrued vacation leave		188,206		163,212		351,418
Total	$	276,446	$	312,056	$	588,502

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by the Corporation was based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by the Corporation for extended health or life insurance coverage retirement benefits totaled $0. As of the year ended June 30, 2007, there were no retirees receiving these benefits.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was $158,495. For the year ended June 30, 2008, the Corporation recorded a cumulative effect of the adoption of this accounting principle of $237,084, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $505,783 and $0, respectively, during 2008. As of the year ended June 30, 2008, there were no retirees receiving these benefits.

6. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the "TIAA–CREF"). The TIAA–CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which is not matched by the Corporation.

Total contributions to the TIAA–CREF for the years ended June 30, 2008 and 2007, were $539,466 and $487,942, respectively, which consisted of equal contributions from the Corporation and covered employees in 2008 and 2007 of $269,733 and $243,971, respectively.

The Corporation's total payroll for the years ended June 30, 2008 and 2007 was $5,105,894 and $4,646,222, respectively, total covered employees' salaries for TIAA–CREF were $4,495,548 and $4,066,183 in 2008 and 2007, respectively.

7. CONTINGENCIES

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 significant financial impact on the Corporation's financial position.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities recorded in the financial statements as of June 30, 2008 or 2007.

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation 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 impact seriously on the financial status of the institution.

8. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2008, are as follows:

2009	$	508,000
2010		130,030
Total	$	638,030

The total operating lease expense for the years ended June 30, 2008 and 2007 was $457,209 and $488,270, respectively. The Corporation does not have any non-cancelable leases.

9. UNRESTRICTED NET ASSETS

At June 30, 2008 and 2007, the Corporation has no designated net assets.

10. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2008 and 2007, the following table represents operating expenses within both natural and functional classifications:

	2008					
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Instruction	$	$	$ 2,370	$	$	$ 2,370
Research	1,565,006	342,838	1,372,971	19,660		3,300,475
Public service	710,394	167,868	1,358,763	17,771		2,254,796
General institutional support	3,245,869	1,054,265	2,117,635	12,837		6,430,606
Auxiliary enterprises	18,091	1,390	564,914	632		585,027
Depreciation					297,298	297,298
Total	$ 5,539,360	$ 1,566,361	$ 5,416,653	$ 50,900	$ 297,298	$ 12,870,572

	2007					
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Instruction	$ 108,212	$ 6,941	$ 76,328	$	$	$ 191,481
Research	1,464,786	353,271	979,107	17,449		2,814,613
Public service	560,779	124,629	1,084,158	16,017		1,785,583
General institutional support	2,962,252	709,561	1,498,385	8,271		5,178,469
Auxiliary enterprises	1,159	11,670	262,757	703		276,289
Depreciation					337,502	337,502
Total	$ 5,097,188	$ 1,206,072	$ 3,900,735	$ 42,440	$ 337,502	$ 10,583,937

SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Pass-Through Agency/Program Title	Federal CFDA No.	Expenditures
Research and Development Cluster: U.S. DEPARTMENT OF AGRICULTURE:		
Bioplex 6 — Grants for Agricultural Research — Special Research Grant	10.200	$ (50)
Bioplex 7 — Grants for Agricultural Research — Special Research Grant	10.200	253,479
Cooperative State Research Education and Extension Service		
Cooperative Research (Evans Allen — Section 1445) 1890	10.205	1,147,086
CBG BIOTECH	10.216	152,061
CBG ANEROBIC	10.216	45,858
CBG MGCT RHUNKE	10.216	62,954
CBG ALCORN DNA	10.216	12,750
CBG ALCORN PEPPER	10.216	25,868
CBG ALCORN WATERMELON	10.216	31,425
CBG SWEET POTATO	10.216	158,475
CBG BACK TO GENES	10.216	9,753
CBG CUCRBITY	10.216	24,089
CBG FINFISHES	10.216	51,972
West Virginia University (Research):		
Sustainable Agriculture (SARE) 06	10.215	283
Sustainable Agriculture (SARE) 07	10.215	11,105
Sustainable Agriculture (SARE) 08	10.215	1,885
NATIONAL INSTITUTE OF HEALTH:		
Marshall University — WV BRIN 2007	93.389	1,386
Marshall University — WV BRIN 2007 Supplemental	93.389	9,436
Marshall University — WV BRIN 08	93.389	127,995
Marshall University — WV BRIN 09	93.389	10,710
NATIONAL SCIENCE FOUNDATION:		
PEET — Partnerships for Enhancing Expertise in Taxonomy	47.074	129
EPSCOR	47.076	161,464
Research Challenge LSAMP	47.076	3,743
U.S. DEPARTMENT OF ENERGY:		
Renewable Energy Land Grant	81.089	10,049
Total Research and Development Cluster		2,313,905
OTHER PROGRAMS:		
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE:		
Americorps	94.006	792
US DEPARTMENT OF LABOR —		
WV Work Force 07	17.258	915
WV Work Force MED 08	17.258	57,201
Nursing Pathways 2007/2008	17.261	435,080

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

Federal Pass-Through Agency/Program Title	Federal CFDA No.	Expenditures
Pass-through from:		
NATIONAL AERONAUTICS SPACE AGENCY:	Subcontract#	
NASA IV & V Land-Grant 04-05	43.NNGO5GH71A	$ 121
NASA ERC	NNX06AG93G	41,833
NASA PIPELINE	NNX06AG93G	13,695
USDA OREI — Organic Seed	10.303	3,681
USDA NRI —		
Alabama A&M Cotton	10.206	69,476
NRI EYA		
USDA ARS — ARS	10.001	73,867
Pass-through from:		
UNIVERSITY OF KENTUCKY		
LSAMP 246	47.076	8,536
LSAMP 247	47.076	8,491
U.S. DEPARTMENT OF AGRICULTURE:		
Summer Food Program 7	10.559	22,217
Summer Food Program 8	10.559	3,282
Cooperative State Research Education and Extension Service		
Cooperative Extension Service (Smith Lever—Section 1444)	10.500	1,044,258
Cooperative Research — 1890 Facilities Grant Extension Service	10.500	768,859
Renewable Resources Extension Act 06	10.500	4,546
USDA Agriculture in the Classroom	10.500	3,656
Land Grant Other	10.500	6,731
EFNEP 07	10.500	40,124
EFNEP 08	10.500	2,416
Rural Business Service 06	10.856	(299)
Rural Business Service 07	10.856	57,267
Rural Business Service 08	10.856	74,555
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT:		
EDI Special — Cybercafe	14.218	1,624
HUD-MED	14.520	59,494
Neighborhood Network	14.250	94,787
ARC Federal	23.011	3,000
U.S. DEPARTMENT OF EDUCATION —		
Pass-through from West Virginia Health and Human Resources:		
Title III-B —2007 Strengthening Historically Black Colleges and Universities	84.031	653,785
Title III-B —2008 Strengthening Historically Black Colleges and Universities	84.031	1,740,680
Business and International Education 2007	84.153	(248)
Business and International Education 2008	84.153	12,616
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES —		
National Sports Corporation		
National Youth Sports Funds — CSBG2007/2008	93.570	10,687
DHHR ECONOMIC DC	93.580	36,343
Pass Through From West Virginia Department of Transportation:		
Federal Highway Admin. STIP 07	20.205	33,710
Federal Highway Admin. STIP 08	20.205	3,717
WV DOT	20.205	54,964
TOTAL FEDERAL AWARDS		$ 7,760,364

See notes to schedule of expenditures of federal awards

(Concluded)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2008

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of West Virginia State University Research and Development Corporation (the "Corporation") for the year ended June 30, 2008, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

2. Catalog of Federal Domestic Assistance ("CFDA") Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.

3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is unlikely.

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

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

We have audited the financial statements of West Virginia State University Research and Development Corporation (the "Corporation") as of and for the year ended June 30, 2008, and have issued our report thereon dated October 9, 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 Organization'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 organization's 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 organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 Board of Directors of West Virginia State University Research and Development Corporation, management of the Corporation and West Virginia State University, 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.

Hayflich & Steinberg, CPA's, PLLC

October 9, 2008

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

Compliance

We have audited the compliance of West Virginia State University Research and Development Corporation (the "Corporation") with the types of compliance requirements described in the U.S. Office of Management and Budget ("OMB") Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2008. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program 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 results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 internal control over compliance that we consider to be material weaknesses, as defined above.

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

Hayflich & Steinberg, CPA's, PLLC

October 9, 2008

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2008

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualifed Opinion

Internal control over financial reporting:
Material weakness(es) identified? ____ yes __X__ no
Significant deficiencies identified that are not considered to be material weaknesses? ____ yes __X__ none reported

Noncompliance material to financial statements noted? ____ yes __X__ no

FEDERAL AWARDS

Internal control over major programs:
Material weakness(es) identified? ____ yes __X__ no
Significant deficiencies identified that are not considered to be material weaknesses? ____ yes __X__ none reported

Type of auditors' report issued on compliance for major programs: Unqualifed Opinion

Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133? ____ yes __X__ no

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Cooperative Extension Service Program	10.500
Nursing Pathways	17.261

Dollar threshold used to distinguish between Type A and Type B Programs: $300,000

Auditee qualifed as a low-risk auditee? __X__ yes ____ no

PART II. FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III. FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.