

# ***WEST VIRGINIA UNIVERSITY***

*Combined Financial Statements  
for the Years Ended June 30, 2009 and 2008  
and Independent Auditors' Reports*

# WEST VIRGINIA UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined statements of net assets of West Virginia University (the "University") as of June 30, 2009 and 2008 and the related combined 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 University. Our responsibility is to express an opinion on these financial statements based on our audits.

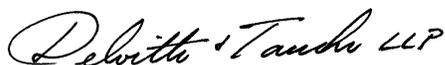
We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and 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 University'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 combined financial statements present fairly, in all material respects, the financial position of the University at June 30, 2009 and 2008, and the combined 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.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the University 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 2 to 17 is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 30, 2009, on our consideration of the University'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.



September 30, 2009

# WEST VIRGINIA UNIVERSITY

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## Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2009

### 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 No. 35. This section of West Virginia University's (the "University" or "WVU") annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2009 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2008 compared to fiscal year 2007.

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

### Financial Highlights

At June 30, 2009, the University's total net assets increased from the previous year-end by \$9.4 million, primarily due to an increase in capital assets, net of depreciation as well as decreases in accounts payable, leases payable, debt service assessment payable to the Commission, and bonds payable. This increase was partially offset by decreases in cash and cash equivalents and other assets as well as increases in notes payable, other post employment benefits (OPEB) liability, deferred revenue, other liabilities, compensated absences liability, and accrued payroll. The net assets balance was further reduced by a transfer of net assets to Bridgemont Community and Technical College ("Bridgemont CTC") and West Virginia University at Parkersburg ("WVU Parkersburg" or "WVUP"), in accordance with the provisions of West Virginia State Legislature House Bill 3215, in the amounts of \$2.0 million and \$13.4 million, respectively.

Total revenues experienced a slight increase over the prior year. Increases in revenues from tuition and fees, grants and contracts, auxiliary enterprises, service agreement, sales and services of educational activities and gifts were offset by decreases in investment income, capital projects proceeds from the Higher Education Policy Commission ("HEPC"), State appropriations, payments on behalf of the University, other operating revenues and capital grants and gifts. Total expenses increased 4.0% from prior year mainly because of increased salaries and benefits, supplies and other services, depreciation, and other non-operating expense.

This increase is significantly less than the increase in total net assets from fiscal year 2007 to fiscal year 2008. This is primarily because last year's net assets included a cumulative effect adjustment in the amount of \$34.7 million resulting from the reversal of accumulated sick leave liability with the implementation of GASB Statement No. 45 by the University.

### 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 University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors,

employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

*Invested in capital assets, net of related debt.* This category represents the University'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 tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's management or the Board of Governors.

### Condensed Statements of Net Assets (in thousands)

	<b>As of June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Assets</b>			
Current Assets	\$ 165,202	\$ 169,054	\$ 184,839
Noncurrent Assets	1,126,127	1,109,251	1,006,738
<b>Total Assets</b>	<b>\$ 1,291,329</b>	<b>\$ 1,278,305</b>	<b>\$ 1,191,577</b>
<b>Liabilities</b>			
Current Liabilities	\$ 135,772	\$ 138,447	\$ 129,889
Noncurrent Liabilities	403,498	397,173	408,961
<b>Total Liabilities</b>	<b>\$ 539,270</b>	<b>\$ 535,620</b>	<b>\$ 538,850</b>
<b>Net Assets</b>			
Invested in Capital Assets, Net of Related Debt	\$ 646,625	\$ 614,525	\$ 548,310
Restricted for:			
Nonexpendable	3,996	4,528	4,777
Expendable	29,310	32,079	36,679
Unrestricted	72,128	91,553	62,961
<b>Total Net Assets</b>	<b>\$ 752,059</b>	<b>\$ 742,685</b>	<b>\$ 652,727</b>

Total assets of the University increased by \$13.0 million to a total of \$1,291.3 million as of June 30, 2009. The increase was primarily due to an increase in net capital assets, net accounts receivable, net loans receivable and investments. These increases were partially offset by decreases in cash and cash equivalents and other assets. Capital assets followed an upward trend from prior years.

- Capital assets, net increased by \$46.2 million primarily due to completion of buildings and building improvements during fiscal year 2009, including: construction of Chemistry research laboratories; construction of office space and animal facilities in the Blanchette Rockefeller Neurosciences Institute building; expansion of the Engineering Sciences Building and renovations to its basement level; construction improvements to the player locker rooms at the Milan Puskar Center; and upgrades to the Personal Rapid Transit system. An additional increase was due to the construction of a chiller plant associated with the Downtown Infrastructure project and the construction of a Clinical Teaching Center at the Charleston Area Medical Center. The increase is also attributable to acquisition of equipment and Library holdings during fiscal year 2009. This increase in capital assets is lower than the increase noted in this category from fiscal year 2007 to fiscal year 2008.
- Accounts receivable, net increased by approximately \$950,000 from prior year primarily due to payments receivable from the WVU Foundation associated with a termination agreement between the WVU Board of Governors and John Beilein (former basketball coach of WVU). John Beilein's resignation from WVU in April 2007 had resulted in liquidated damages, under the terms of his employment contract with WVU, being paid by him to the WVU Foundation. Upon a recommendation of the WV Legislative Post Audit Division, such liquidated damages will be transferred to WVU by the WVU Foundation immediately as received. Liquidated damages receivable from the WVU Foundation in April 2010 are recorded at face value and those receivable in April 2011 and April 2012 are recorded at the present value of the expected payments. A similar, but higher, increase was noted in net accounts receivable from fiscal year 2007 to fiscal year 2008.
- Loans receivable, net increased by approximately \$930,000 from prior year attributable to increased activity in the Medical loan program. A similar, but higher, increase was noted in net loans receivable balances from fiscal year 2007 to fiscal year 2008.
- Investments increased by approximately \$670,000 primarily due to continued acquisition of its own auction rate certificates by the University pursuant to SEC guidance that permitted municipal issuers to repurchase their own debt and increase in endowed real estate as a result of implementing GASB Statement No. 52, *Land and Other Real Estate held as Investments by Endowments*. This increase was offset by a decrease in the fair market value of investments with the WVU Foundation. Investments had experienced a significant decrease from fiscal year 2007 to fiscal year 2008 primarily due to investment of the matured guaranteed investment contract into a cash equivalent money market fund during fiscal year 2008.
- Cash and cash equivalents decreased by \$28.8 million compared to prior year primarily due to a decrease in deposits with trustees resulting from proceeds of the 2004 revenue refunding and improvement bonds, as well as the Energy Performance Contract being used to finance construction activity on campus. This decrease was also partially attributable to the University's election to fund select construction projects (such as the child care center) from existing cash, rather than seek external financing. An additional decrease was due to transfer of cash to Bridgemont CTC and WVUP in accordance with the provisions of House Bill 3215. Cash and cash equivalents had significantly increased from fiscal year 2007 to fiscal year 2008 primarily due to investment of proceeds from a matured guaranteed investment contract in a money market fund during fiscal year 2008.

- Other assets decreased by \$6.5 million compared to previous year primarily due to amortization of three-year right-to-use software donated by Schlumberger Technology and Landmark Graphics Corporations in fiscal years 2007 and 2008. A similar, but smaller, decrease was noted in this category from fiscal year 2007 to fiscal year 2008.

Total liabilities for the year increased by \$3.7 million. This increase is primarily attributable to an increase in notes payable, OPEB liability, other non-current liabilities, deferred revenue, compensated absences liability and accrued payroll. This increase was partially offset by a decrease in accounts payable, leases payable, the reported debt service assessment payable to the Commission and bonds payable.

- Notes payable increased by \$10.7 million as a result of draws by the WVU Research Corporation against the loan commitment with the West Virginia Infrastructure and Jobs Development Council for renovations to the Health Sciences Center laboratories and construction of the Biomedical Research buildings. An additional increase was due to accrued interest on the loans from the West Virginia Housing Development Fund and the West Virginia Economic Development Authority being added to the outstanding notes payable balance, as the amounts are not payable until loan repayment commences. This category had experienced an increase from fiscal year 2007 to fiscal year 2008 due to draws against loan commitments with the West Virginia Housing Development Fund and the West Virginia Economic Development Authority.
- OPEB liability increased by \$8.0 million due to a decrease in state contributions into the West Virginia Retiree Health Benefit Trust Fund (the "Trust") on behalf of WVU. The OPEB liability represents WVU's accumulated unpaid Annual Required Contribution ("ARC") to the Trust established by the WV State Legislature. The State had transferred monies from its general revenues and PEIA excess reserves into the Trust as contributions during fiscal year 2008; however, in fiscal year 2009, PEIA did not transfer any excess reserves into the Trust as contributions. The OPEB liability was recorded for the first time in fiscal year 2008 with the implementation of GASB Statement No. 45.
- Other non-current liabilities increased by \$2.6 million mainly due to the accrual of projected future claims related to medical malpractice litigation cases. Additional funds were deposited during fiscal year 2009 into the escrow account established at the WVU Foundation to fund these potential liabilities. The accrual of projected future claims related to medical malpractice litigation cases had caused other liabilities to increase from fiscal year 2007 to fiscal year 2008.
- Deferred revenue increased by \$2.1 million primarily due to funds received from the Commission for the Eminent Scholars Recruitment and Enhancement program in the area of stroke research. An additional increase was due to increase in deferred student tuition and fee revenue related to the 2009 Summer session and receipt of several scheduled or advance payment sponsored awards during fiscal year 2009. This increase was partially offset by decreased deferral of athletics football ticket sales for the 2009 season. A similar, but higher, increase was noted in this category from fiscal year 2007 to fiscal year 2008.
- Compensated absences liability increased by \$1.3 million mainly due to an increase in the vacation leave liability and associated salary-related payments for active employees accruing annual leave. Compensated absences liability had significantly decreased from fiscal year 2007 to fiscal year 2008 due to a reversal of accumulated sick leave liability as of July 1, 2007 resulting from the implementation of GASB Statement No. 45 by the University.
- Accrued payroll increased by \$1.2 million mainly due to an increase in number of employees paid in arrears as well as increased salary expense for those employees as a result of a pay raise given to employees during fiscal year 2009. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. An additional increase was caused by an increase in the number of

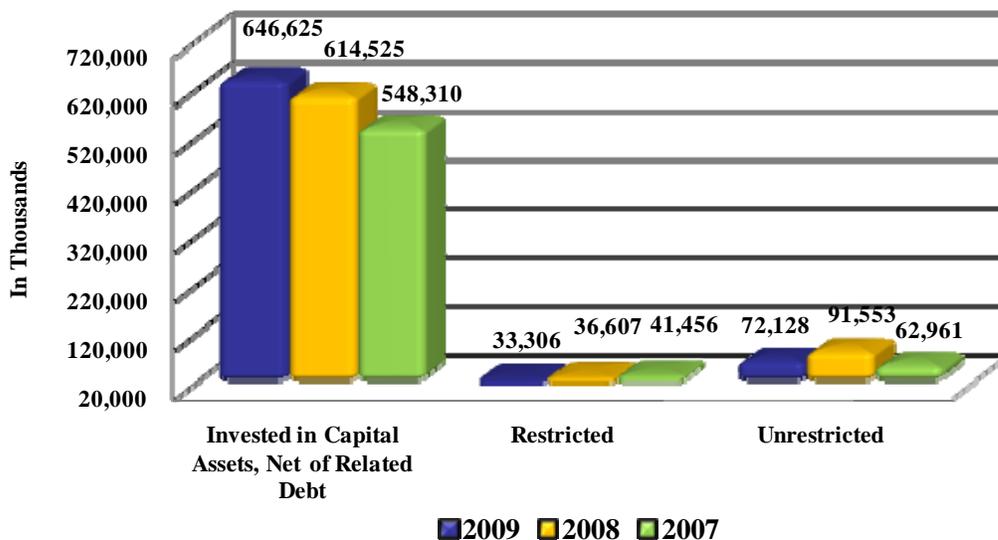
employees participating in the summer deferred payment program that allows employees with a less than twelve month contract to spread their pay over twelve months. The increase in accrued payroll was expected and is consistent with the increase in accrued payroll from fiscal year 2007 to fiscal year 2008.

- Accounts payable decreased by \$6.2 million mainly due to a decrease in unpaid construction-related vendor invoices at the end of fiscal year 2009. A similar, but smaller, decrease was noted in Accounts payable balances from fiscal year 2007 to fiscal year 2008.
- Leases payable decreased by \$6.4 million primarily due to the transfer of WVUP’s portion of the leases payable related to the Energy Performance Contract Phase II in accordance with the provisions of House Bill 3215. A portion of this decrease is also attributed to scheduled principal payments during fiscal year 2009. Leases payable had increased from fiscal year 2007 to fiscal year 2008 primarily due to phase II of the Energy Performance Contract entered into during fiscal year 2008.
- Debt service assessment payable to the Commission decreased by \$5.8 million primarily due to scheduled debt service (principal) payments in fiscal year 2009. An additional decrease is attributable to a portion of the debt service assessment payable balance being transferred to Bridgemont CTC and WVUP during fiscal year 2009 in accordance with the provisions of House Bill 3215. This decrease is consistent with the decrease in such liability from fiscal year 2007 to fiscal year 2008.
- Bonds payable decreased by \$3.3 million due to scheduled bond principal payments and amortization of net original issue bond premium related to the 2004 revenue refunding and improvement bonds during fiscal year 2009, as well as amortization of the loss on refunding related to the 1997 refunded bonds. Bonds payable had experienced a similar decrease from fiscal year 2007 to fiscal year 2008.

The University’s current assets of \$165.2 million were sufficient to cover current liabilities of \$135.8 million indicating that the University maintained sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.

## COMPARISON OF NET ASSETS June 30, 2009, 2008 and 2007



Invested in capital assets, net of related debt increased by \$32.1 million primarily due to an increase in capital assets, net, and decreases in debt assessment payable to the Commission and bonds payable. This increase is comparable to, but lower than, the increase in this category from fiscal year 2007 to fiscal year 2008.

Restricted net assets decreased by \$3.3 million primarily due to a decrease in the restricted for sponsored programs category. This decrease is primarily due to amortization of three-year right-to-use software donated by Schlumberger Technology and Landmark Graphics Corporations in fiscal years 2007 and 2008 as well as an increase in deferred revenue during fiscal year 2009. This decrease was partially offset by an increase in other restricted net assets for amounts due from the University Health Associates for mission support payments. Restricted net assets had experienced a similar decrease from fiscal year 2007 to fiscal year 2008.

Unrestricted net assets decreased by \$19.4 million primarily due to increases in the OPEB liability and other accrued liabilities as well as a decrease in cash and cash equivalents. The growth in total expenses during fiscal year 2009 outpaced the growth in total revenues, thereby contributing to such decrease. This net asset category had experienced an increase from fiscal year 2007 to fiscal year 2008 due to positive operations and reversal of accumulated sick leave liability as of June 30, 2008 as a result of implementation of GASB Statement No. 45.

## **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 University for the fiscal years.

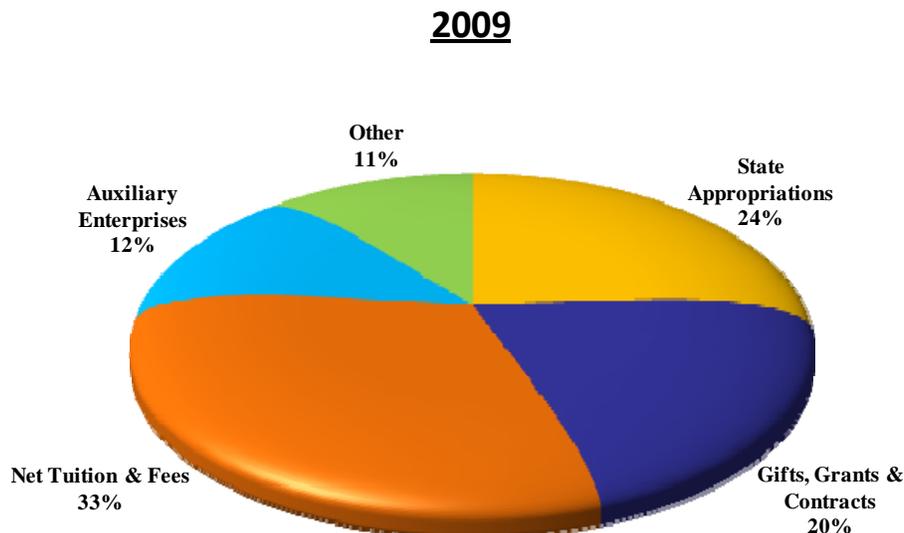
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the "Legislature") to the University without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide. This presentation is a change in reporting from the prior year when the grants were included in operating as part of Federal grants and contracts. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

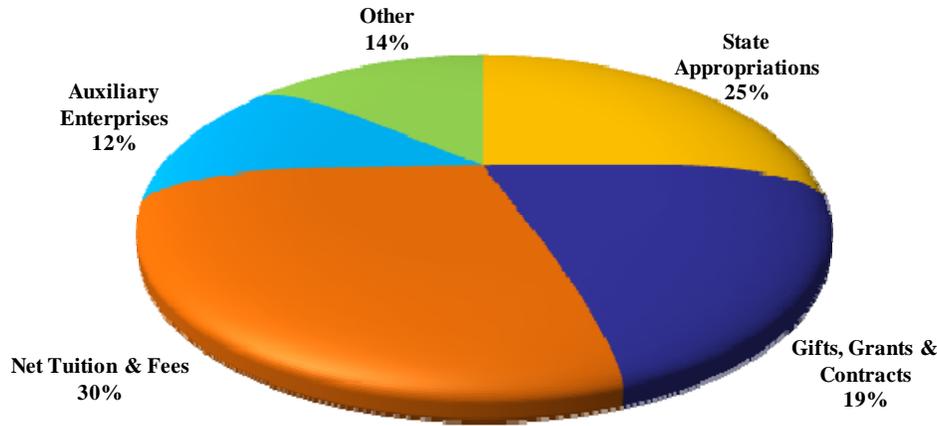
	<b>Years Ended June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
Operating Revenues	\$ 574,754	\$ 537,928	\$ 499,176
Operating Expenses	816,077	784,932	718,913
<b>Operating Loss</b>	<b>(241,323)</b>	<b>(247,004)</b>	<b>(219,737)</b>
Net Nonoperating Revenues	226,510	252,930	233,889
<b>(Loss) Income before Other Revenues, Expenses, Gains or Losses</b>	<b>(14,813)</b>	<b>5,926</b>	<b>14,152</b>
Capital grants and gifts	36,509	39,219	56,538
Bond proceeds/capital projects proceeds from the Commission	2,647	10,081	27,167
<b>Increase in Net Assets Before Cumulative Effect</b>	<b>24,343</b>	<b>55,226</b>	<b>97,857</b>
Transfer of net assets to Bridgemont CTC	(2,017)	-	
Transfer of net assets to WVU Parkersburg	(13,429)	-	
Cumulative Effect of Adoption of Accounting Principle	477	34,732	-
Increase in Net Assets	9,374	89,958	97,857
<b>Net Assets at Beginning of Year</b>	<b>742,685</b>	<b>652,727</b>	<b>554,870</b>
<b>Net Assets at End of Year</b>	<b>\$ 752,059</b>	<b>\$ 742,685</b>	<b>\$ 652,727</b>

Revenues:

The following charts illustrate the composition of revenues by source for 2009 and 2008.



## 2008



The total revenues for fiscal year 2009 were \$858.9 million, an increase of \$1.5 million over the prior year. The most significant sources of revenue for the University are tuition and fees, state appropriations, and grants and contracts. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

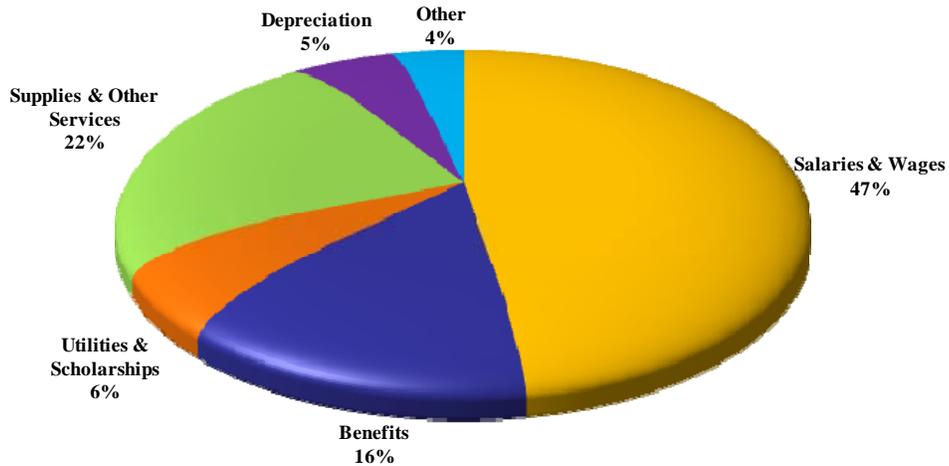
- Tuition and fees increased by \$22.3 million primarily due to an increase in the fee rate and an increase in non-resident student enrollment. This increase is consistent with increases in prior years.
- Grants and contracts revenue (non-capital related) increased by \$5.3 million mainly due to increased revenues from several new and existing state and non-governmental grants. Pell Grant revenue for fiscal years 2009 and 2008 was reclassified from operating revenue to nonoperating revenue per the Audit and Accounting Guide for State and Local Governments issued by the American Institute of Certified Public Accountants. A similar increase was noted in this revenue category from fiscal year 2007 to fiscal year 2008.
- Auxiliary revenue increased by \$5.2 million primarily due to an increase in room and dining services revenue, auxiliary fee revenue and athletics revenue. Room and dining services revenue increased primarily due to an increase in room and board fees, an increase in occupancy and number of meal plans, as well as the acquisition and operation of new Greek housing on campus. Auxiliary fee revenue increased due to an increase in auxiliary special fees. Athletics revenue increased because of an increase in advertisement revenue. This increase in auxiliary revenue is consistent with, but lower than, the increase in this category from fiscal year 2007 to fiscal year 2008.
- Service Agreement revenue of \$2.4 million was due to WVU providing services to an entity which previously was part of the WVU reporting entity. Effective July 1, 2008, Bridgmont CTC became a separate entity and is not part of the WVU reporting entity. Therefore, the revenues from service agreements between WVU Institute of Technology (“WVUIT”), a division of WVU, and the Bridgmont CTC are now presented separately for the first time. Revenues from such service agreements denote payments by the Bridgmont CTC for administrative and academic services provided by WVUIT.

- Revenues from sales and services of educational activities increased by \$1.6 million over prior year primarily due to increased revenues from study abroad programs and conferences and events at WVU Jacksons Mills and the Fire Service Academy. No significant change was noted in this category from fiscal year 2007 to fiscal year 2008.
- Gift revenue increased by \$1.5 million primarily due to an increase in WVU Foundation support to pay for Athletics scholarships and Athletics' share of debt service payments as well as for financial aid awards. Gift revenue had experienced a similar, but higher, increase from fiscal year 2007 to fiscal year 2008 mainly because of an increase in WVU Foundation support to the Health Sciences Center and the University's football program.
- Investment return decreased by \$11.3 million primarily due to significant losses in market value of investments and significantly reduced returns on investments reflecting market performance. Declining unspent bond proceeds with the Trustee also contributed to a decrease in investment income. Investment income had experienced a similar, but lower, decrease from fiscal year 2007 to fiscal year 2008 primarily due to reduced returns on investments reflecting market performance.
- Bond/capital projects proceeds from the Commission decreased by \$7.4 million primarily because a majority of the projects financed by such proceeds have been completed and only a few projects remain that require reimbursement of construction expenditures from the Higher Education Facilities 2004 Series B bonds issued by the Commission. This category had experienced a similar decrease from fiscal year 2007 to fiscal year 2008.
- State appropriations decreased by \$7.4 million from prior year primarily due to a change in the reporting entity of the University in fiscal year 2009. As of July 1, 2008, Bridgemont CTC and WVUP are no longer considered part of the WVU reporting entity and therefore their revenues, including State appropriations, are excluded from fiscal year 2009 total revenues. This decrease was partially offset by an increase in general appropriations from the State during fiscal year 2009. State appropriations had increased from fiscal year 2007 to fiscal year 2008 due to an increase in legislative appropriations for activities at various campuses of the University.
- Payments on behalf of the University decreased by \$4.3 million as a result of a decrease in the amount of funds transferred by the State and PEIA into the Retiree Health Benefit Trust fund. The general revenues transferred by the State in fiscal year 2009 benefit only those employees who are compensated from the general revenue pool. This category of revenue was new in fiscal year 2008 and was due to the transfer of funds by the State and PEIA from their general revenues and excess reserves into the Trust fund.
- Other operating revenue decreased by \$4.2 million from prior year. During fiscal year 2008, liquidated damages were recognized as revenue under a settlement agreement and mutual release entered into between the WVU Board of Governors, the Regents of the University of Michigan and Richard Rodriguez (former head football coach of WVU). This decrease was partially offset by recognition of liquidated damages, during fiscal year 2009, from WVU Foundation related to a termination agreement with John Beilein, former basketball coach of WVU.
- Capital grants & gifts decreased by \$2.7 million over prior year primarily due to reduced revenues from existing capital grants, notably the capital grant related to the construction of the Blanchette Rockefeller Neurosciences Institute as well as a decrease in software donations compared to the prior year. This decrease was partially offset by an increase in new capital grants including an award from the U.S. Department of Transportation for the construction of an intermodal facility, as well as an increase in assets donated to the WVU Foundation on the University's behalf. Capital grants and gifts had experienced a significant decrease from fiscal year 2007 to fiscal year 2008 attributable to reduced revenues from capital grants during fiscal year 2008.

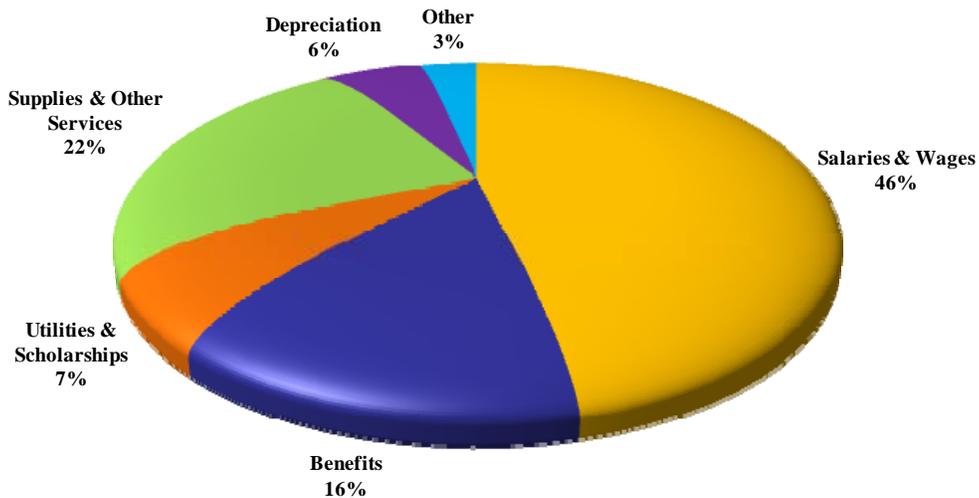
Expenses:

The following is a graphic comparison of total expenses by category between 2009 and 2008.

**2009**



**2008**



Total expenses for fiscal year 2008 were \$834.6 million, an increase of \$32.4 million from prior year. This increase is consistent with, but lower than, the increase noted in total expenses from fiscal year 2007 to fiscal year 2008. This increase is primarily due to an increase in several categories of expenses as detailed below.

- Salaries and wages increased by \$23.8 million from the prior year mainly due to a significant salary increase program for all University employees that was implemented in October 2008 (fiscal year 2009). An increase in the number of both tenure track and non-tenure track faculty as well as increases in the Research Corporation payroll also contributed to the increase. A similar, but slightly lower, increase was noted in salaries and wages from fiscal year 2007 to fiscal year 2008.
- Benefits expense increased by \$3.5 million in correspondence with an increase in the salary expense. An additional increase is attributable to an increase in service related tuition waivers to faculty, staff and graduate assistants. This increase was partially offset by a decrease in OPEB expense resulting from a lower annual required contribution allocation from the Trust fund. With the transfers of State general funds and PEIA excess reserves into the Trust fund during fiscal year 2008, the Trust was considered to be partially funded by the actuary, thus lowering the discount rate used to value the future retiree benefits and the resulting OPEB liability, and leading to a lower annual required contribution in fiscal year 2009. Benefits expense had experienced a significant increase from fiscal year 2007 to fiscal year 2008 due to the recognition of OPEB expense for the first time with the implementation of GASB Statement No. 45 during fiscal year 2008.
- Other operating expenses increased by \$2.9 million compared to prior year. A contributing factor to this increase was the amortization of donated software from Schlumberger Technology and Landmark Graphics Corporations as well as a transfer of funds to the Blanchette Rockefeller Neurosciences Institute that was appropriated by the State for programmatic purposes. This category had experienced a decrease from fiscal year 2007 to fiscal year 2008.
- Supplies and other services increased by \$1.7 million. This increase was attributable to increases in contractual and professional services resulting from expensing the costs of asbestos abatement in University buildings with the implementation of GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations* and insurance expense related to amounts transferred to the WVU Foundation for future medical malpractice claims. Supplies and other services had increased significantly from fiscal year 2007 to fiscal year 2008 mainly due to amortization of software maintenance support services provided by Schlumberger Technology and Landmark Graphics Corporations.
- Other non-operating expense increased by \$1.3 million due to capital losses incurred on the retirement of partially depreciated assets, including replacement of the turf at the Puskar stadium and discontinuation of a finger printing ID system by the Forensic and Investigative Sciences program. No significant change was noted in this category from fiscal year 2007 to fiscal year 2008.
- Depreciation expense increased by \$1.1 million over the prior year mainly as a result of increase in depreciation associated with buildings and library holdings. Depreciation expense had experienced a similar increase from fiscal year 2007 to fiscal year 2008 due to an increase in depreciation expense associated with buildings.
- Utilities increased by approximately \$700,000 primarily due to increases in natural gas and steam prices as well as increase in consumption of steam. Utilities had decreased from fiscal year 2007 to fiscal year 2008 primarily due to lower steam and natural gas expenses.

- Scholarship and fellowship expenses decreased by \$3.0 million over the prior year primarily due to such expenses for Bridgemont CTC and WVUP being excluded from the WVU reporting entity in fiscal year 2009, as well as an increase in scholarship allowance resulting from more institutional resources used for awarding financial aid (which are reflected as an offset under student tuition and fees revenues). This decrease was partially offset by an increase in the amount of financial aid awarded during fiscal year 2009, including Pell grants, WVU Foundation scholarships and tuition and fee merit waivers. Scholarship and fellowship expenses had increased from fiscal year 2007 to fiscal year 2008 attributable to an increase in student enrollment and a corresponding increase in tuition and fees.

## 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 activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

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

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

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

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

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

## Condensed Statements of Cash Flows (in thousands)

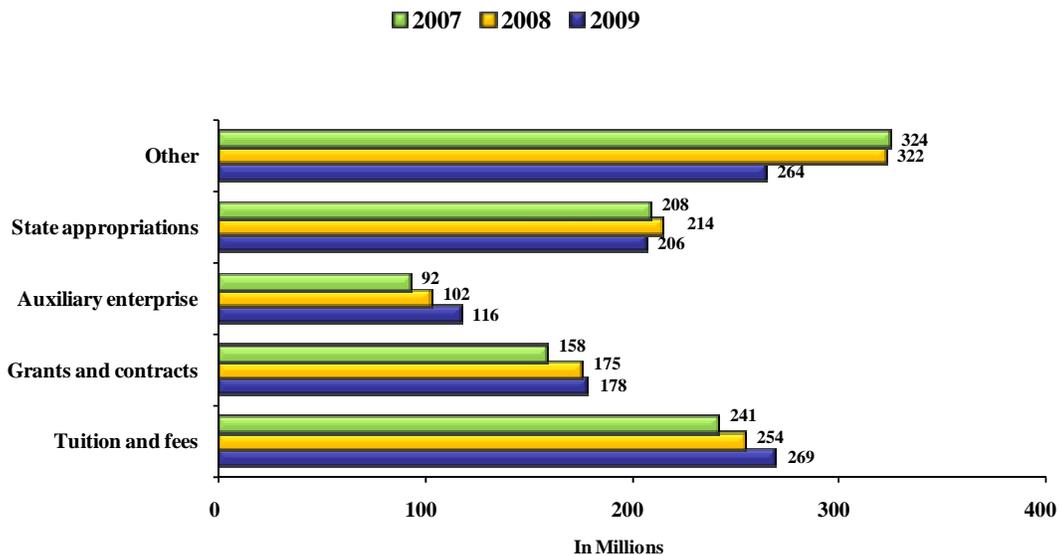
	<b>Years Ended June 30</b>		
	<b>2009</b>	<b>2008</b>	<b>2007</b>
<b>Cash Provided By (Used In):</b>			
Operating Activities	\$ (168,536)	\$ (167,925)	\$ (162,614)
Noncapital Financing Activities	231,230	247,799	236,796
Capital Financing Activities	(86,339)	(97,770)	(89,730)
Investing Activities	(5,151)	22,497	10,979
<b>(Decrease) Increase in Cash and Cash Equivalents</b>	<b>(28,796)</b>	<b>4,601</b>	<b>(4,569)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>153,143</b>	<b>148,542</b>	<b>153,111</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 124,347</b>	<b>\$ 153,143</b>	<b>\$ 148,542</b>

Total cash and cash equivalents decreased by \$28.8 million during fiscal year 2009 to \$124.3 million.

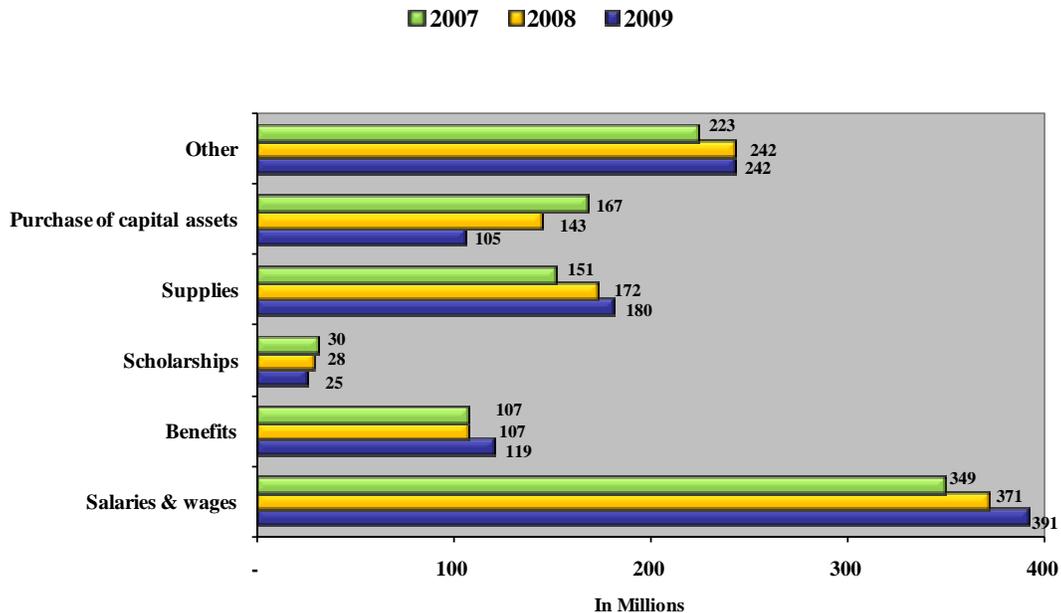
- Net cash used in operating activities increased slightly primarily due to increases in payments to employees, for benefits and to suppliers. These increases in outflows were partially offset by increases in cash inflows from tuition and fees, grants and contracts and auxiliary enterprise. Cash used in operating activities had experienced a higher increase from fiscal year 2007 to fiscal year 2008.
- Net cash provided by noncapital financing activities decreased by \$16.7 million primarily due to transfers of cash to the Bridgemont CTC and to WVUP in accordance with the provisions of House Bill 3215. The decrease is also partially attributable to decreased cash inflows from Pell grants. This category had experienced an increase from fiscal year 2007 to fiscal year 2008 due to an increase in cash inflows from state appropriations and gift receipts.
- Net cash used in capital financing activities decreased by \$11.3 million primarily due to decrease in cash outflows for purchase of capital assets. This decrease was partially offset by decreased cash inflows from capital grants and gifts and capital projects proceeds from the Commission and the Trustee. This category had experienced an increase from fiscal year 2007 to fiscal year 2008 due to decreased cash inflows from capital grants and gifts and capital projects proceeds from the Commission and the Trustee.
- Net cash from investing activities changed by \$27.6 million as a result of decrease in proceeds from sale of investments during fiscal year 2009, as well as decrease in investment income. This increase was partially offset by an increase in cash outflow from purchase of investments. During fiscal year 2008, cash was provided by the sale of investments.

The following graphs illustrate the sources and uses of cash –

## SOURCES OF CASH



## USES OF CASH



### Capital Asset and Long Term Debt Activity

The University had significant construction and capital activity in fiscal year 2009, financed by bond proceeds, loan proceeds, leases, grants, gifts and other University funds.

- The University completed construction of a chiller plant associated with the Downtown Infrastructure project; construction of Chemistry research laboratories; construction of office space and animal quarters in the Blanchette Rockefeller Neurosciences Institute building; expansion of the Engineering Sciences Building and renovations to its basement level; construction improvements to the player locker rooms at the Milan Puskar Center; and upgrades to the PRT. Other activity included construction of a student housing facility on the Downtown campus; construction of an intermodal transportation facility and parking garage; and construction of a nursery and child care center. Grant funds and loan proceeds were used for the construction of a Clinical Teaching Center at the Charleston Area Medical Center and the Blanchette Rockefeller Neurosciences Institute building.
- During fiscal year 2009, the termination of a long-term ground lease agreement between the WVU Alumni Association and the WV Board of Regents resulted in the leased land and the alumni association facility constructed on such land, called the Erickson Alumni Center building, to revert to the University. The University has recorded the building at its fair market value.
- The University capitalized costs associated with the purchase and development of an Identity Management software and implementation of an Electronic Student Evaluation of Instruction system; a Curriculum Approval Process application to address submission and review of new, altered and changed curriculum; an Electronic Request System to support eCampus users; and a DigiTool/WVU Scholar to serve as a repository of all student theses and other scholarly documents for sharing across campus.

- The University continues to upgrade facilities under phase II of a performance energy contract with Siemens Building Technologies, Inc. The performance energy contract is designed to reduce energy consumption, reduce deferred maintenance, implement life safety improvements, and advance operational enhancements throughout the University. Energy performance projects are being undertaken at the Morgantown and Montgomery campuses of the University. The funds are deposited in an escrow account with BB&T. BB&T paid \$2.9 million during fiscal year 2009 to Siemens for progress payments related to such contract.

The University, including the Health Sciences Center and its regional campuses, has planned capital expenditures of approximately \$268.0 million for an on-going capital plan and approximately \$5.0 million for repairs and maintenance. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University campuses. These capital projects are being financed through bond proceeds, grants, loans and other sources of revenues available to the University including internal financing, operational revenue and other financing sources.

The bond proceeds were generated through the issuance of revenue refunding and improvement bonds by the University, in November 2004, in the aggregate principal amount of \$220.0 million, and the Higher Education Facilities 2004 Series B Bonds issued by the Commission (HEPC Revenue Bonds). Other financing sources include excess lottery funds received from the Commission for health, life safety, ADA and deferred maintenance projects. The proceeds from the University's revenue refunding and improvement bonds were also used to advance refund outstanding 1997 Series A and B Student Union Revenue Bonds and 1997 Series B Dormitory and Athletics Revenue Bonds.

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, 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 2009, \$9.4 million was drawn down on the West Virginia Infrastructure and Jobs Development Council. All amounts from the respective State agencies have been drawn down and are recorded as notes payable.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however \$93.2 million is reported as debt service assessment payable to the Commission by the University.

The University maintains a A+ and A1 credit ratings from Standard and Poor's and Moody's respectively.

## **Economic Outlook**

University administration remains confident of the institutions financial stability and its ability to fulfill its mission as the state's flagship institution.

The University's financial position is closely tied to that of the State of West Virginia. As such, the University is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. However, the state's budget was sound (with a slight surplus) in fiscal year 2009 and is also balanced in fiscal year 2010 with the help of Federal American Recovery and Reinvestment Act funding, prudent financial management and a strong energy related tax base. Based on assurances from the state's executive leadership, the University expects that the current level of state support will continue into fiscal year 2011.

Although the University expects stable state support into fiscal years 2010 and 2011, additional funds will be needed for strategic investments related to the instructional, service and research missions. This need necessitates the University to constantly focus on cost control and revenue generation strategies (primarily through enrollment management and tuition increases).

For the fiscal year 2010, the University increased its tuition and fees by an average of 4% and experienced the largest opening day enrollment level in its history. While the incoming freshman class size was slightly smaller than the previous fiscal year, the University posted enrollment increases in graduate and extended learning (off campus) programs, in addition to maintaining a high quality academic profile for the admitted freshman students. This enrollment success was not confined to the Morgantown campus only. The University's regional campuses in both Keyser (Potomac State College of WVU) and Montgomery (WVU Tech) have shown impressive increases in their fall enrollment counts. University administration believes that WVU represents an unparalleled value for a quality educational experience.

Other critical revenue sources are also expected to experience growth into the future. Specifically, auxiliary enterprise revenue, such as housing, dining services and athletics, are expected to increase due to the new or improved residence hall space, and food service venues as well as successful athletic programs that continue to gain national prominence.

The University's research programs represent an important component of its mission as well. As federal deficits increase and funding becomes scarce, an increased competition for limited funds will make funded research grants more difficult to secure in the future. However, the University is attempting to meet those challenges by making significant investments in new faculty start-up programs, sponsoring professional development activities (such as grant development workshops, mentorship programs and external peer review programs) and fostering relationships with external partners to identify potential funding opportunities. The University is actively investing in advanced energy initiatives and biomedical science programs.

While Administration is cautiously optimistic about the national and state economic climate, they realize that the University will face significant pressure that will require careful financial planning and management in future periods. Specifically, future cost increases related to health insurance, general operating costs, facility upkeep/upgrade and maintaining competitive faculty and staff salary plans will require draws on already limited resources and may require alterations to the established strategic plan.

Perhaps the most significant challenge facing the University (and the State) is funding the Other Post Employment Benefit costs that originate from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. WVU is a participant in the West Virginia State Retiree Health Benefit Trust Fund, a multiple-employer, cost sharing defined benefit plan legislatively established to accumulate funds for the retiree programs. The state-wide OPEB liability is calculated at the Trust fund level and the current year annual required contribution is allocated to each participant based on employment levels. As a result, options available to WVU to manage or lower its OPEB obligations are very limited.

In fiscal year 2009, the amount of state support to fund the state-wide Trust decreased by approximately \$53 million from fiscal year 2008. There is no commitment of any additional funding from the State for years after fiscal year 2009, at this time. Accordingly, in fiscal year 2010, the State provided no funding at all for the Fund's annual required contribution of \$791.9 million (which more than doubled from the fiscal year 2009 level). On an aggregate basis, this will require the University to accrue a liability to the Trust fund of approximately \$50 million for fiscal year 2010. At this point, none of the higher education institutions within the State are planning to fund this liability; however the situation remains very uncertain.

# WEST VIRGINIA UNIVERSITY

## COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2009 AND 2008

(Dollars in Thousands)

	2009	2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 109,483	\$ 115,627
Accounts receivable, net of allowances for doubtful accounts of \$3,491 and \$4,047	48,018	47,160
Due from the Commission	885	1,360
Service agreement receivable from Bridgemont CTC	18	-
Loans receivable, current portion	4,146	2,162
Inventories	1,705	1,726
Prepaid expenses	775	887
Notes receivable from Bridgemont CTC, current portion	40	-
Bond issuance cost, current portion	132	132
Total current assets	<u>165,202</u>	<u>169,054</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	14,864	37,516
Investments	76,748	76,077
Accounts receivable	1,452	1,365
Loans receivable, net of allowances for doubtful accounts of \$4,531 and \$4,199	35,493	36,545
Notes receivable from Bridgemont CTC	240	-
Bond issuance cost, net	1,255	1,387
Other assets, net	4,628	11,153
Capital assets, net	991,447	945,208
Total noncurrent assets	<u>1,126,127</u>	<u>1,109,251</u>
<b>TOTAL ASSETS</b>	<u>\$ 1,291,329</u>	<u>\$ 1,278,305</u>

(continued)

**WEST VIRGINIA UNIVERSITY**

**COMBINED STATEMENTS OF NET ASSETS (CONTINUED)**

**AS OF JUNE 30, 2009 AND 2008**

(Dollars in Thousands)

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES</b>		
Current Liabilities:		
Accounts payable	\$ 31,273	\$ 37,430
Accrued liabilities	2,876	3,247
Accrued payroll	15,288	14,034
Deposits	2,787	2,651
Deferred revenue	48,633	46,508
Due to the Commission	504	459
Compensated absences	23,834	22,531
College system debt owed to the Commission, current portion	157	211
Debt service assessment payable to the Commission, current portion	5,143	5,115
Leases payable, current portion	1,170	2,899
Bonds payable, current portion	3,514	3,314
Notes payable, current portion	593	48
Total current liabilities	<u>135,772</u>	<u>138,447</u>
Noncurrent Liabilities:		
Other post employment benefits liability	14,511	6,548
Advances from federal government	26,776	26,891
College system debt owed to the Commission	237	550
Debt service assessment payable to the Commission	88,022	93,823
Leases payable	26,243	30,943
Bonds payable	203,176	206,690
Notes payable	25,203	15,000
Other noncurrent liabilities	19,330	16,728
Total noncurrent liabilities	<u>403,498</u>	<u>397,173</u>
<b>TOTAL LIABILITIES</b>	<u><u>\$ 539,270</u></u>	<u><u>\$ 535,620</u></u>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	\$ 646,625	\$ 614,525
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	3,436	3,918
Other	475	525
Total nonexpendable	<u>3,996</u>	<u>4,528</u>
Expendable:		
Scholarships and fellowships	688	244
Sponsored programs	4,932	10,612
Loans	19,785	19,495
Capital projects	100	-
Debt service	1,370	699
Other	2,435	1,029
Total expendable	<u>29,310</u>	<u>32,079</u>
Unrestricted	<u>72,128</u>	<u>91,553</u>
<b>TOTAL NET ASSETS</b>	<u><u>\$ 752,059</u></u>	<u><u>\$ 742,685</u></u>

See notes to combined financial statements.

**WEST VIRGINIA UNIVERSITY**

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS  
YEARS ENDED JUNE 30, 2009 AND 2008**

(Dollars in Thousands)

	2009	2008
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship allowances of \$29,622 and \$26,726	\$ 278,728	\$ 256,406
Federal land grants	8,797	8,350
Local land grants	1,056	1,089
Federal grants and contracts	69,139	71,056
State grants and contracts	38,453	36,613
Local grants and contracts	453	389
Nongovernmental grants and contracts	46,498	37,462
Sales and services of educational departments	15,584	14,018
Auxiliary enterprises, net of scholarship allowances of \$6,262 and \$5,705	106,095	100,862
Interest on student loans receivable	605	579
Net service agreement revenue from Bridgemont CTC	2,395	-
Other operating revenues (including revenue from outsourced enterprise of \$1,575 and \$1,176)	6,951	11,104
Total operating revenues	<u>574,754</u>	<u>537,928</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	394,663	370,832
Benefits	132,175	128,646
Scholarships and fellowships	26,291	29,315
Utilities	24,897	24,193
Supplies and other services	180,622	178,904
Depreciation	44,438	43,290
Loan cancellations and write-offs	699	522
Assessments by the Commission for operations	2,506	2,511
Waivers in support of other State institutions	691	477
Other operating expenses	9,095	6,242
Total operating expenses	<u>816,077</u>	<u>784,932</u>
<b>OPERATING LOSS</b>	<u>(241,323)</u>	<u>(247,004)</u>

(continued)

**WEST VIRGINIA UNIVERSITY**

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)**  
**YEARS ENDED JUNE 30, 2009 AND 2008**

(Dollars in Thousands)

	<b>2009</b>	<b>2008</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 206,352	\$ 213,726
Payments on behalf of the University	6,051	10,346
Gifts	19,015	17,486
Federal Pell grants	18,672	22,425
Investment (loss) income (including unrealized loss of \$(7,582) and \$(3,457))	(5,094)	6,203
Interest on capital asset-related debt	(10,492)	(10,453)
Assessments by the Commission for debt service	(5,224)	(5,374)
Other nonoperating expenses - net	(2,770)	(1,429)
Net nonoperating revenues	<u>226,510</u>	<u>252,930</u>
<b>(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	(14,813)	5,926
Capital grants and gifts	36,509	39,219
Bond/capital projects proceeds from the Commission	<u>2,647</u>	<u>10,081</u>
<b>INCREASE IN NET ASSETS BEFORE TRANSFERS AND CUMULATIVE EFFECT</b>	24,343	55,226
<b>TRANSFER OF NET ASSETS TO BRIDGEMONT CTC</b>	(2,017)	-
<b>TRANSFER OF NET ASSETS TO WVU PARKERSBURG</b>	(13,429)	-
<b>CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLES</b>	<u>477</u>	<u>34,732</u>
<b>INCREASE IN NET ASSETS</b>	9,374	89,958
<b>NET ASSETS - BEGINNING OF YEAR</b>	<u>742,685</u>	<u>652,727</u>
<b>NET ASSETS - END OF YEAR</b>	<u>\$ 752,059</u>	<u>\$ 742,685</u>

See notes to combined financial statements.

# WEST VIRGINIA UNIVERSITY

## COMBINED STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2009 AND 2008

(Dollars in Thousands)

	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 268,750	\$ 254,240
Federal and local land grants	9,853	9,440
Grants and contracts	158,804	152,797
Payments to suppliers	(179,812)	(171,509)
Payments to employees	(391,449)	(371,191)
Payments for benefits	(118,837)	(107,337)
Payments for utilities	(25,632)	(24,104)
Payments for scholarships and fellowships	(25,012)	(27,704)
Loan advances returned to federal government	(116)	(460)
Disbursements of loans to students	(1,631)	(3,060)
Interest earned on loans to students	647	579
Auxiliary enterprise charges	116,320	102,072
Sales and service of educational departments	15,146	13,932
Payments of net operating expenses from Bridgemont CTC	2,207	-
Other receipts	2,226	4,380
	<u>(168,536)</u>	<u>(167,925)</u>
Net cash used in operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	206,202	213,726
Gifts	19,015	17,206
Federal Pell grants	18,672	22,425
Assessments by the Commission for debt service	(5,224)	(5,374)
William D. Ford direct lending receipts	171,916	150,381
William D. Ford direct lending payments	(171,504)	(150,689)
Transfer of cash to Bridgemont CTC	(1,205)	-
Transfer of cash to Parkersburg	(6,825)	-
Other nonoperating receipts	183	124
	<u>231,230</u>	<u>247,799</u>
Net cash provided by noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payments on Commission debt assessment payable	(5,049)	(5,104)
Bond/capital projects proceeds from the Commission	2,622	13,337
Capital gifts and grants received	29,531	32,521
Purchases of capital assets	(105,010)	(143,035)
Capital projects proceeds from trustees	-	12,500
Principal paid on capital debt	(6,827)	(7,693)
Interest paid on capital debt and leases	(11,020)	(11,416)
Proceeds from loans	9,414	11,120
	<u>(86,339)</u>	<u>(97,770)</u>
Net cash used in capital financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Proceeds from sale of investments	-	47,294
Investment income	2,623	9,472
Purchases of investments	(3,858)	(15,874)
Purchase of Research Corporation investments	(3,916)	(18,395)
	<u>(5,151)</u>	<u>22,497</u>
Net cash (used in) provided by investing activities		
<b>(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(28,796)</b>	<b>4,601</b>
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<b>153,143</b>	<b>148,542</b>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<b>\$ 124,347</b>	<b>\$ 153,143</b>

(continued)

# WEST VIRGINIA UNIVERSITY

## COMBINED STATEMENTS OF CASH FLOWS (CONTINUED) YEARS ENDED JUNE 30, 2009 AND 2008

(Dollars in Thousands)

	2009	2008
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (241,323)	\$ (247,004)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	56,109	53,102
Expenses paid on behalf of University	6,051	10,346
Changes in assets and liabilities:		
Accounts receivable, net	(8,932)	(7,799)
Due from the Commission	596	(91)
Loans receivable, net	(933)	(2,538)
Prepaid expenses	107	774
Inventories	(308)	(94)
Accounts payable	2,974	5,015
Accrued liabilities	11,306	9,834
Deposits	136	184
Deferred revenue	4,052	8,964
Due to the Commission	55	234
Compensated absences	1,690	1,608
Advances from federal government	(116)	(460)
Net cash used in operating activities	<u>\$ (168,536)</u>	<u>\$ (167,925)</u>
Noncash Transactions:		
Cumulative effect of adoption of accounting principles	<u>\$ 477</u>	<u>\$ 34,732</u>
Construction in progress additions in accounts payable	<u>\$ 3,611</u>	<u>\$ 5,434</u>
Equipment purchased on capital lease	<u>\$ -</u>	<u>\$ 588</u>
Donated capital assets	<u>\$ 2,249</u>	<u>\$ 857</u>
Unrealized loss on investments	<u>\$ (7,582)</u>	<u>\$ (3,457)</u>
Capitalization of interest	<u>\$ 1,190</u>	<u>\$ -</u>
Bond discount amortization	<u>\$ 642</u>	<u>\$ 642</u>
Loss on dispositions	<u>\$ 2,623</u>	<u>\$ 772</u>
Accrued interest on notes payable	<u>\$ 1,493</u>	<u>\$ 659</u>
Assets transferred to Bridgemont CTC	<u>\$ 9</u>	<u>\$ -</u>
Other post employment benefits liability	<u>\$ 8,190</u>	<u>\$ 6,548</u>
Expenses paid on behalf of the University	<u>\$ 6,051</u>	<u>\$ 10,346</u>
Transfers of net assets to Bridgemont CTC (exclusive of \$1,205 of cash)	<u>\$ (803)</u>	<u>\$ -</u>
Transfers of net assets to Parkersburg(exclusive of \$6,825 of cash)	<u>\$ (6,604)</u>	<u>\$ -</u>
<b>Reconciliation of cash and cash equivalents to the statements of net assets:</b>		
Cash and cash equivalents classified as current assets	\$ 109,483	\$ 115,627
Cash and cash equivalents classified as noncurrent assets	14,864	37,516
	<u>\$ 124,347</u>	<u>\$ 153,143</u>

See notes to combined financial statements.

# WEST VIRGINIA UNIVERSITY

## NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2009 AND 2008

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### 1. ORGANIZATION

West Virginia University (the “University”) is governed by the West Virginia University Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the “Commission”), which is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda.

During fiscal year 2008, House Bill 3215 was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of West Virginia University, including West Virginia University at Parkersburg (“Parkersburg”) and Bridgemont Community and Technical College (“Bridgemont”) (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University has agreed to provide Parkersburg with administrative and academic support services. Services for fiscal year 2009 were provided to Parkersburg at no cost. Effective July 1, 2009, the University will be charging Parkersburg for these services.

The University has also provided Bridgemont with administrative and support services. Bridgemont also agreed to transfer capital fees, auxiliary fees, certain educational and general fees, and other fees collected from students to the University and to provide instructional services to the University. Charges for these services and transfers of these fees were consistent with previous practices effective July 1, 2004. Effective July 1, 2008, Bridgemont has separated from the University.

The newly established Boards of Governors and the Board of Governors of West Virginia University jointly agreed on a division of assets and liabilities of West Virginia University. Effective July 1, 2008, \$15,446,055 was transferred in accordance with H.B. 3215. The transfer of net assets is summarized approximately as follows:

	(in thousands)
Cash and cash equivalents	\$ 8,030
Capital assets, net	14,824
Current assets, net	1,007
Current liabilities	(3,214)
Compensated absences	(385)
Other post employment benefits liability	(227)
Other long-term liabilities	(4,589)
Total	<u>\$ 15,446</u>

West Virginia University and the separately established community and technical colleges shall oversee a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking and athletics through fiscal year 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University 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 Statement 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 University’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

The University 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 combined financial statements.

- a. *Reporting Entity* – 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 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.

The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (WVUIT), and the West Virginia University Research Corporation (the “Corporation”). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 15 and 16) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as an amendment to GASB Statement No. 14. Related foundations and other affiliates of the University (see Notes 15 and 16) do not meet the criteria for determination as component units of the University as described in GASB Statement No. 39.

- b. *Basis of Accounting* – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the combined financial statements of the University 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. All accounts and transactions between the University and the Corporation have been eliminated.
- c. *Cash and Cash Equivalents* – For purposes of the statement of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash on deposit with the West Virginia Treasurer’s Office (the “Treasurer”) is invested in the WV Money Market Pool with the West Virginia Board of Treasury Investments (BTI). These investments are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

During fiscal year 2008, the remaining 2004 Series Bond proceeds invested in a Guaranteed Investment Contract matured. A Request for Bid was issued in early fiscal year 2009 to obtain an allowable new investment vehicle for the bond proceeds. The Certificate of Deposit Account Registry Service (CDARS) program was selected based on the yield and risk factors. During fiscal year 2009, the University invested the remaining 2004 bond proceeds in the CDARS program. The investment is presented as a cash and cash equivalent.

Cash and cash equivalents also includes all outside bank accounts, cash on hand, and the returns on Auction Rate Certificates which are deposited into a money market account.

- 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 University management and are primarily based on quoted market values or other readily

determinable market values for underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. The majority of the assets underlying 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.

- e. *Allowance for Doubtful Accounts* – It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectibility experienced by the University on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- f. *Inventories* – Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- g. *Noncurrent Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students or to maintain sinking funds or reserve funds or to purchase capital or other noncurrent assets, and (2) permanently restricted net assets are classified as a noncurrent asset on the statement of net assets.

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

- h. *Capital Assets* – Capital assets include property, plant and equipment, 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 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The University’s capitalization threshold is \$5,000. The accompanying combined financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*.
- i. *Deferred Revenue* – Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as tuition, football ticket sales, orientation fees, room and board, financial aid deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.
- j. *Compensated Absences and Other Post Employment Benefits*– The University accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Effective July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition, and display of other post employment 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 post employment benefits for the State of West Virginia (the “State”). Effective July 1, 2007, the

University 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>.

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

The University'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 of the University 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 and annual leave. Generally, two days of accrued 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 on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance premiums when they retire. Effective July 1, 2007, the liability is provided for under the multiple employer cost sharing plan sponsored by the State (see Note 8).

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and 5 years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire.

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

- k. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the “Severance Plan”) to provide incentives for the voluntary severance of the University's classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants that elected the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed \$45,000. Participants that elected the January 15, 2004 exit date will receive their fiscal year 2003 base salary less \$5,000 not to exceed \$40,000. The total payment for either exit date is divided into 96 equal consecutive monthly payments. If the employee was over age 59 at the time his or her payments began, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67<sup>th</sup> birthday. Any employee age 66 or older at the time his or her benefits began received his or her payment in a lump sum. The University's total liability as of June 30, 2009 and 2008 was \$430,000 and \$682,000, respectively, which includes approximately \$31,000 and \$49,000 for employee benefits as of June 30, 2009 and 2008, respectively.

- l. Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) OPEB liability and other liabilities that will not be paid within the next fiscal year; and (3) projected claim payments for self insurance.
- m. Net Assets* – GASB Statements No. 34 through No. 38 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 University as a whole. Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University’s net assets are classified as follows:

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

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, “Fees and Other Money Collected at State Institutions of Higher Education” of the West Virginia Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature. At June 30, 2009 and 2008, the University had no restricted balances remaining in these funds.

*Restricted net assets – nonexpendable:* This includes endowment and similar type funds 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.

*Unrestricted net assets:* Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the Board.

- n. Classification of Revenue* – The University has classified its revenues according to the following criteria:

*Operating Revenues:* Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal land grants, and (5) sales and services of educational activities.

Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

*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 state appropriations and investment income.

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

- o. Use of Restricted Net Assets* – The University 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 University attempts to utilize restricted net assets first when practicable. The University did not have any designated net assets as of June 30, 2009 or 2008.
- p. Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

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

- q. Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed \$171.5 million in fiscal year 2009 and \$150.7 million in fiscal year 2008 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal years 2009 and

2008, the University received and disbursed \$22.3 million and \$25.6 million, respectively, under these other federal student aid programs.

- r. *Government Grants and Contracts* – Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University 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.
- s. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.
- t. *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.
- u. *Risk Management* – The State’s Board of Risk and Insurance Management (BRIM) provides general liability, medical malpractice liability, property, and auto insurance coverage to the University and its employees, including those physicians employed by the University and related to the University’s academic medical center hospital. Such coverage is provided to the University through a self-insurance program maintained by BRIM for general liability, medical malpractice 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 the commercial insurance market to cover individual claims that exceed \$1,000,000. The 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 University or other participants in BRIM’s insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University’s actual loss experience. In the event such differences arise between estimated premiums charged by BRIM to the University and the University’s ultimate actual loss experience, the difference will be recorded, as the change in estimate became known.

The University’s Health Sciences Center (HSC) established a \$250,000 deductible program under BRIM’s professional liability coverage for the University effective July 1, 2005. Prior to this date, the HSC was totally covered by BRIM at a limit of \$1,000,000 per occurrence. Starting July 1, 2005, HSC assumed the risk and responsibility for any and all indemnity amounts up to \$250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance.

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit \$3 million as of both June 30, 2009 and 2008, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit \$14.0 million and \$13.3 million as of June 30, 2009 and 2008, respectively, in an investment earnings account with the Foundation to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program and premium levels determined by BRIM, the University has recorded a liability of \$18.6 million and \$15.2 million to reflect projected claim payments at June 30, 2009 and 2008, respectively.

In addition, through its participation in the PEIA and a third party issuer, the University has obtained health, life, prescription drug coverage, and coverage for job related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

- v. *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.
- w. *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.
- x. *Reclassifications* – Certain reclassifications have been made to the 2008 combined financial statements to conform to the 2009 classifications. Revenues from Pell grants in the amount of \$18.7 million were transferred from operating revenues to nonoperating revenues.
- y. *Newly Adopted Statements Issued by the GASB* – During 2009, the University adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. The adoption of this statement had no impact on the financial statements at June 30, 2009.

During 2009, the University adopted GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, as required. For the year ended June 30, 2009, the University recorded a cumulative effect of the adoption of this accounting principle of \$477,000 for land held as an investment by the Fred G. and Nannie D. Wood Loan Fund.

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

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

- z. *Recent Statements Issued By GASB* – The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The University has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the accompanying combined 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 University has not yet determined the effect that the adoption of GASB Statement No. 53 may have on the accompanying combined financial statements.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30 (dollars in thousands):

#### 2009

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 57,275	\$ 571	\$ 57,846
West Virginia University - Auxiliaries	22,183	-	22,183
Cash on deposit with Trustee or MBC	-	11,292	11,292
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	29,975	-	29,975
Cash on Hand	46	-	46
Cash in Money Market	4	-	4
	<u>\$ 109,483</u>	<u>\$ 14,864</u>	<u>\$ 124,347</u>

#### 2008

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 67,498	\$ 680	\$ 68,178
West Virginia University - Auxiliaries	26,517	-	26,517
Cash on deposit with Trustee or MBC	-	33,823	33,823
Deposits with BRIM Escrow Account Treasurer	-	3,013	3,013
Cash in Bank	21,536	-	21,536
Cash on Hand	47	-	47
Cash in Money Market	29	-	29
	<u>\$ 115,627</u>	<u>\$ 37,516</u>	<u>\$ 153,143</u>

*Cash on Deposit with the Treasurer.* These bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held as collateral by the bank in the name of the State. Investments in the WV Money Market Pool are included in Cash on Deposit with the Treasurer.

*Cash on Deposit with Trustee or Municipal Bond Commission (MBC).* Cash on deposit with Trustee or MBC represents various project revenue, repair and replacement and debt service accounts held by the Trustee or the State's MBC and related to various University specific bond issues (see Note 10). Bank balances are insured by the FDIC or collateralized by securities, held as collateral by the bank, in the name of the State. Deposits with the MBC are invested in the Investment Management Board (IMB) and BTI WV Government Money Market Pool (See Note 5 for investment risks). Deposits with the bond trustee represent investment of a small portion of the 2004 revenue refunding and improvement bonds which have been invested in the CDARS program. Investments in the CDARS program are 100% FDIC insured.

*Deposits with BRIM Escrow Account Treasurer.* For fiscal years 2006, 2007 and 2008, the University was required to fund this account in the amount of \$1 million each year. In fiscal year 2009, the asset requirement was suspended and the University is required to maintain a cash balance of \$3 million. The Treasurer invests these funds in the WV Money Market Pool. For investment risks, see Note 5.

*Cash in bank.* The combined carrying amount of cash in bank at June 30, 2009 and 2008 was \$30.0 million and \$21.5 million, respectively, as compared with combined bank balances of \$31.2 million and \$24.4 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank balances are 100% insured by the FDIC through December 31, 2013. Sweep accounts tied to the bank accounts were subject to custodial credit risk. The sweep accounts are collateralized with the bank through a Repurchase Agreement. At Huntington National Bank ("Huntington"), 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 bank balance are held by the banks trust department or agent but not in the name of the University or the Corporation. At City National Bank, the sweep accounts are collateralized to maintain a market value of at least 100% and are held by the bank's trust department or agency but not in the name of the University.

*Cash on Hand.* Imprest funds approved by the Treasurer comprise the cash on hand.

*Cash in Money Market.* The underlying securities for the Money Market funds are U.S. Government securities.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30 (dollars in thousands):

	2009	2008
Student tuition and fees, net of allowances for doubtful accounts of \$2,074 and \$3,121	\$ 5,689	\$ 4,616
Grants and contracts receivable, net of allowances for doubtful accounts of \$690 and \$515	28,938	30,821
Due from West Virginia University Hospitals, Incorporated	2,755	3,947
Auxiliary services, net of allowances for doubtful accounts of \$713 and \$399	1,945	1,345
Investment earnings receivable	44	189
Other, net of allowances for doubtful accounts of \$14 and \$12	8,473	7,315
Due from the Foundation	887	-
Due from other State agencies	739	292
Total accounts receivable	<u>49,470</u>	<u>48,525</u>
Less noncurrent portion	<u>1,452</u>	<u>1,365</u>
Current portion	<u>\$ 48,018</u>	<u>\$ 47,160</u>

West Virginia University Hospitals, Incorporated receivables represent various administrative expenses incurred by the University on behalf of West Virginia University Hospitals, Incorporated for which reimbursement has not yet been received.

## 5. INVESTMENTS

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

2009	Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:					
	Bandywine Global Fixed Income	\$ 1,122	\$ -	\$ -	\$ 1,122
	BTI Short Term Bond Pool	12,660			12,660
	Evergreen	3			3
	Harbor Bond Fund	1,288			1,288
	Income Research & Management	6,919			6,919
	Vanguard Bond Index Fund	1,259			1,259
Mutual Money Market Funds:					
	State Street Cash - SSGA Money Market		6,658		6,658
Mutual Stock Funds:					
	Dodge & Cox International Stock Fund	1,223			1,223
	Dodge & Cox Stock Fund	2,012			2,012
	Eaton Vance	455			455
	Evergreen	156			156
	MFS	2,335			2,335
Other Investments-Commodity:					
	SPDR Gold Shares	1,459			1,459
State and Local Government Securities:					
	Auction Rate Certificates		10,950		10,950
Land and Other Real Estate Held as Investments					
	Land - Fred G. and Nannie D. Wood Loan Fund		477		477
Other Alternative Investments:					
	CF Absolute Return Investors B Blue			1,084	1,084
	CF Global Absolute Alpha Company			1,018	1,018
	CF Govt Securities Fund		70		70
	CF Multi-Strategy Bond Fund		6,189		6,189
	CF Multi-Strategy Bond Investors Fund		5,728		5,728
	CF Multi-Strategy Equity Fund		6,367		6,367
	CF Short Term Fund		108		108
	CFI Multi-Strategy Equity Fund		3,795		3,795
	Robeco-Sage Capital International			3,413	3,413
		<u>\$ 30,891</u>	<u>\$ 40,342</u>	<u>\$ 5,515</u>	<u>\$ 76,748</u>

2008

Investment Type	Fair Value
Mutual Stock Funds	\$ 3,904
Mutual Bond Funds	4
Auction Rate Certificates	6,500
BTI Investments - Short-Term Bond Pool	12,205
Global Fixed Income Fund Investment Grade - Brandywine	1,131
Stock Fund - Dodge and Cox	2,849
International Stock Fund - Dodge and Cox	1,748
U.S. Bonds/TIPS Fund - IRM	6,613
State Street Cash Account	28
SSGA Prime Money Market Fund - State Street	1,537
Investments without a readily determinable market value:	
Short-Term Fund - Commonfund	1,002
Multi-Strategy Equity Fund - Commonfund	11,922
Multi-Strategy Bond Fund - Commonfund	7,384
Multi-Strategy Equity Fund - Commonfund Institutional	4,492
Multi-Strategy Bond Fund - Commonfund Institutional	7,486
Multi-Strategy Commodities Fund - Commonfund Institutional	2,581
Absolute Return Investors B Blue - Commonfund	3,173
Robeco-Sage Capital International	1,518
	<u>\$ 76,077</u>

Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect observable market inputs. Level 3 represents investments with no observable market.

As the University invests with the BTI, funds are transferred to the BTI and the BTI invests in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. Balances in the investment pools are recorded at fair value, or amortized cost which approximates fair value. Fair value is determined by a third party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The BTI was established by the WV State Legislature and is subject to oversight by the WV State Legislature.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts (seven in 2008), three of which the University may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following

address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or  
<http://www.wvbt.com>.

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

As of June 30, 2009 and 2008, the University’s investments held with the Foundation were \$49.7 million and \$41.5 million, respectively. The University’s investments held with the Foundation 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. These 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% for the Corporation investments, 10% for the Senate Bill 603 (“S.B. 603”) investments, and 20% for the BRIM investments.

In 2005, the WV State Legislature passed S.B. 603. S.B. 603 granted the University the ability to invest a limited amount of funds with the West Virginia University Foundation, Incorporated (the “Foundation”). The University invested \$25 million as allowed by S.B. 603 with the Foundation in October 2006.

In 2006, an investment strategy was initiated between the HSC and BRIM in conjunction with the Treasurer. The goals were 1) to provide an asset pool to settle medical professional liability claims and 2) to provide an investment pool for medical professional liability premiums with the goal of self-funding premiums in the future. This investment pool is managed by the Foundation through an agency agreement.

Beginning April 2008, 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 Auction Rate Certificates (ARC). The University, through its Board, issued 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. Of the \$11.6 million of the University’s ARCs outstanding at June 30, 2009, the Corporation owned \$10.95 million, or 95%. Of the \$15.45 million of the University’s ARCs outstanding at June 30, 2008, the Corporation owned \$6.50 million, or 42%. The University’s ARCs mature in October 2012.

In May 2008, the University invested in the BTI's WV Short Term Bond Pool an amount which represents long-term investment monies of the University. The WV Short Term Bond Pool is a bond mutual fund which was created to invest monies of participants which have a perceived longer term investment horizon. The goal of the portfolio is to earn incremental returns over the WV Money Market Pool with an objective of capital growth rather than current income. The portfolio is restricted to monthly contributions and withdrawals and calculates a per-unit price each month. The risk factor on this portfolio is higher than the WV Money Market Pool. As of June 30, 2009 and 2008, the investment was \$12.7 million and \$12.2 million, respectively.

The University also has investments - the Wood investments – from the estate of donors with restricted purposes.

### **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Of the BTI's Consolidated Fund Pools and accounts which the University may invest in, three are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool and WV Short Term Bond Pool.

*WV Money Market Pool* - For the years ended June 30, 2009 and 2008, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2009 and 2008, the WV Money Market Pool investments had a total carrying value of \$2,570,261,000 and \$2,358,470,000 respectively, of which the University's ownership represents 2.58% and 3.02%, respectively.

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

Security Type	Credit Rating*		2009		2008	
	Moody's	S & P	Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	\$ 16,402	5.21%	\$ 48,663	13.75%
	Aaa	NR	5,136	1.63	2,179	0.62
	Aa3	AAA	223	0.07		
	Aa2	AAA	461	0.15		
	A3	AAA	273	0.09		
	Baa2	AAA	831	0.26		
	Baa1	BBB**	332	0.10		
	Baa2	BBB**	1,376	0.44		
	Ba3	AAA	645	0.20		
	B1	AAA	779	0.25		
	B2	B**	493	0.16		
	B2	CCC***	539	0.17		
	B3	AAA	949	0.30		
	Caal	BB**	254	0.08		
	NR	AAA	679	0.22	1,135	0.32
	AA3	AA			192	0.06
			<u>29,372</u>	<u>9.33</u>	<u>\$ 52,169</u>	<u>14.75</u>
Commercial paper	P1	A-1			7,971	2.25
Corporate bonds and notes	Aaa	AAA	47,204	14.99	13,146	3.72
	Aa1	AA	4,445	1.41	12,613	3.56
	Aa1	A	2,052	0.65		
	Aa2	AAA	3,040	0.96		
	Aa2	AA	9,066	2.88	20,860	5.89
	Aa2	A			1,061	0.30
	Aa3	AA			11,488	3.25
	Aa3	A	7,831	2.49	4,548	1.28
	A1	AA	4,813	1.53	4,305	1.22
	A1	A	5,522	1.75	8,361	2.36
	A2	AA			847	0.24
	A2	A	32,040	10.17	26,585	7.51
	A3	A	7,024	2.23	10,917	3.08
	Baa1	AA-			593	0.17
	Baa1	A-			2,028	0.57
Baa3	A	2,067	0.66			
Baa3	BB+			645	0.18	
			<u>125,104</u>	<u>39.72</u>	<u>117,997</u>	<u>33.33</u>
U.S. agency bonds	Aaa	AAA	60,250	19.13	71,840	20.29
U.S. Treasury notes***	Aaa	AAA	88,805	28.20	81,875	23.13
U.S. agency mortgage backed securities****	Aaa	AAA	4,975	1.58	5,345	1.51
Money Market Funds	Aaa	AAA	6,426	2.04		
Repurchase agreements (underlying securities):						
U.S. agency notes	Aaa	AAA			16,782	4.74
			<u>\$ 314,932</u>	<u>100%</u>	<u>\$ 353,979</u>	<u>100%</u>

\*NR = Not Rated

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

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

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

explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2009 and 2008, the University's ownership represents 3.88% and 3.57%, respectively, of these amounts held by the BTI.

*Other Investments*— The BRIM investment policy states that the average quality rating of each of the public managers overall fixed income portfolio will be a minimum of A1/A. At a minimum, at least 80% of the portfolio must be rated investment grade (BBB-) or better. The Corporation's investment policy permits corporate securities rated not less than single A by one major rating agency, The S. B. 603 investment policy requires the average quality rating of each of the public managers overall fixed income portfolio be a minimum of AA/Aa-1. Credit ratings were as follows at June 30:

<b>Portfolio</b>	<b>Investment</b>	<b>2009 Standard &amp; Poor's Rating</b>	<b>2008 Standard &amp; Poor's Rating</b>
BRIM	Harbor Bond Fund	B	
S.B. 603	Income Research & Management	AA	AA+
BRIM	Vanguard Bond Index Fund	AA1/AA2	
BRIM, S.B. 603, Corporation	State Street Cash - SSGA Money Market	Am	
BRIM, S.B. 603 Corporation	CF Multi-Strategy Bond Fund	AA	AA
	CF Multi-Strategy Bond Investors Fund	AA	AA
BRIM, S.B. 603 Corporation	CF Short Term Fund	AA	AAA
	Auction Rate Certificates	A+	A+

The other investments have not been rated. These funds are periodically evaluated at a blended rate.

### **Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

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

Security Type	2009		2008	
	Carrying Value (In Thousands)	WAM (Days)	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 212,010	1	\$ 371,163	1
U.S. Treasury bills	483,714	69	406,426	31
Commercial paper	592,479	32	658,879	29
Certificates of deposit	128,402	56	147,001	95
U.S. agency discount notes	635,602	57	212,924	84
Corporate notes	73,812	38	158,000	21
U.S. agency bonds/notes	294,019	70	254,019	111
Money market funds	150,223	1	150,058	1
	<u>\$ 2,570,261</u>	<u>47</u>	<u>\$ 2,358,470</u>	<u>40</u>

*WV Short Term Bond Pool* - The overall effective duration (overall weighted average maturity in 2008) of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2009:

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds/notes	\$ 88,805	917
Corporate notes	125,104	559
Corporate asset backed securities	29,372	622
U.S. agency bonds/notes	60,250	752
U.S. agency mortgage backed securities	4,975	540
Money market funds	6,426	1
	<u>\$ 314,932</u>	<u>691</u>

The following table provides information on the weighted average maturities for the various asset types in the WV Short Term Bond Pool at June 30, 2008:

Security Type	2008	
	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	\$ 16,782	1
U.S. Treasury bonds/notes	81,875	744
Corporate notes	117,997	675
Corporate asset backed securities	52,169	341
U.S. agency bonds/notes	71,840	1231
U.S. agency mortgage backed securities	5,345	570
Commercial paper	7,971	50
	<u>\$ 353,979</u>	<u>707</u>

*Other Investments.* Investments in the CF Multi-Strategy Bond Investors Fund and Auction Rate Certificates are subject to interest rate risk.

### **Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer.

The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

At June 30, 2009, more than 5% of the University's investments were in the BTI Short-Term Bond Pool, Income Research & Management, State Street Cash – SSGA Money Market, Auction Rate Certificates, Commonfund Multi-Strategy Bond Fund, Commonfund Multi-Strategy Bond Investors Fund, and Commonfund Multi-Strategy Equity Fund. At June 30, 2008, more than 5% of the University's investments were in the Mutual Stock Funds, Auction Rate Certificates, BTI Investments-Short-Term Bond Pool, Multi-Strategy Equity Fund - Commonfund, Multi-Strategy Equity Fund – Commonfund Institutional, Multi-Strategy Bond Fund - Commonfund, Multi-Strategy Bond Fund – Commonfund Institutional, and U.S. Bonds/TIPS Fund – IRM.

### **Custodial Credit Risk**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the agency will not be able to recover the value of investment or collateral securities that are in the possession of an outside party.

For BTI investments, repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

For other investments, there is no custodial credit risk since all investments are in an external or open-end mutual fund or in the name of the University.

### **Foreign Currency Risk**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

For the other investments, at June 30, 2009, \$1.1 million of the Brandywine Global Fixed Income Fund investment was denominated in foreign currency. Also, the Dodge & Cox International Stock Fund, valued at \$340,000, may use foreign currency contracts to hedge portfolio positions and facilitate security transactions in foreign currency denominated securities. These investments represent .02% of the total investments. At June 30, 2008, \$579,000 of the Brandywine Global Fixed Income Fund Investment was denominated in foreign currency, or .76% of total investments.

## 6. CAPITAL ASSETS

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

<b>2009</b>	<b>Beginning</b>			<b>Ending</b>
	<b>Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance</b>
Capital assets not being depreciated:				
Land	\$ 26,725	\$ 92	\$ (1,237)	\$ 25,580
Construction in progress	116,944	82,952	(103,015)	96,881
Total capital assets not being depreciated	<u>\$ 143,669</u>	<u>\$ 83,044</u>	<u>\$ (104,252)</u>	<u>\$ 122,461</u>
Other capital assets:				
Land improvements	\$ 24,544	\$ 1,458	\$ -	\$ 26,002
Buildings	902,033	78,933	(21,210)	959,756
Equipment	140,645	15,318	(12,044)	143,919
Library books	100,284	7,691	(2,071)	105,904
Software	43,146	1,435	(224)	44,357
Infrastructure	230,982	21,223	(2,364)	249,841
Total other capital assets	<u>1,441,634</u>	<u>126,058</u>	<u>(37,913)</u>	<u>1,529,779</u>
Less accumulated depreciation for:				
Land improvements	(8,950)	(1,575)	-	(10,525)
Buildings	(232,267)	(18,503)	10,704	(240,066)
Equipment	(85,243)	(10,620)	9,568	(86,295)
Library books	(77,358)	(6,142)	1,894	(81,606)
Software	(41,421)	(928)	165	(42,184)
Infrastructure	(194,856)	(6,670)	1,409	(200,117)
Total accumulated depreciation	<u>(640,095)</u>	<u>(44,438)</u>	<u>23,740</u>	<u>(660,793)</u>
Other capital assets, net	<u>\$ 801,539</u>	<u>\$ 81,620</u>	<u>\$ (14,173)</u>	<u>\$ 868,986</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 143,669	\$ 83,044	\$ (104,252)	\$ 122,461
Other capital assets	<u>1,441,634</u>	<u>126,058</u>	<u>(37,913)</u>	<u>1,529,779</u>
Total cost of capital assets	1,585,303	209,102	(142,165)	1,652,240
Less accumulated depreciation	<u>(640,095)</u>	<u>(44,438)</u>	<u>23,740</u>	<u>(660,793)</u>
Capital assets, net	<u>\$ 945,208</u>	<u>\$ 164,664</u>	<u>\$ (118,425)</u>	<u>\$ 991,447</u>

2008	Beginning			Ending
	Balance	Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 25,906	\$ 2,177	\$ (1,358)	\$ 26,725
Construction in progress	149,543	112,058	(144,657)	116,944
Total capital assets not being depreciated	<u>\$ 175,449</u>	<u>\$ 114,235</u>	<u>\$ (146,015)</u>	<u>\$ 143,669</u>
Other capital assets:				
Land improvements	\$ 13,217	\$ 11,327	\$ -	\$ 24,544
Buildings	776,682	131,567	(6,216)	902,033
Equipment	129,848	17,922	(7,125)	140,645
Library books	92,846	7,673	(235)	100,284
Software	41,995	1,179	(28)	43,146
Infrastructure	223,433	7,549	-	230,982
Total other capital assets	<u>1,278,021</u>	<u>177,217</u>	<u>(13,604)</u>	<u>1,441,634</u>
Less accumulated depreciation for:				
Land improvements	(7,424)	(1,522)	(4)	(8,950)
Buildings	(215,604)	(16,697)	34	(232,267)
Equipment	(79,450)	(11,486)	5,693	(85,243)
Library books	(71,799)	(5,774)	215	(77,358)
Software	(40,220)	(924)	(277)	(41,421)
Infrastructure	<u>(187,935)</u>	<u>(6,887)</u>	<u>(34)</u>	<u>(194,856)</u>
Total accumulated depreciation	<u>(602,432)</u>	<u>(43,290)</u>	<u>5,627</u>	<u>(640,095)</u>
Other capital assets, net	<u>\$ 675,589</u>	<u>\$ 133,927</u>	<u>\$ (7,977)</u>	<u>\$ 801,539</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 175,449	\$ 114,235	\$ (146,015)	\$ 143,669
Other capital assets	<u>1,278,021</u>	<u>177,217</u>	<u>(13,604)</u>	<u>1,441,634</u>
Total cost of capital assets	1,453,470	291,452	(159,619)	1,585,303
Less accumulated depreciation	<u>(602,432)</u>	<u>(43,290)</u>	<u>5,627</u>	<u>(640,095)</u>
Capital assets, net	<u>\$ 851,038</u>	<u>\$ 248,162</u>	<u>\$ (153,992)</u>	<u>\$ 945,208</u>

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

The University capitalized interest on borrowings, net of interest earned on related debt of \$1.2 million and \$1.4 million during fiscal years 2009 and 2008, respectively.

## 7. LONG-TERM LIABILITIES

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

2009	Beginning				Ending	Due within One Year
	Balance	Transfers	Additions	Reductions	Balance	
Other post employment benefits liability	\$ 6,548	\$ (227)	\$ 8,190	\$ -	\$ 14,511	
College system debt owed to the Commission	761	(216)	-	(151)	394	\$ 157
Advances from federal government	26,891	-	28	(143)	26,776	
Debt service assessment payable to the Commission	98,938	(874)	-	(4,899)	93,165	5,143
Leases payable	33,842	(3,529)	61	(2,961)	27,413	1,170
Bonds payable	210,004	-	-	(3,314)	206,690	3,514
Notes payable	15,048	-	10,897	(149)	25,796	593
Other noncurrent liabilities	17,476	(15)	5,408	(3,338)	19,531	201
Total long-term liabilities	<u>\$ 409,508</u>	<u>\$ (4,861)</u>	<u>\$ 24,584</u>	<u>\$ (14,955)</u>	<u>\$ 414,276</u>	

2008	Beginning			Ending	Due within One Year
	Balance	Additions	Reductions	Balance	
College system debt owed to the Commission	\$ 965	\$ -	\$ (204)	\$ 761	\$ 211
Advances from federal government	27,351	73	(533)	26,891	
Debt service assessment payable to the Commission	103,838	-	(4,900)	98,938	5,115
Other post employment benefits liability	-	6,548	-	6,548	
Leases payable	24,824	13,086	(4,068)	33,842	2,899
Bonds payable	213,144	-	(3,140)	210,004	3,314
Notes payable	4,023	11,120	(95)	15,048	48
Other noncurrent liabilities	14,740	3,750	(1,014)	17,476	748
Total long-term liabilities	<u>\$ 388,885</u>	<u>\$ 34,577</u>	<u>\$ (13,954)</u>	<u>\$ 409,508</u>	

## 8. OTHER POST EMPLOYMENT BENEFITS

With the adoption of GASB Statement No. 45 for the year ended June 30, 2008, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2009 and 2008, the noncurrent liability related to OPEB was \$14,510,940 and \$6,548,270, respectively. For the year ended June 30, 2008, the University recorded a cumulative effect of the adoption of this accounting principle of \$34,731,840, 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 of OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$26.1 million and \$12.3 million, respectively, during 2009, and \$31.6 million and \$14.7 million, respectively, during 2008. As of the years ended June 30, 2009 and 2008, there were 556 and 605 retirees receiving these benefits.

## 9. LEASES PAYABLE

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2009 are as follows (dollars in thousands):

Fiscal Year Ending June 30,	
2010	\$ 5,662
2011	5,055
2012	4,410
2013	3,993
2014	3,676
2015-2019	12,538
2020-2024	9,880
2025-2029	9,880
2030-2034	3,955
2035-2039	5
2040-2044	5
2045-2049	5
2050-2054	5
2055-2058	5
Total	<u>\$ 59,074</u>

Total rental expense for the years ended June 30, 2009 and 2008 was \$7.9 million and \$7.1 million, respectively. The University leases 6 floors of a seven floor office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University does not have any non-cancelable leases.

- b. *Capital* – The University leases certain property, plant and equipment under capital leases. Leased assets totaled \$43.0 million and \$51.9 million at June 30, 2009 and 2008, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

<b>Fiscal Year</b>	
<b>Ending June 30,</b>	
2010	\$ 2,459
2011	2,319
2012	11,069
2013	1,553
2014	1,490
2015-2019	8,593
2020-2024	<u>7,230</u>
Minimum lease payments	34,713
Less amount representing interest	<u>(7,300)</u>
Present value of minimum lease payments	27,413
Current Portion	<u>1,170</u>
Noncurrent Portion	<u><u>\$ 26,243</u></u>

## 10. BONDS PAYABLE

Bonds payable consisted of the following at June 30 (dollars in thousands):

	<b>Original Interest Rate</b>	<b>Annual Principal Installment Due</b>	<b>2009 Principal Amount Outstanding</b>	<b>2008 Principal Amount Outstanding</b>
Auction Rate Certificates				
Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2012, variable rate		\$ 975 to 4,200	\$ 11,625	\$ 15,450
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	55,430	55,430
Revenue Improvement Bonds, 2004 Series C, due through 2035	4.3-5.0%	0 to 12,780	138,710	138,710
Unamortized Bond Premium			4,160	4,408
Unamortized Loss on Bond Defeasance			(3,235)	(3,994)
Net Bonds Payable			206,690	210,004
Current Portion			3,514	3,314
Noncurrent Portion			\$ 203,176	\$ 206,690

The 1997 Dormitory Series A Bonds were issued to advance refund the University's Dormitory Revenue Bonds (West Virginia University Project), 1992 Series A, dated May 1, 1992, and to pay a portion of the costs of issuance of the 1997 Series A Bonds. The 1997 Dormitory Series B Bonds were issued to finance improvements to certain dormitories at West Virginia University and to reimburse the University for certain prior capital expenses made for such purpose, and to pay a portion of the costs of issuance of the Bonds.

The 1997 Athletic Facilities Series A Bonds were issued to advance refund the 1985 Series A Annual Tender Revenue Bonds, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series A Bonds. The 1997 Athletic Facilities Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of an indoor football practice facility at West Virginia University and to reimburse the University for certain prior capital expenditures made for such purpose, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series B Bonds.

The 1997 Student Union Series A Bonds were used to advance refund the 1986 Student Union Fee Revenue Bonds. The 1997 Student Union Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of a new student union and related capital improvements, and to pay a portion of the costs of issuance and interest on the 1997 Series A Bonds.

### ***Refunded Debt***

On November 1, 2004, the Board issued \$220.0 million in revenue bonds as follows:

**2004 Series A** Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of \$25.9 million. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. The 2004 Subseries A-1 and A-2 Bonds bear interest at an auction rate which was .500% and .063%, respectively, at June 30, 2009 and 2.232% and 2.232%, respectively, at June 30, 2008. These bonds were used to advance refund outstanding 1997 Series A Dormitory and Athletics Revenue Bonds with a par amount of \$12.4 million and to finance a portion of the costs of certain capital projects at the University.

**2004 Series B** Revenue Refunding Bonds in the amount of \$55.4 million with an average interest rate of 4.7%. The 2004 Series B Bonds were issued to advance refund outstanding 1997 Series A and B Student Union Revenue Bonds and 1997 Series B Dormitory and Athletics Revenue Bonds with a par amount of \$54.0 million, and to pay the costs of issuance of 2004 Series B Bonds.

**2004 Series C** Revenue Improvement Bonds in the amount of \$138.7 million with an average interest rate of 4.9%. The 2004 Series C Bonds were issued to finance a portion of certain improvements at the University, including capitalized interest and to pay the costs of issuance of the 2004 Series C Bonds.

The bond proceeds of \$226.1 million included net original issue premium on the 2004 Bonds in the amount of \$5.3 million and \$0.8 million in accrued interest. \$70.9 million of the proceeds of 2004 Series A and B Bonds were placed into the 2004 Bonds Escrow Account with an escrow agent to provide for all future debt service payments on the 1997 refunded bonds. As a result, the 1997 series bonds are considered to be defeased and the related assets and liabilities of the defeased bonds are not included in the financial statements of the University. Such defeased bonds were called during fiscal year 2008 so that none were outstanding at June 30, 2009 or 2008.

It is estimated that the advance refunding of the 1997 series bonds will result in a reduction in the University's total debt service payments over the next 19 years of approximately \$8.4 million. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1.9 million. The reacquisition price exceeded the net carrying amount of the old debt by \$6.7 million. This amount is being netted against the new debt and deferred and amortized as interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

Approximately \$9.6 million and \$26.6 million at June 30, 2009 and 2008, respectively, represents unexpended proceeds of bond issuance, and is restricted to expenditures for capital improvements and bond related costs. This includes approximately \$9.6 million and \$26.6 million in cash and cash equivalents at June 30, 2009 and 2008, respectively.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2010	\$ 4,025	\$ 9,833	\$ 13,858
2011	4,200	9,647	13,847
2012	4,395	9,478	13,873
2013	4,550	9,316	13,866
2014	4,585	9,154	13,739
2015-2019	26,215	42,491	68,706
2020-2024	33,490	35,209	68,699
2025-2029	42,960	25,738	68,698
2030-2034	55,145	13,555	68,700
2035-2036	26,200	1,277	27,477
Bonds Payable	<u>205,765</u>	<u>\$ 165,698</u>	<u>\$ 371,463</u>
Unamortized Bond Premium	4,160		
Loss on Bond Defeasance	<u>(3,235)</u>		
Net Bonds Payable	206,690		
Current Portion	<u>3,514</u>		
Noncurrent Portion	<u>\$ 203,176</u>		

## 11. NOTES PAYABLE

On September 7, 2005, the Board of Directors of the West Virginia University Research 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 made a construction and term loan in the principal amount of \$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 were 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.

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 is amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2009 and June 30, 2008 was \$468,000 and \$305,000, respectively, and is included in notes payable on the statement of net assets.

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 made a construction and term loan in the principal amount of \$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 were 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 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, 2009 and June 30, 2008 was \$886,000 and \$354,000, respectively, and is included in the notes payable on the statement of net assets.

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 made a construction and term loan in the principal amount of \$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. During fiscal year 2009, the Corporation drew down the entire \$9.4 million which is recorded as a note payable.

The proceeds of the IJDC loan were disbursed on a draw basis as construction progresses. The principal balance of the IJDC loan bears interest at a fixed rate of 3% per annum. The note is due 240 months from the closing date of October 24, 2005.

Interest on the loan will accrue but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2009 was \$139,000 and is included in notes payable on the statement of net assets. After the expiration of the five year period, the interest rate applicable to \$3 million in principal for the balance of the term of the loan will be based on the satisfaction of certain employment criteria.

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.

Total principal and interest payments remaining to be paid at June 30, 2009 and June 30, 2008 are approximately \$36.2 million and \$26.8 million, respectively. Total facilities and administrative revenues earned by the HSC during fiscal years 2009 and 2008 were \$7.8 million and \$8.16 million, respectively. Total pledged revenue as of June 30, 2009 and June 30, 2008 was \$2.8 million and \$2.98 million, respectively.

The scheduled maturities of the notes payable are as follows (dollars in thousands):

Fiscal Year Ending June 30,	WVHDF Loan		WVEDF Loan		WVIJDC Loan		Total Principal
	Principal	Interest	Principal	Interest	Principal	Interest	
2010	\$ 251	\$ 320	\$ 342	\$ 361	\$ -	\$ -	\$ 593
2011	264	307	413	524	399	183	1,076
2012	278	293	435	502	513	264	1,226
2013	292	278	461	476	530	247	1,283
2014	308	263	488	450	546	231	1,342
2015-2019	1,798	1,057	2,884	1,805	2,986	897	7,668
2020-2024	2,319	535	3,799	890	3,470	414	9,588
2025-2029	865	37	1,203	48	952	19	3,020
Notes Payable	6,375	<u>\$ 3,090</u>	10,025	<u>\$ 5,056</u>	9,396	<u>\$ 2,255</u>	25,796
Current Portion	251		342		-		593
Noncurrent Portion	<u>\$ 6,124</u>		<u>\$ 9,683</u>		<u>\$ 9,396</u>		<u>\$ 25,203</u>

## 12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the University is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the University's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by either the former Board of Regents, the former University System of West Virginia, the former State College System of West Virginia or the former Interim Governing Board (collectively, the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. Certain tuition and registration fees (referred to as system fees) of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain as a capital obligation of the Commission; however, effective June 30, 2002, an amount of principal related to each institution was reported as debt service assessment payable to the Commission by each institution and as a receivable by the Commission.

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1997, in accordance with the provisions of Senate Bill 591,

WVUIT is required to make annual payments through 2012 to the Policy Commission for purposes of the State College System's debt service.

The Commission issued 2004 Series B Higher Education Facilities Revenue Bonds (the "HEPC 2004 B Bonds") in August 2004 to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges, including the University. The HEPC 2004 B Bonds are secured by the pledge of higher education institutions' tuition and registration fees as well as excess lottery revenues. The HEPC 2004 B Bonds are considered an indirect obligation of the University and the principal amount of the bonds related to the University is not reported as a payable to the Commission.

### **13. RETIREMENT PLANS**

Substantially all eligible employees of the University participate in either the West Virginia State Teachers Retirement System (STRS) or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable election between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants from West Virginia higher education. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by University employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2009 and 2008. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2009 and 2008. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Contributions to the STRS for each of the last three fiscal years were approximately as follows (dollars in thousands):

<b>Fiscal Year Ending</b> <b>June 30,</b>	<b>WVU</b>	<b>Employees</b>	<b>Total</b>
2009	\$ 2,000	\$ 1,000	\$ 3,000
2008	2,000	1,000	3,000
2007	2,000	1,000	3,000

The TIAA-CREF and Educators Money are defined-contribution benefit plans 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 or 6% of their total annual compensation. The University simultaneously matches the employees' 3 or 6% contribution. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF for each of the last three fiscal years were approximately as follows (dollars in thousands):

<b>Fiscal Year Ending</b> <b>June 30,</b>	<b>WVU</b>	<b>Employees</b>	<b>Total</b>
2009	\$ 20,000	\$ 20,000	\$ 40,000
2008	19,000	19,000	38,000
2007	18,000	18,000	36,000

Contributions to Educators Money for each of the last three fiscal years were approximately as follows (dollars in thousands):

<b>Fiscal Year Ending</b> <b>June 30,</b>	<b>WVU</b>	<b>Employees</b>	<b>Total</b>
2009	\$ 200	\$ 200	\$ 400
2008	200	200	400
2007	160	160	320

The University's total payroll for fiscal years 2009 and 2008 was \$394.7 million and \$370.8 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were \$15.1 million, \$341.9 million and \$4.1 million in fiscal year 2009 and \$15.0 million, \$324.4 million and \$3.3 million in fiscal year 2008, respectively.

## 14. COMMITMENTS

- a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. The University's total payments for steam purchased under the agreement were \$9.1 million and \$7.9 million in fiscal years 2009 and 2008, respectively. An additional \$94,000 was accrued at June 30, 2008 to record the University's liability to meet the minimum purchase requirement for the contract year ended September 30, 2008. No such accrual was needed at June 30, 2009. The University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.
- b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately \$31.1 million at June 30, 2009.

## 15. AFFILIATED ORGANIZATIONS (Unaudited)

The University has affiliations with separately incorporated organizations including West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated; the Center for Entrepreneurial Studies and Development, Incorporated; University Health Associates; the Physician's Office of Charleston; Potomac State College Alumni Association; and Tech Foundation, Incorporated. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB Statement No. 39. Accordingly, the financial statements of all such organizations are not included in the accompanying combined financial statements.

The National Aeronautics and Space Administration Independent Verification and Validation facility was established in Fairmont, West Virginia in 1993 in partnership with the University. Under a cooperative agreement with the University, verification and validation research programs are conducted at the facility. The facility is operated and maintained by the University's Facilities and Services Division.

### Related Party Transactions

- a. *University Health Associates* - University Health Associates (UHA) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia University School of Medicine (WVUSOM) and West Virginia University School of Dentistry (WVUSOD). The membership of UHA consists of physicians who are faculty members of the WVUSOM and WVUSOD. UHA coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by UHA's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other clinical practice management services.

The University is reimbursed by UHA for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses UHA for costs associated with the services it provides to the University. During fiscal year 2004, the State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from UHA.

Total funds disbursed to UHA and total funds collected from UHA totaled \$2.3 million and \$16.4 million in fiscal year 2009 and \$3.1 million and \$24.6 million in fiscal year 2008, respectively. Accounts receivable at June 30, 2009 and 2008 includes \$1.9 million and \$214,000, respectively, due from UHA for such items as facility rental fees, utility cost reimbursement, and faculty teaching support. There were no amounts due to UHA at June 30, 2009 and 2008.

- b. *West Virginia University Hospitals, Incorporated* - West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the University's Health Sciences Center (HSC). The Hospital's tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal years 2009 and 2008, \$27.8 million and \$25.5 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, rent and gas expenses. Accounts receivable at June 30, 2009 and 2008 include \$2.8 million and \$3.9 million, respectively, due from WVUH for such items. During fiscal years 2009 and 2008, \$271,000 and \$352,000, respectively, was paid to WVUH for nursing services in conducting clinical trials, rent, facilities support services, autopsy services, family practice residents' salaries under the Community Residency Support Program, and capital projects. Accounts payable at June 30, 2009 and 2008 include \$5,000 and \$70,000, respectively, due to WVUH for such items.

#### **16. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED (Unaudited)**

The Foundation is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose "to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . ." Oversight of the Foundation is the responsibility of an independently elected Board of Directors. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over

funds administered by the Foundation. The Foundation does not meet the criteria for determination as a component unit of the University as described in GASB Statement No. 39. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University's endowments are under the control and management of the Foundation.

The Foundation's assets totaled \$746.1 million and \$971.3 million at June 30, 2009 and 2008, respectively, with net assets of \$426.0 million and \$540.9 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$55.6 million and \$47.4 million in fiscal years 2009 and 2008, respectively.

Total funds expended by the Foundation in support of University activities totaled \$40.3 million and \$43.7 million in fiscal years 2009 and 2008, respectively. This support and the related expenditures are primarily recorded in the University's combined financial statements.

## **17. CONTINGENCIES**

The nature of the educational industry is such that, from time to time, claims will be presented against universities 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 University would not have a material effect on the financial position of the University.

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

The Internal Revenue Code of 1986 establishes rule and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2009 or 2008.

The University owns various buildings that are known to contain asbestos. The University is not required by Federal, State or Local law to remove the asbestos from its buildings. The University is required under Federal Environmental, Health and Safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated, as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

## 18. SUBSEQUENT EVENTS

In April 2007, John Beilein, former University basketball coach, terminated employment with the University and was required to pay liquidated damages under the terms of his employment agreement with the University. A Resolution and Termination agreement was entered into between John Beilein and the Board under which he was required to pay five annual payments of \$300,000 each to the Foundation.

In September 2009, the West Virginia Legislative Post Audit Division determined that such payments were the property of the University and recommended that all past and future payments pertaining to John Beilein's termination agreement be transferred to the University by the Foundation immediately as received. Accordingly, a receivable and corresponding revenue in the amount of \$886,724 was recorded in fiscal year 2009. The payment of \$300,000 receivable from the Foundation in April 2010 is recorded at face value. Remaining two payments of \$300,000 each, receivable in April 2011 and April 2012 respectively, are recorded at the present value of the expected payments.

## 19. SEGMENT INFORMATION

During fiscal year 2005, the Board issued revenue refunding and improvement bonds to finance a portion of the costs of certain capital projects at the University, including reimbursement for certain capital expenditures made prior to the issuance of such bonds, and to advance refund the outstanding 1997 Dormitory, Athletics facilities, and Student Union revenue and revenue refunding bonds.

Descriptive information for the University's segment is shown below:

**West Virginia University Board of Governors  
Auction Rate Certificates, Federally Taxable University Revenue Refunding and  
Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series  
B; and University Revenue Improvement Bonds 2004 Series C  
(Collectively the "2004 Bonds")**

On November 1, 2004 the Board issued \$25,900,000 of 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bonds 1997 Series A, and the \$3,250,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds; and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

On November 1, 2004 the Board also issued 2004 Series B and C Bonds in the amounts of \$55,430,000 and \$138,710,000, respectively. The 2004 Series B Bonds are being used (1) to advance refund the \$4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the \$10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the \$3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the \$38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds.

The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs of issuance.

The 2004 Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

Total principal and interest payments remaining to be paid at June 30, 2009 and 2008 were approximately \$371.5 million and \$385.3 million, respectively. Total gross pledged revenue for fiscal year 2009 and 2008 was \$117.2 million and \$85.2 million, respectively.

**Condensed financial information for each of the University's segments follow:  
(Dollars in Thousands)**

	<b>AUXILIARIES</b> <b>As of/Year Ended</b> <b>2009</b>	<b>AUXILIARIES</b> <b>As of/Year Ended</b> <b>2008</b>
<b>CONDENSED STATEMENTS OF NET ASSETS</b>		
Assets:		
Current Assets	\$ 27,050	\$ 28,624
Noncurrent and Capital Assets *	427,607	422,264
Total Assets	<u>454,657</u>	<u>450,888</u>
Liabilities:		
Current Liabilities	28,354	30,311
Long-Term Liabilities	204,487	207,321
Total Liabilities	<u>232,841</u>	<u>237,632</u>
Net Assets:		
Invested in Capital Assets, net of related debt	220,851	211,729
Restricted	1	27
Unrestricted	964	1,500
Total Net Assets	<u>\$ 221,816</u>	<u>\$ 213,256</u>
<b>CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS</b>		
Auxiliary and Capital Fees	\$ 26,211	\$ 21,929
Operating Revenues	94,022	87,894
Operating Expenses	<u>(108,203)</u>	<u>(103,649)</u>
Net Operating Income	12,030	6,174
Nonoperating Revenues/Expenses:		
Investment Income	478	1,057
Net Transfers (to) from the University	(8,203)	7,335
Other Nonoperating Income	10,405	9,073
Gifts	6,780	4,020
Other Nonoperating Expenses	(4,067)	(3,837)
Interest Expense*	<u>(8,863)</u>	<u>(9,832)</u>
Increase in Net Assets	8,560	13,990
Net Assets - Beginning of Year	213,256	199,266
Net Assets - End of Year	<u>\$ 221,816</u>	<u>\$ 213,256</u>
<b>CONDENSED STATEMENTS OF CASH FLOWS</b>		
Net Cash Provided by Operating Activities	\$ 11,863	\$ 7,156
Net Cash Flows Provided by		
Noncapital Financing Activities	6,780	4,020
Net Cash Flows Used in		
Capital and Related Financing Activities	(38,855)	(26,319)
Net Cash Flows Provided by		
Investing Activities	478	48,350
(Decrease) Increase in Cash	<u>(19,734)</u>	<u>33,207</u>
Cash - Beginning of Year	53,022	19,815
Cash - End of Year	<u>\$ 33,288</u>	<u>\$ 53,022</u>
<b>Reconciliation of cash</b>		
Cash classified as current assets	\$ 23,725	\$ 26,409
Cash classified as noncurrent assets	9,563	26,613
	<u>\$ 33,288</u>	<u>\$ 53,022</u>

\* Interest of \$733,000 and \$427,000 was capitalized for fiscal year 2009 and 2008, respectively.

**20. FUNCTIONAL CLASSIFICATION OF EXPENSES**  
(Dollars in Thousands)

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

Functional Classification	Year Ended June 30, 2009										
	Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 157,445	\$ 51,002	\$ -	\$ 233	\$ 24,452	\$ -	\$ -	\$ -	\$ -	\$ 1,798	\$ 234,930
Research	62,174	26,657	-	260	33,019	-	-	-	-	7,114	129,224
Public Service	33,842	9,507	-	158	13,402	-	-	-	-	32	56,941
Academic Support	21,499	6,271	-	81	6,440	-	-	-	-	-	34,291
Student Services	17,724	5,929	-	14	6,238	-	-	-	-	-	29,905
Operation and Maintenance of Plant	23,664	9,338	-	17,610	23,529	-	-	-	-	-	74,141
General Institutional Support	42,705	13,329	-	36	30,441	-	-	-	-	85	86,596
Student Financial Aid	-	-	26,291	-	-	-	-	-	-	-	26,291
Auxiliary Enterprises	35,610	10,142	-	6,505	43,101	-	-	-	-	66	95,424
Depreciation	-	-	-	-	-	44,438	-	-	-	-	44,438
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,506	-	-	2,506
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	691	-	691
Loan Cancellations and Write Offs	-	-	-	-	-	-	699	-	-	-	699
Total Expenses	\$ 394,663	\$ 132,175	\$ 26,291	\$ 24,897	\$ 180,622	\$ 44,438	\$ 699	\$ 2,506	\$ 691	\$ 9,095	\$ 816,077

**Year Ended June 30, 2008**

Functional Classification	Year Ended June 30, 2008										
	Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 147,506	\$ 49,703	\$ -	\$ 252	\$ 25,331	\$ -	\$ -	\$ -	\$ -	\$ 1,186	\$ 223,978
Research	60,798	25,886	-	561	35,811	-	-	-	-	4,923	127,979
Public Service	30,937	8,750	-	43	12,075	-	-	-	-	40	51,845
Academic Support	21,081	6,512	-	87	8,130	-	-	-	-	-	35,810
Student Services	17,160	5,932	-	9	7,628	-	-	-	-	1	30,730
Operation and Maintenance of Plant	20,250	9,236	-	17,033	17,785	-	-	-	-	-	64,304
General Institutional Support	40,912	12,727	-	70	26,374	-	-	-	-	33	80,116
Student Financial Aid	-	-	29,315	-	-	-	-	-	-	-	29,315
Auxiliary Enterprises	32,188	9,900	-	6,138	45,770	-	-	-	-	59	94,055
Depreciation	-	-	-	-	-	43,290	-	-	-	-	43,290
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,511	-	-	2,511
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	477	-	477
Loan Cancellations and Write Offs	-	-	-	-	-	-	522	-	-	-	522
Total Expenses	\$ 370,832	\$ 128,646	\$ 29,315	\$ 24,193	\$ 178,904	\$ 43,290	\$ 522	\$ 2,511	\$ 477	\$ 6,242	\$ 784,952

## **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 Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2009, and have issued our report thereon dated September 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the University'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 University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

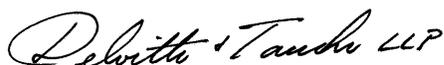
A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University'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 Board of Governors, management of the 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.



September 30, 2009