West Virginia State University Research and Development Corporation

Financial Statements as of and for the
Years Ended June 30, 2009 and 2008, and
Independent Auditors' Report and
Reports Required by OMB Circular A-133 for the
Year Ended June 30, 2009

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of net assets of West Virginia State University Research and Development Corporation (the "Corporation") as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the management of the Corporation. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements for the Corporation for the year ended June 30, 2008, were audited by other auditors whose report, dated October 9, 2008, expressed an unqualified opinion on those statements and included an explanatory paragraph that described the adoption of a new accounting pronouncement discussed in Note 2 to the financial statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2009, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

November 16, 2009

West Virginia State University
Research and Development Corporation

Management Discussion and Analysis (Unaudited)

Fiscal Year Ended June 30, 2009

I. Introduction

A. *Historical Background*

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

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

West Virginia State University is a Historically Black University founded in 1891 as an 1890 Land-Grant institution of higher education for which the main mission is to provide its State's citizens and stakeholders with quality instruction, research opportunities, and public educational outreach. In the last 10 years, with the regaining of its research and extension function as well as the establishment of graduate programs, the University is evolving into a more culturally intensive research and service-oriented institution. To that fact, as it is the case for the majority of institutions of higher education in the country, external supplemental support has become important in the enhancing of the delivery of the University's mission. Thus, the University encourages its faculty, administrators, and staff to actively pursue sponsored programs that can result in the furtherance of its educational activities. The University has experienced a gradual increase in external support which is reflected in the respective growth of the Corporation's operating revenues and expenses, as well as in its assets and liabilities during the last 10 consecutive years.

The discussion and analysis of the Corporation's financial statements are required supplemental information prescribed by the Governmental Accounting Standards Board ("GASB") Statements No. 34 & 35. This financial information is structured into an *activity-based* reporting format and provides an overview of the Corporation's fiscal activities focusing on the year ended June 30, 2009. The analysis is based on the position of three main financial statements: (1) Net Assets, (2) Revenues, Expenses, and Changes in Net Assets, and (3) Cash Flows. Additional information relevant to fiscal years 2007 and 2008 is also included in this analysis to facilitate for the reader a comparative analysis between immediate past and present financial position of the organization.

II. Statement of Net Assets

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

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

Condensed Statements of Net Assets

	FY 2009	FY 2008	FY 2007
Assets			
Current assets	$1,279,216	$1,263,859	$1,706,168
Non-current assets:			
Capital assets, net	982,466	1,186,709	1,226,621
Total Assets	**$2,261,682**	**$2,450,568**	**$2,932,789**
Liabilities			
Current liabilities	494,490	530,955	569,322
Non-current liabilities	486,956	375,061	312,056
Total Liabilities	**981,446**	**906,016**	**881,378**
Net Assets			
Invested in capital assets, net of debt	982,466	1,186,709	1,226,621
Restricted – expendable	-	146,125	620,245
Unrestricted	297,770	211,717	204,545
Total Net Assets	**1,280,236**	**1,544,552**	**2,051,411**
Total Liabilities and Net Assets	**$2,261,682**	**$2,450,568**	**$2,932,789**

In fiscal year 2009, the Corporation's total assets contracted by $188,886 (8% contraction) from the previous year. The current portion of total assets, however, slightly increased from the previous year by $15,357 (a 1% increase). The two major contributors of the current portion of total assets are derived from cash and cash equivalents and pre-paid expenses. The current portion of grants and contracts receivable decreased by $141,319 (20% decrease) this year due to decreased grant activity late in the year, despite a slightly overall increase in current assets. In terms of non-current assets, the value of capital assets, net also decreased by $204,243 from the previous year. . The downward trend in capital assets can be attributed this year again to the value of depreciation ($273,072), net of a lower level of capital assets additions. The overall decrease in total assets was due to the reduction in capital assets net (17% reduction), despite the increase in the value of cash and cash equivalents this year by $120,764 (27%). The cash and cash equivalents position of the Corporation varies from year and its value depend on the level of grant activity at the time the report is prepared. In other words, it is affected by receivables and payables in transit as well as by outstanding items (checks). Therefore, the overall change in total assets this year suggests that the Corporation utilized slightly more cash and cash equivalents to conduct its activities compared to the previous year.

The balance of total liabilities during the current fiscal year increased from $906,016 to $981,446; an increase of $75,430 (8%). This increase was driven by increases in non-current liabilities (30%) relative to the previous year. The value of current liabilities actually decreased this year by 7% compared to the previous year. The overall increase in total liabilities, in relation to non-current liabilities, derived from the growth in other post employment benefits liability; which increased from $158,495 to $403,643 due to the unfunded cost of such benefits. Accounts payable values are variable throughout the year and also vary from year to year. Accounts payable depend upon the level of activity related to the Corporation's primary activities. Current and non-current liabilities this year contributed almost with equal values (50% each) of the total liabilities value. The last two previous years these values of current liabilities were 59% and 65% of total liabilities, respectively.

The value of total assets net contracted by $264,316 (17% reduction) from the previous year; which was caused by a reduction in the Corporation's investments in capital assets and restricted assets; in spite of a 40% increase in unrestricted net assets. This year, the contraction was 17% in relation to last year's investments in capital assets. The downward trend in capital assets can be attributed this year again to the value of depreciation ($273,072), net of a lower level of capital assets additions. Investment in capital assets comprises the purchase of fixed assets that are required to fulfill the goals and objectives established for each of the grants and contracts. The gradual decrease in investments in capital assets can be explained by a lower demand in equipment and related assets as the associated programs become better equipped over time. Unrestricted net assets are utilized by the Corporation as supporting funding to cover for expenses of reimbursable grants in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in the conduct of research or other educational grants. The Corporation's unrestricted net assets mainly derive from external donors and the recovery of indirect costs from grants and sponsored agreements.

III. Revenue, Expenses, and Changes in Net Assets

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

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

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	FY 2009	FY 2008	FY 2007
Operating revenues	$11,896,010	$11,735,310	$10,736,163
Operating expenses	12,230,058	12,870,572	10,583,937
Operating (Loss) Income	**(334,048)**	**(1,135,262)**	**152,226**
Non-operating revenues and expenses:	69,732	359,319	273,967
Cumulative effect of adoption of accounting principal		237,084	
(Decrease) increase in Net Assets	(264,316)	(506,859)	426,193
Net Assets – Beginning of Year	1,544,552	2,051,411	1,625,218
Net Assets – End Year	**$1,280,236**	**$1,544,552**	**$2,051,411**

The Corporation's operating revenues derive from federal, state, and private funding sources. Operating revenues this year slightly increased by 1% ($160,700) compared to 9% and 4% increases in the respective previous two years. This year's moderate increase in operating revenues resulted from increases in federal ($280,507) and private ($59,383) funding; a 3.5% and 5% increase, respectively. The modest increase in the level of federal funds was derived from a corresponding increase in competitive grants and increases in formula funds used to enhance the University's Land-Grant research and extension activities. The state funds slightly contracted this year ($179,190) by 7% as less grants were obtained through this source. The Corporation's revenue composition varies from year to year depending upon the availability of funds from each source, and the overall level of combined effort exercised by the Corporation and University's faculty, staff and administrators. Overall, a positive growth trend, in relation to the Corporation's operating revenues for the past 4 years, continues and still averages 4% growth during this time frame. This positive trend in the Corporation's growth reflects proactive efforts on the part of the University's faculty and staff in actively and continuously seeking to enhance educational programs via external sources of funds.

The Corporation's total operating expenses this year decreased by 5%, compared to a 20% increase in the previous year. The operating expenses decreased from $12,870,572 to $12,230,058. Normally, operating expenses are proportionally associated to the level of operating revenues. The more revenues the Corporation brings, the higher the level of expenditures incurred by the Corporation. This year however, despite a slight increase in operating revenues, operating expenditures contracted. This slight contraction ($640,514) in the Corporation's total operating expenses was due to a decrease in all the components comprising these expenses. All the categories comprising the operating expenses decreased, including salaries and wages (2.9%), payments to suppliers (5%), employee's benefits (12%), utilities (3%), and depreciation (8%) expenses, compared to the previous year. During fiscal year 2009, the level of depreciation contracted (11%) compared to the previous year.

The Statement of Revenues, Expenses, and Changes in Net Assets, shows an operating loss for the year of $334,048, compared to last year's loss of $1,135,262. Operating losses this year were mainly attributed to the value of depreciation. The activity-based financial reporting format, to which the Corporation now subscribes through GASB 34 and 35, must account for the value of depreciation of its capital assets. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are capitalized by the Corporation or the University's fiscal entities. The cost of depreciation of these assets is seldom recovered by the institution due to the fact that it cannot be charged back to federal or state grants and/or contracts in the following years. Thus, accumulated depreciation affects the value of assets acquired in a particular year.

Non-operating revenues and expenses decreased (73%) from $259,031 to $69,732 in 2009, in relation 2008. Capital grants and gifts to the institution also contracted this year from $270,278 to $70,993. The deficit between the Corporation's revenues and expenses, resulted in an overall decrease ($264,316) in its net assets. The lost value of net assets is mainly attributed to the level of depreciation relative to the lower investment in capital assets, as well as an increase in the other post employment benefits liability.

IV. Cash Flows

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

Condensed Statements of Cash Flows

	FY 2009	FY 2008	FY 2007
Cash provided (used) by:			
Operating activities	$119,861	($572,749)	$417,275
Investing activities	903	1,646	2,738
Capital and related financing activities	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	**120,764**	**(571,104)**	**420,013**
Cash, beginning of year	451,327	1,022,431	602,418
Cash, end of year	**$572,091**	**$451,327**	**$1,022,431**

The Corporation's cash and cash equivalents as of June 30, 2009 was $572,091. The increased value between this and last year's balance was largely due to a surplus from the cash provided by operating activities ($119,861). The cash and cash equivalents of the previous two years was $451,327 and

$1,022,431, respectively. Cash flow provided by financing activities represented only $903 and was solely derived from interest income. Income derived from federal and state agencies is drawn down on a reimbursable or encumbrance basis, once drawn down it is expended within 3 days. Thus, investment gain in the form of interest from these funds is not a primary target activity.

The total value of cash and cash equivalents, in relation to the total value of operating revenues for fiscal year 2009 was 5% compared to 4%, 9%, and 6% for the three previous years. This level of overall cash, as a percentage of operating revenues, suggests that the Corporation maintained or conducted operations with similar levels of cash to meet its obligations, at the end of this closing year, compared to the previous year.

V. Capital Assets and Debt Administration

The Corporation's main goal is the fiscal management of all grants, contracts, and sponsored agreements for the University. A number of these grants allow purchases of capital assets including educational and research equipment, land and/or buildings, new construction and renovation of educational facilities, and motored vehicles. This year, the purchase of capital assets in terms of additions totaled $70,993 compared to the $270,278 and $271,229 additions from the previous two years. It is the Corporation's policy that major assets (excluding vehicles), such as real state and capital improvements, be generally titled to the University and recorded on the University's financial statements as such. Thus, these major assets are normally recorded as expenditures within the Corporation and transferred to the University as assets. The assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2008 or 2009.

VI. Economic Outlook

West Virginia State University continues evolving its capabilities of delivering teaching, research, and outreach programs, as a Land-Grant institution of higher education. While the institution maintains its tradition of excellence in teaching, it also strengthens research and outreach programming, which require the support of additional external resources. Furthermore, the regaining of the University's Land-Grant and University statuses and the implementation of graduate programs have augmented activities related to research, teaching and public service. To that end, the University continues encouraging its academic faculty and research and outreach staff to seek opportunities for enhancing research, teaching, and public service through external sponsored funding. As a Land-Grant institution the University currently receives Federal and State entitlements, including formula funds and associated state matching appropriations, and other funds exclusive of 1890 Universities. However, a great portion of the external support received by the University comes from competitive grants and unsolicited requests. Although government-derived resources have become scarcer in the last few years, the Corporation has managed to show a modest increase in its grant revenues over the last 8 consecutive years. The University is also actively seeking resources from non-traditional sources such as partnerships with the private and non-private institutions and foundations, and generating program income through the sale of services and the establishment of intellectual property. As externally sponsored resources become increasingly more prominent within the University, the Research and

Development Corporation has managed to adjust to this continuous demand and growth. Because of the institutional commitment, in terms of enhancing the University's mission and service to its constituents, it is expected that this growing trend transcends throughout the next decade.

Presently the University is exploring a reorganizational adjustment to more efficiently manage external and internal resources which are obtained to conduct research and outreach programming. This adjustment will also support the establishment of additional graduate programs at the University and their associated research and public service. To that end, the University is actively seeking funding from various Federal agencies including the U.S. Department of Education, the U.S. Department of Agriculture, and the National Science Foundation (to name a few) to support current (and future) graduate programs. Furthermore, the institution is seeking to increase participation in statewide initiatives, along with other state Universities, related to research infrastructural development which could in turn translate into regional economic development. As these endeavors materialize, there will also be greater administrative activity and more opportunities for the University to continue the quest of enhancing its mission via external funding.

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

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

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

	2009	2008
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 572,091	$ 451,327
Grants and contracts receivable	576,111	717,430
Other receivables	843	13,752
Due from West Virginia State University	15,778	14,897
Prepaid expense	114,393	66,453
Total current assets	1,279,216	1,263,859
NONCURRENT ASSETS — Capital assets — net	982,466	1,186,709
Total noncurrent assets	982,466	1,186,709
TOTAL	$ 2,261,682	$ 2,450,568
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 257,454	$ 300,444
Compensated absences — current portion	237,036	230,511
Total current liabilities	494,490	530,955
NONCURRENT LIABILITIES:		
Compensated absences — noncurrent portion	83,313	216,566
Other post employment benefits liability	403,643	158,495
Total noncurrent liabilities	486,956	375,061
Total liabilities	981,446	906,016
NET ASSETS:		
Invested in capital assets	982,466	1,186,709
Restricted — expendable for — sponsored projects		146,125
Unrestricted	297,770	211,718
Total net assets	1,280,236	1,544,552
TOTAL	$ 2,261,682	$ 2,450,568

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

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

	2009	2008
OPERATING REVENUES — Contracts and grants:		
Federal	$ 8,311,189	$ 8,030,682
State	2,306,739	2,485,929
Private	1,278,082	1,218,699
Total operating revenues	11,896,010	11,735,310
OPERATING EXPENSES:		
Salaries and wages	5,380,857	5,539,360
Supplies and other services	5,144,567	5,416,653
Benefits	1,382,101	1,566,361
Depreciation	273,072	297,298
Utilities	49,461	50,900
Total operating expense	12,230,058	12,870,572
OPERATING LOSS	(334,048)	(1,135,262)
NONOPERATING REVENUES (EXPENSES):		
Investment income	903	1,646
Loss on disposal of capital assets	(2,164)	(12,892)
Payment on behalf of West Virginia State University Research and Development Corporation		132,287
Capital grants and gifts	70,993	270,278
DECREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	(264,316)	(743,943)
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE		237,084
DECREASE IN NET ASSETS	(264,316)	(506,859)
NET ASSETS — Beginning of year	1,544,552	2,051,411
NET ASSETS — End of year	$ 1,280,236	$ 1,544,552

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

	2009	2008
CASH FLOWS PROVIDED BY OPERATING ACTIVITIES:		
Contracts and grants	$ 12,049,357	$ 11,602,344
Payments to and on behalf of employees	(6,644,538)	(6,719,280)
Payments to suppliers	(5,235,497)	(5,404,914)
Payments to utilities	(49,461)	(50,900)
Net cash provided (used) by operating activities	119,861	(572,750)
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	70,993	270,278
Purchases of capital assets	(70,993)	(270,278)
Net cash provided by capital financing activities	-	-
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES — Investment income	903	1,646
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	120,764	(571,104)
CASH AND CASH EQUIVALENTS — Beginning of year	451,327	1,022,431
CASH AND CASH EQUIVALENTS — End of year	$ 572,091	$ 451,327
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating loss	$ (334,048)	$ (1,135,262)
Adjustments to reconcile net operating loss to net cash provided by operating activities:		
Depreciation expense	273,072	297,298
Expenses paid on behalf of the entity	-	132,287
Changes in assets and liabilities:		
Grants/contracts receivable	141,319	(145,735)
Other receivable	12,909	4,853
Due from West Virginia State University	(881)	7,916
Prepaid expenses	(47,940)	4,171
Accounts payable	(42,990)	7,568
Compensated absences	118,420	254,154
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ 119,861	$ (572,750)
SIGNIFICANT NONCASH TRANSACTION — Cumulative effect of adoption of accounting principle	$ -	$ 237,084

See notes to financial statements

1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government and encourages the acceptance of gifts, grants, contracts and equipment, and the sharing of facilities, equipment, technical assistance, and instructional programs in the State. The Corporation is governed by a Board of Directors, the Chairperson of which is the President of the University.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Reporting Entity — The Corporation is included in the financial statements of the University (its Parent), as the University is the sole member of the nonstock not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

Financial Statement Presentation — GASB Statements No. 35 and No. 38 establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the Corporation as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the Corporation as a whole. GASB Statement No. 35 reports equity as “net assets” rather than “fund balance.” Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The Corporation’s net assets are classified as follows:

- Invested in Capital Assets — This represents the Corporation’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The Corporation has no capital related debt.

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

- Restricted Net Assets, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation does not have any restricted nonexpendable net assets at June 30, 2009 or 2008.

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

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

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

Allowance for Doubtful Accounts — It is the Corporation’s policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectability experienced by the Corporation on such balances and such other factors which, in the Corporation’s judgment, require consideration in estimating doubtful accounts. As of June 30, 2009 and 2008, respectively, the Corporation has not recorded an allowance for doubtful accounts.

Capital Assets — Capital assets include property, plant and equipment, software, books, and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. The Corporation's threshold for capitalizing capital assets is $5,000. The financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*.

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

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

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally $3^{1/3}$ years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above applies to coverage for faculty employees also. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire.

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

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

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

Classification of Revenues — The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) most federal, state, local, and nongovernmental grants and contracts, (2) federal appropriations, and (3) sales and services of educational activities.

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

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

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

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs subject to an audit. The Corporation recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

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

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

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

During 2009, the GASB issued GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. This statement identifies the sources of accounting principles and provides the framework for selecting the principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with generally accepted accounting principles. The Corporation 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 Corporation adopted GASB Statement No. 56 upon issuance.

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

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2009 and 2008, was $572,091 and $451,327, respectively, compared with the combined bank balance of $889,815 and $920,157, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2009 and 2008, $300,000 and $300,000, respectively, were covered by Federal depository insurance, while $589,815 and $620,157, respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

4. CAPITAL ASSETS

The following is a summary of capital asset transactions for the years ended June 30, 2009 and 2008:

2009	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 3,727,601	$ 70,993	$ (204,248)	$ 3,594,346
Motor vehicles	365,758			365,758
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	4,639,373	70,993	(204,248)	4,506,118
Less accumulated depreciation for:				
Equipment	2,568,543	246,783	(202,084)	2,613,242
Motor vehicles	344,739	19,656		364,395
Software	340,069			340,069
Library books	199,313	6,633		205,946
Total accumulated depreciation	3,452,664	273,072	(202,084)	3,523,652
Capital assets — net	$ 1,186,709	$ (202,079)	$ (2,164)	$ 982,466
Capital asset summary:				
Capital assets	$ 4,639,373	$ 70,993	$ (204,248)	$ 4,506,118
Less accumulated depreciation	3,452,664	273,072	(202,084)	3,523,652
Capital assets — net	$ 1,186,709	$ (202,079)	$ (2,164)	$ 982,466

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

Title for motor vehicles is with the University.

5. 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, which are based upon actuarial determined amounts. At June 30, 2009 and 2008, the noncurrent liability related to OPEB costs was $403,643 and $158,495, respectively. For the year ended June 30, 2008, the Corporation recorded a cumulative effect of the adoption of this accounting principle of $237,084, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $403,643 and $0, respectively, during 2009 and $505,783 and $0, respectively, during 2008. As of the year ended June 30, 2009, there were 0 retirees receiving these benefits.

6. RETIREMENT PLAN

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

Total contributions to the TIAA-CREF for the years ended June 30, 2009 and 2008, were $529,627 and $539,466, respectively, which consisted of equal contributions from the Corporation and covered employees in 2009 and 2008, of $264,814 and $269,733, respectively.

The Corporation's total payroll for the years ended June 30, 2009 and 2008 was $5,197,108 and $5,105,894, respectively, total covered employees' salaries for TIAA-CREF were $4,413,561 and $4,495,548 in 2009 and 2008, respectively.

7. CONTINGENCIES

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Corporation's management believes disallowances, if any, will not have a significant financial impact on the Corporation's financial position.

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

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Corporation would not impact seriously on the financial status of the institution.

8. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2009, are as follows:

2010	$ 191,967
2011	29,693

The total operating lease expense for the years ended June 30, 2009 and 2008 was $470,139 and $457,209, respectively. The Corporation does not have any non-cancelable leases.

The Corporation has decided to transition from Xerox Managed Services to a Xerox equipment only contract as of August 14, 2009.

9. UNRESTRICTED NET ASSETS

At June 30, 2009 and 2008, the Corporation has no designated net assets.

10. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2009 and 2008, the following table represents operating expenses within both natural and functional classifications:

2009	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 1,678,395	$ 341,809	$ 1,002,883	$ 14,785	$ -	$ 3,037,872
Public service	728,036	157,165	1,035,088	16,336		1,936,625
General institutional support	2,951,026	881,438	2,784,166	17,791		6,634,421
Auxiliary enterprises	23,400	1,689	322,430	549		348,068
Depreciation					273,072	273,072
Total	$ 5,380,857	$ 1,382,101	$ 5,144,567	$ 49,461	$ 273,072	$ 12,230,058

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

* * * * * *

SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:					
Bioplex 7 — Grants for Agricultural Research — Special Research Grant	D	10.200		$ 4,452	
Bioplex 9 — Grants for Agricultural Research — Special Research Grant	D	10.200		225,572	
		10.200 Subtotal			$ 230,024
Cooperative State Research Education and Extension Service Cooperative Research (Evans Allen - Section 1445) 1890	D	10.205			1,062,542
Capacity Building Grants BIOTECH	D	10.216		23,054	
Capacity Building Grants ANEROBIC	D	10.216		14,370	
Capacity Building Grants MGCT RHUNKE	D	10.216		81,293	
Capacity Building Grants ALCORN DNA	D	10.216		383	
Capacity Building Grants ALCORN WATERMELON	D	10.216		13,087	
Capacity Building Grants SWEET POTATO	D	10.216		132,928	
Capacity Building Grants BACK TO GENES	D	10.216		67,695	
Capacity Building Grants CUCRBITY	D	10.216		130,923	
Capacity Building Grants FINFISHES	D	10.216		30,126	
		10.216 Subtotal			493,859
Sustainable Agriculture Research and Education 06	I	10.215	West Virginia University (Research)	473	
Sustainable Agriculture Research and Education 07	I	10.215	West Virginia University (Research)	144	
Sustainable Agriculture Research and Education 08	I	10.215	West Virginia University (Research)	3,605	
		10.215 Subtotal			4,222
Department of Agriculture Total					1,790,647
WV BRIN 2007	I	93.389	Marshall University	971	
WV BRIN 2008	I	93.389	Marshall University	12,512	
WV BRIN 2009	I	93.389	Marshall University	122,356	
WV BRIN 2010	I	93.389	Marshall University	16,234	
WV BRIN SUPPORT 2009	I	93.389	Marshall University	17,518	
National Institute of Health Total					169,591
National Science Foundation:					
EPSCOR	I	47.076	West Virginia Higher Education Policy		198,344
Total Research and Development Cluster					2,158,582
OTHER PROGRAMS:					
WV Work Force MED 08	D	17.258			200
Nursing Pathways 2008/2009	D	17.261			396,176
Department of Labor Total					396,376
Editing and layout of publication on the adminastrative history of the North Cental Division of the US Army Corp of Engineers	D	12.W-9123707-P-0250		10,219	
Photo documentation of the Marietta Repair Station	D	12.W-9123709-P-0072		7,800	
Production of prehistoric video for the Marmet Locks and Dam	D	12.W-9123709-P-0078		16,665	
Army Corps of Engineers Total					34,684
National Aeronautics Space Administration Day	I	43.001	Fairmont University	330	
National Aeronautics Space Administration Dome	I	43.001	West Virginia University	7,043	
National Aeronautics Space Adminastration Total					7,373

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
Department of Agriculture (continued):					
Office of Regional Economic Integration—Organic Seed	I	10.303	Cornell University	$ 4,613	
Office of Regional Economic Integration—Organic Vegetable	I	10.303	Ohio State University	1,750	
Solcap	I	10.303	Michigan State University	2,722	
		10.303 Subtotal			9,085
National Research Initiative	I	10.206	Alabama A&M Cotton		4,520
Agricultral Research Service	D	10.001			83,668
Summer Food Program 8	D	10.559		38,055	
Summer Food Program 9	D	10.559		14,862	
		10.559 Subtotal			52,917
Hibkscus	D	10.025			1,966
Cooperative State Research Education and Extension Service					
Cooperative Extension Service (Smith Lever-Section 1444):	D	10.500		963,246	
Cooperative Research — 1890 Facilities Grant Extension Se	D	10.500		970,155	
Renewable Resources Extension Act 07	D	10.500		8,448	
Renewable Resources Extension Act 08	D	10.500		5,691	
Land Grant Other	D	10.500		195	
EFNEP	D	10.500		2,881	
EFNEP 07	D	10.500		49,942	
EFNEP 08	D	10.500		31,432	
		10.500 Subtotal			2,031,990
Rural Business Service 08	D	10.856		33,633	
Rural Business Service 09	D	10.856		62,227	
		10.856 Subtotal			95,860
Department of Agriculture Total					2,280,006
Research Challenge Louis Stokes Alliance for Minority Participation	I	47.076	University of Kentucky	799	
Louis Stokes Alliance for Minority Participation 246	I	47.076	University of Kentucky	11,980	
Louis Stokes Alliance for Minority Participation 247	I	47.076	University of Kentucky	23,921	
National Science Foundation Total					36,700
HUD Kitchen	I	14.870			799
Neighborhood Network	I	14.250			42,179
Department of Housing and Urban Development Total					42,978
Title III-B — 07 Strengthening Historically Black Colleges	D	84.031	WV Health and Human Resources	4,777	
Title I1I-B — 08 Strengthening Historically Black Colleges	D	84.031	WV Health and Human Resources	665,755	
Title I1I-B — 09 Strengthening Historically Black Colleges	D	84.031	WV Health and Human Resources	1,773,430	
		84.031 Subtotal			2,443,962
Business and International Education 2008/2009	D	84.153			717
Department of of EducationTotal					2,444,679
Federal Highway Admin. STIP 07	I	20.205	WV Department of Transportation	4,000	
Federal Highway Admin. STIP 08	I	20.205	WV Department of Transportation	39,348	
WV DOT	I	20.205	WV Department of Transportation	59,059	
Department of Transportation					102,407
TOTAL FEDERAL AWARDS					7,503,783

(Concluded)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of West Virginia State University Research and Development Corporation (the "Corporation") for the year ended June 30, 2009, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D), and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

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

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

4. Subrecipients- Of the federal expenditures presented in the Schedule, the Corporation provides federal awards to subrecipients of $207,831.

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

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

We have audited the financial statements of West Virginia State University Research and Development Corporation (the "Corporation") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 16, 2009. Our report was modified to include a reference to other auditors. 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. Other auditors audited the Corporation's financial statements as of and for the year ended June 30, 2008, as described in our report on the Corporation's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting on compliance and other matters that are reported on separately by those other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Corporation's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over financial reporting.

A *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, 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 would not necessarily identify all deficiencies in internal control 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 Corporation's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

November 16, 2009

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR FEDERAL AWARD PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of West Virginia State University Research and Development Corporation (the "Corporation") with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit. Other auditors audited the Corporation's financial statements as of and for the year ended June 30, 2008, as described in our report on the Corporation's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

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

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

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

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

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

Deloitte & Touche LLP

November 16, 2009

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009

SECTION I — SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued:	**Unqualified Opinion**			
Internal control over financial reporting:				
Material weakness(es) identified?	Yes		No	X
Significant deficiencies identified that are not considered to be material weaknesses?	Yes		None Reported	X
Noncompliance material to financial statements noted?	Yes		No	X

FEDERAL AWARDS

Internal control over major programs:				
Material weakness(es) identified?	Yes		No	X
Significant deficiencies identified that are not considered to be material weaknesses?	Yes		None Reported	X
Noncompliance material to financial statements noted?	Yes		No	X
Type of auditors' report issued on compliance for major programs:	**Unqualified Opinion**			
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of Circular A-133?	Yes		No	X

Identification of major programs:

Name of Federal Program or Cluster	**CFDA Number**
Research and Development Cluster	Various

Dollar threshold used to distinguish between Type A and Type 13 Programs:		$ 300,000		
Auditee qualified as a low-risk auditee?	Yes	X	No	

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III. — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.