

***West Virginia
School of Osteopathic Medicine***

Financial Statements
Years Ended June 30, 2009 and 2008
and
Independent Auditors' Reports

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI)	5 - 12
FINANCIAL STATEMENTS	
Statements of Net Assets	13
Component Unit-Statements of Financial Position	14
Statements of Revenues, Expenses, and Changes in Net Assets	15
Component Unit-Statements of Activities and Changes in Net Assets	16 - 17
Statements of Cash Flows	18
Notes to Financial Statements	19 - 49
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 <i>GOVERNMENT AUDITING STANDARDS</i>	50 - 51

INDEPENDENT AUDITORS' REPORT

Governing Board
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), as of June 30, 2009 and 2008, and for the years then ended, which collectively comprise WVSOM's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of WVSOM. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc. (a component unit of WVSOM). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc., is based solely on the report of the other auditors.

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. The financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc., which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audits 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WVSOM'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 opinions.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of WVSOM as of June 30, 2009 and 2008, and the respective changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 12 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. This supplementary information is the responsibility of WVSOM's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 26, 2009, on our consideration of WVSOM'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.



Charleston, West Virginia
October 26, 2009



West Virginia School of Osteopathic Medicine

400 North Lee Street
Lewisburg, West Virginia 24901

Management's Discussion and Analysis Fiscal Year 2009 Financial Statements

Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine (“WVSOM”) is proud to present its financial statements for fiscal year 2009, with fiscal year 2008 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of WVSOM’s financial statements provides an overview of its financial activities for the year and is required supplemental information.

The Governmental Accounting Standards Board (GASB) issued directives effective for 2002 for presentation of college and university financial statements. The format places emphasis on the overall economic resources of WVSOM.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated are discretely presented as part of WVSOM’s financial statements for the fiscal years ended June 30, 2009 and 2008.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WVSOM as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WVSOM. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

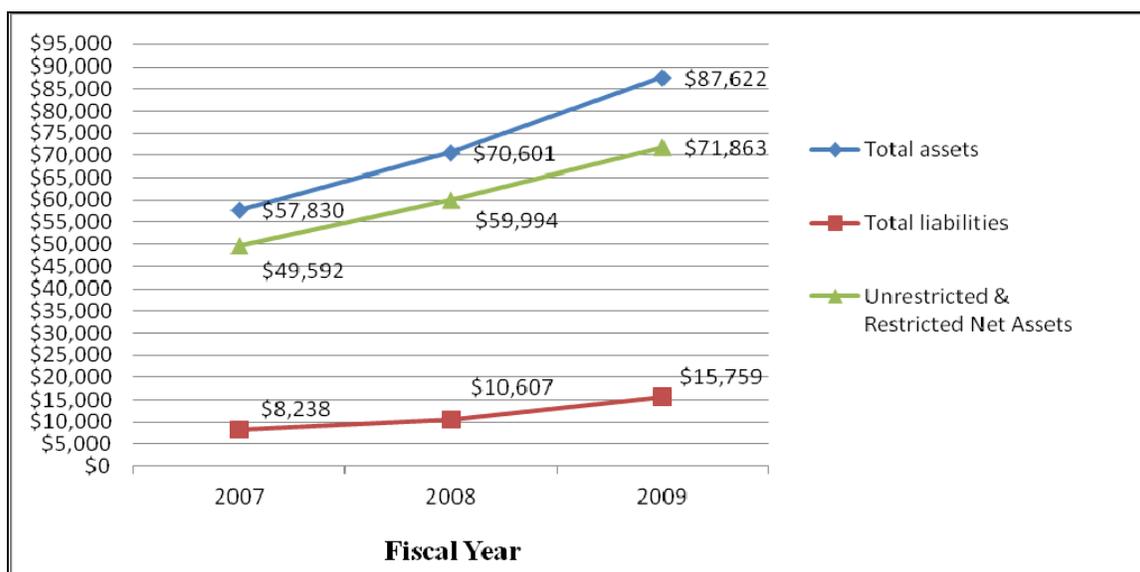
From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of WVSOM. They are also able to determine how much is owed to vendors, employees, and lending institutions.

Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by WVSOM.

Net assets are divided into three major categories. The first category, invested in capital assets net of related debt, represents equity in the property, plant and equipment owned by WVSOM. The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets, the balances that had been restricted by the West Virginia Legislature (“Legislature”) were removed by State Code and moved to the unrestricted category in fiscal year 2004. These activities were fundamental to the normal ongoing operations of WVSOM and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WVSOM.

Net Assets
Years Ended June 30,
(In thousands of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 36,822	\$ 23,411	\$ 14,822
Other non-current assets	5,205	8,554	4,859
Capital assets, net	<u>45,595</u>	<u>38,636</u>	<u>38,149</u>
Total assets	<u>87,622</u>	<u>70,601</u>	<u>57,830</u>
Liabilities			
Current liabilities	13,166	8,242	5,023
Non-current liabilities	<u>2,593</u>	<u>2,365</u>	<u>3,215</u>
Total liabilities	<u>15,759</u>	<u>10,607</u>	<u>8,238</u>
Net assets			
Invested in capital assets	45,595	38,636	38,149
Restricted – expendable	5,499	4,845	4,567
Restricted – nonexpendable	46	46	46
Unrestricted	<u>20,723</u>	<u>16,467</u>	<u>6,830</u>
Total net assets	<u>\$ 71,863</u>	<u>\$ 59,994</u>	<u>\$ 49,592</u>



In fiscal years 2009 and 2008, the total assets of WVSOM increased by \$17 million and \$12.8 million, respectively. The changes described below represent the majority of this increase in 2009:

- Current assets increased by \$13.4 million with accounts receivable for deferred tuition revenue and cash and cash equivalents comprising the largest increase. This increase occurred because of WVSOM's continuing increased class size. The reclassification of \$3.5 million from noncurrent to current cash for a capital building project is another factor for the increase.
- Noncurrent assets increased by \$3.6 million due to the investment in plant for the capital building projects of the Clinical Evaluation building and the addition of the Founder's Activity Center and a slight increase in loans to students. The other factor of the reclassification of \$3.5 million from noncurrent cash to current cash created a decrease in noncurrent cash.

In fiscal year 2009, total liabilities increased by \$5.1 million while in fiscal year 2008 the increase was \$2.4 million. The changes described below represent the majority of the increase in 2009:

- Current liabilities for the year increased by \$4.9 million primarily due to the following: a significant increase in accounts payable due to construction projects; an increase in deferred revenue collections from enrollment fees which reflects a three percent fee increase and additional students; and a slight increase in accrued liabilities and in compensated absences.
- Noncurrent liabilities increased \$228 thousand because of an increase in the OPEB accrued liability and a slight increase in compensated absences liability.

The ratio of current assets to current liabilities for fiscal years 2009 and 2008 is 2.8:1 and 2.8:1 respectively. No change due to the percentage change for both current assets and current liabilities were relatively the same for fiscal years 2009 and 2008, respectively 57.3% and 59.7%.

For fiscal years 2009 and 2008, net assets increased approximately \$11.9 million and \$10.4 million respectively.

Statement of Revenues, Expenses and Changes in Net Assets

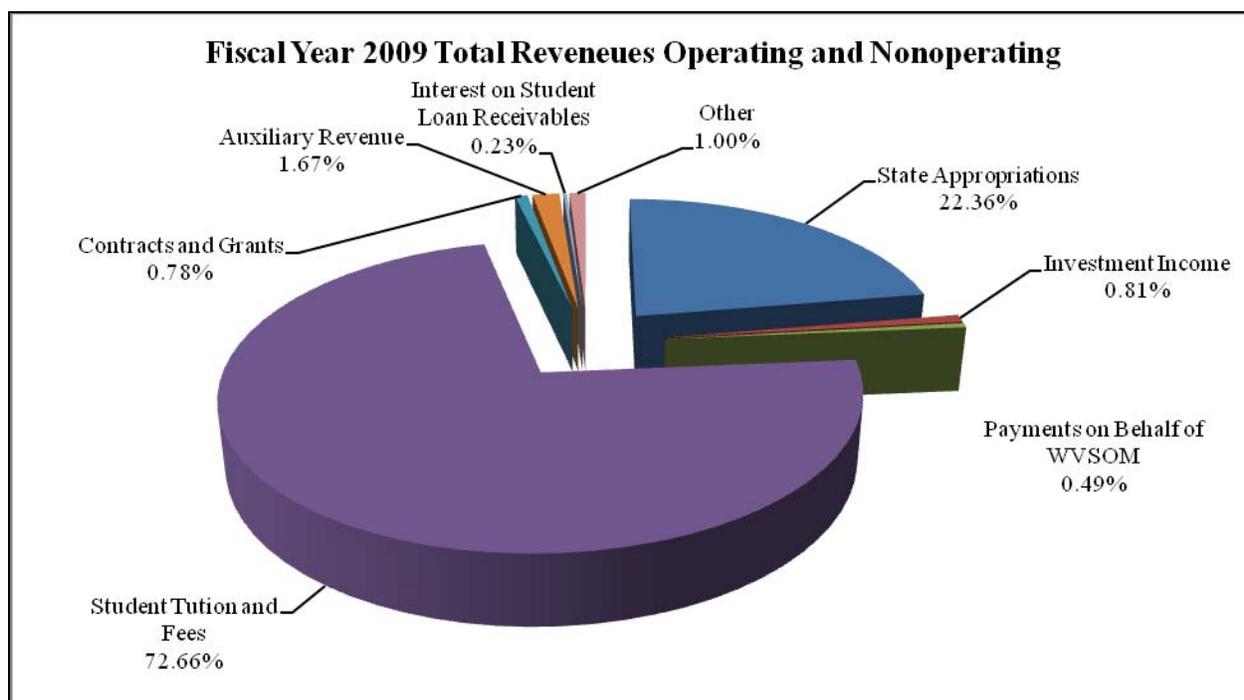
Changes in total net assets, as presented on the Statement of Net Assets, are based on the activities presented in the Statement of Revenues, Expenses and Changes in Net Assets (the "SRECNA"). The purpose of the SRECNA is to present the revenues earned, both operating and nonoperating, and the expenses incurred, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by WVSOM.

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. 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 WVSOM mission. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to WVSOM without the Legislature directly receiving commensurate goods and services for those revenues.

**Revenues, Expenses and Changes in Net Assets
For the Years Ended June 30,
(In thousands of dollars)**

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Operating revenues	\$ 28,336	\$ 23,230	\$ 18,018
Operating expenses	<u>25,210</u>	<u>22,737</u>	<u>20,576</u>
Operating income	3,126	493	(2,558)
Non-operating revenues - net	<u>8,743</u>	<u>8,893</u>	<u>7,925</u>
Income before other revenues, expenses, gains or losses	11,869	9,386	5,367
Other revenues, expenses, gains or losses	<u>-</u>	<u>-</u>	<u>234</u>
Increase in net assets	11,869	9,386	5,601
Net assets, beginning of year	59,994	49,592	43,991
Cumulative effect of adoption of accounting principle	<u>-</u>	<u>1,016</u>	<u>-</u>
Net assets, end of year	<u>\$ 71,863</u>	<u>\$ 59,994</u>	<u>\$ 49,592</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year. A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:

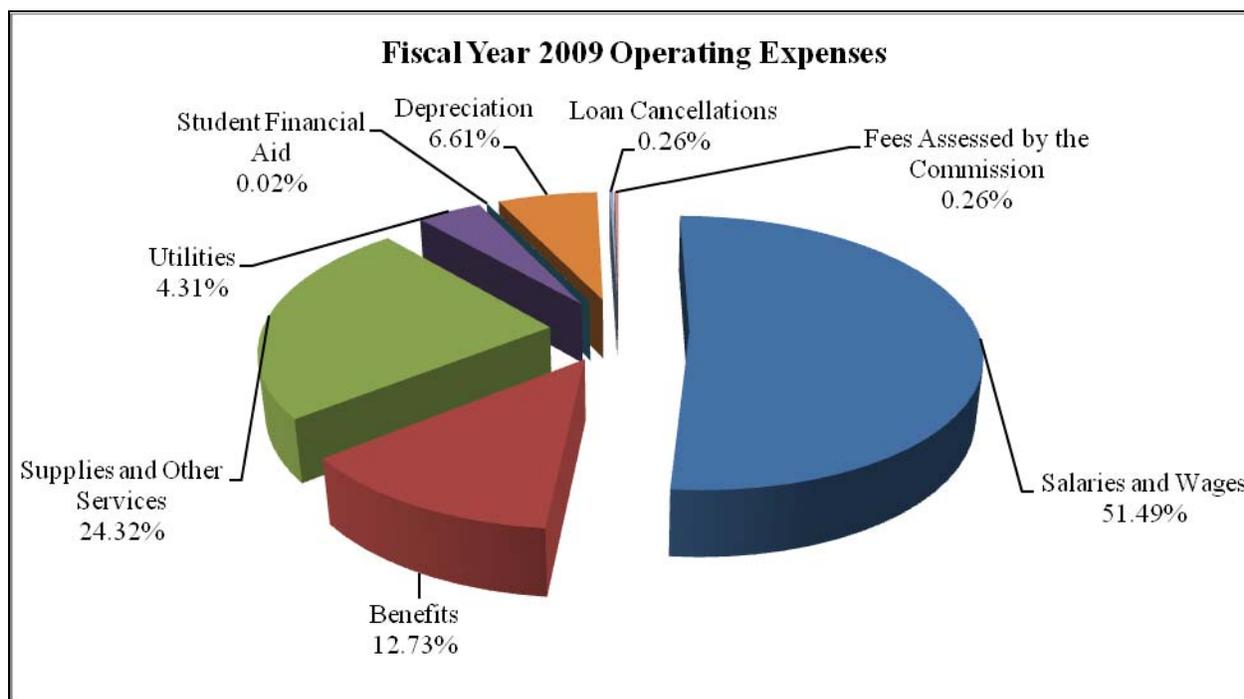


In fiscal year 2009 and 2008, total operating revenues increased respectively approximately \$5.0 million and 5.2 million. The following explain the increase in operating revenues in fiscal year 2009:

- Student tuition and fees (net of scholarship allowance) increased by \$5.1 million and made up 95.2% of WVSOM's operating revenues and, as the pie chart shows, 72.7% of total revenues. Tuition and fee revenues increased over the previous year because WVSOM increased its entering class size by 100 students making the new entering class size 200 and both resident and non-resident enrollment fees were increased by 3%.
- Other operating revenues such as noncapital grants and contracts, auxiliary enterprises and other operating revenues had a net decrease of \$83.7 thousand primarily because funding for state and private grants with the WVU Research Corporation expired on August 31, 2008. These other operating revenue sources comprise 4.8% of WVSOM's operating revenues and 27.3% of total revenues.

In fiscal year 2009, nonoperating revenues decreased by approximately \$129 thousand, compared to an increase of approximately \$969 thousand in fiscal year 2008. The decrease in fiscal year 2009 was primarily the result of the following: an decrease in investment income of \$427 thousand due to the economic impact of the investment markets and a decrease of payments for OPEB liability of \$127 thousand dollars from a legislative appropriation to PEIA on behalf of WVSOM for our employees paid from the general revenue fund. State appropriations accounted for 22.3% of total revenues and were used to support the operations of WVSOM. Investment income made up a relatively small piece of the nonoperating revenues and was slightly less than .81% of total operating and nonoperating revenues in fiscal year 2009. WVSOM participates in the investment pool managed by the State.

WVSOM had no other revenues, expenses, gains or losses, which consist of capital grants, gifts, and projects, in either fiscal year 2009 or fiscal year 2008. In fiscal year 2009, net assets increased approximately \$11.9 million while in fiscal year 2008 the increase was \$10.4 million.



Total operating expenses for fiscal year 2009 increased by approximately \$2.5 million, compared with an increase of approximately of \$2.2 million in fiscal year 2008. The increases in fiscal year 2009 and 2008 were primarily the result of continuing to prepare for the increased class of 200 students plus the following actions:

- The salaries and wages and employee benefits categories increased by \$1.9 million and made up approximately 64.2% of the operating expenses of WVSOM. A pool of money equal to 3% of the base salaries of all filled faculty, classified, and non-classified positions was made available to distribute to each group of employees. Faculty increases were distributed in accordance with the WVSOM faculty merit plan. Classified staff and non-classified employees received across-the-board increases and classified staff continued to be fully funded on the Mercer Schedule. The recruiting and hiring process to increase faculty and staff positions continued to support the increased class size which began in the fall of 2006. Also, in January 2008, the recruiting and hiring process to staff four statewide campus sites began with the remaining sites to be staffed in FY 2010.
- Supplies and other services decreased by \$150 thousand and accounts for 24.3% of the operating expenses of WVSOM.
- Utility expense had the greatest percentage increase of 53.5% in 2009 by \$378 thousand and accounts for 4.3% of the operating expenses. The increase in utility expenses were the result of the construction and completion of the Clinical Sciences building and the addition to the Founders Activity Center, as well as increased rates. All other expenses make up 7.2% of the total operating expenses as indicated on the pie chart.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating gain reflected in the SRECNA. Overall, cash and cash equivalents increased by approximately \$12.6 million in fiscal year 2009. This increase is primarily due to an increase in student tuition and fee revenue, state appropriations and a reclassification of \$3.5 million from noncurrent cash to complete a capital project. This was a planned increase to allow WVSOM to continue carrying out its 10 year/5 year Facilities Master Plan.

Cash Flows
For the Years Ended June 30,
(In thousands of dollars)

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Cash provided by (used in):			
Operating activities	\$ 6,372	\$ 5,175	\$ (532)
Non capital financing activities	8,261	7,882	7,392
Capital financing activities	(5,854)	(1,702)	(4,970)
Investing activities	<u>3,832</u>	<u>(2,755)</u>	<u>748</u>
Increase in cash and cash equivalents	12,611	8,600	2,638
Cash and cash equivalents, beginning of year	<u>22,219</u>	<u>13,619</u>	<u>10,981</u>
Cash and cash equivalents, end of year	<u>\$ 34,830</u>	<u>\$ 22,219</u>	<u>\$ 13,619</u>

Capital Asset and Debt Administration

WVSOM neared completion of two major infrastructure improvements during fiscal year 2009. A decision was made to defer the project start date of Phase II of the HVAC system upgrade in the Main Building and Building C until 2010. In addition to Phase II of the HVAC system upgrade, WVSOM plans to move forward with the repair or replacement of the HVAC in the “old” sections of the Fredric W. Smith Science Building and the West Virginia School of Osteopathic Medicine Clinic, Inc. aka Robert C. Byrd Clinic, Inc., along with starting the programmatic planning for a Student Center.



As of June 30, 2009 and 2008, WVSOM has no existing capital debt and does not expect to have to incur debt to complete the capital projects planned in fiscal year 2010.



Economic Outlook

Although the State of West Virginia finished the 2008-09 budget year with a small budget surplus, State officials have forecast general and lottery revenues downward for 2009-10 being mindful of the continuing recession. As such, State Agencies received a reduction in their 2009-10 budgets. WVSOM's portion was a three percent reduction in its State General Fund appropriation. It is anticipated that the reduction will be covered by the State Fiscal Stabilization Fund program through the use of American Recovery and Reinvestment Act of 2009 (ARRA) funding.

The School's financial position is closely tied to the financial position of the State of West Virginia and the School is always at risk that State appropriations will be reallocated away from higher education and WVSOM. The State appropriation is a key piece of the School's financial condition and it continues to decline as a percentage of total revenues.

WVSOM's overall financial position continues to remain strong. We feel as if we are well positioned to continue to attract, recruit, and matriculate professional medical students. Increases in the number of applicants (currently running ahead of the previous year), non-resident students, class size, and improvements in the physical plant, along with the continued favorable ranking of academic programs at the national level with peer schools indicate that WVSOM should be able to remain competitive for recruitment of new students. WVSOM once again was acknowledged by the *U.S. News and World Report* in its annual rankings of best graduate schools for 2010 and has WVSOM among the top medical schools (both M.D. and D.O.) nationwide, including rankings in two categories: Primary Care and Family Medicine. This marks the eleventh consecutive year that WVSOM has made the *U.S. News and World Report* rankings.

For the 2009-10 academic year, to maintain cost competitiveness with peer institutions, a tuition decrease of 2.33% for Residents and a 1.18% decrease for Non-residents has been approved by WVSOM's Board of Governors. WVSOM is concerned about the high cost of out of state tuition. WVSOM is ranked 2nd highest in the nation of all osteopathic medical schools in out of state tuition costs. There have also been new medical schools and branches established thus affecting future applicant pools. As such, WVSOM must hold tuition costs at a competitive level to maintain quality.

WVSOM anticipates the 2010 fiscal year will be much like the last and we will continue to maintain a close watch over institutional resources to maintain the School's ability to react to unknown internal and external issues.

Requests for Information

The financial report is designed to provide an overview of the finances of WVSOM for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to West Virginia School of Osteopathic Medicine at 400 North Lee Street, Lewisburg, West Virginia 24901.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 STATEMENTS OF NET ASSETS
 JUNE 30, 2009 AND 2008

13

	<u>2009</u>	<u>2008</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 34,829,507	\$ 22,218,690
Appropriations due from Primary Government	94,006	57,016
Accounts receivable	1,130,456	394,745
Due from Commission	9,339	39,769
Loans to students-current portion	457,986	436,024
Prepaid expenses	85,596	77,594
Inventories	<u>214,979</u>	<u>186,914</u>
Total current assets	<u>36,821,869</u>	<u>23,410,752</u>
Noncurrent assets:		
Cash and cash equivalents	46,000	3,546,000
Loans to students-net of allowance of \$336,860 and \$417,826 in 2009 and 2008, respectively	5,159,526	5,008,993
Capital assets-net	<u>45,595,033</u>	<u>38,635,991</u>
Total noncurrent assets	<u>50,800,559</u>	<u>47,190,984</u>
Total assets	<u>87,622,428</u>	<u>70,601,736</u>
LIABILITIES		
Current liabilities:		
Accounts payable	3,844,471	1,163,293
Due to Commission	6,541	18,620
Accrued liabilities	492,609	449,975
Compensated absences-current portion	651,566	620,170
Deferred revenue	<u>8,170,679</u>	<u>5,990,195</u>
Total current liabilities	<u>13,165,866</u>	<u>8,242,253</u>
Noncurrent liabilities:		
Advances from federal sponsors	1,944,143	1,944,143
Compensated absences	280,927	276,543
Accrued liabilities	<u>367,557</u>	<u>144,303</u>
Total noncurrent liabilities	<u>2,592,627</u>	<u>2,364,989</u>
Total liabilities	<u>15,758,493</u>	<u>10,607,242</u>
NET ASSETS		
Invested in capital assets	<u>45,595,033</u>	<u>38,635,991</u>
Restricted for:		
Expendable:		
Research	260,457	267,462
Loans	4,282,748	4,046,949
Capital projects	<u>956,245</u>	<u>530,836</u>
Total expendable	<u>5,499,450</u>	<u>4,845,247</u>
Nonexpendable	<u>46,000</u>	<u>46,000</u>
Unrestricted	<u>20,723,452</u>	<u>16,467,256</u>
Total net assets	<u>\$ 71,863,935</u>	<u>\$ 59,994,494</u>

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

14

	<u>2009</u>	<u>2008</u>
Assets:		
Cash and cash equivalents	\$ 262,474	\$ 151,593
Accounts receivable, net of allowance of \$0	6,870	2,999
Loans receivable, net of allowance of \$0	15,930	15,960
Restricted cash equivalent	62,855	86,230
Restricted investments	18,800	20,632
Investments in community foundation	189,297	224,284
Building, equipment, and vehicles, net of accumulated depreciation of \$664,776 and \$606,763, in 2009 and 2008, respectively	1,648,523	1,728,536
Total assets	\$ 2,204,749	\$ 2,230,234
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 281	\$ 26,867
Accrued expenses	9,000	9,000
Custodial liabilities	128,619	131,769
Total liabilities	137,900	167,636
Net assets:		
Permanently restricted	288,584	265,899
Temporarily restricted	10,746	7,520
Unrestricted	1,767,519	1,789,179
Total net assets	2,066,849	2,062,598
Total liabilities and net assets	\$ 2,204,749	\$ 2,230,234

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2009 AND 2008

	<u>2009</u>	<u>2008</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowance of \$1,260,184 and \$850,682 in 2009 and 2008, respectively	\$ 26,972,363	\$ 21,782,179
Contracts and grants:		
Federal	71,665	69,274
State	85,043	108,718
Private	132,534	316,873
Interest on student loans receivable	85,441	90,486
Auxiliary enterprise revenue	619,570	660,009
Miscellaneous-net	<u>369,829</u>	<u>202,432</u>
Total operating revenues	<u>28,336,445</u>	<u>23,229,971</u>
Operating expenses:		
Salaries and wages	12,980,962	11,183,731
Benefits	3,209,385	3,083,300
Supplies and other services	6,132,091	6,282,866
Utilities	1,086,279	707,549
Student financial aid-scholarships and fellowships	4,000	4,750
Depreciation	1,667,310	1,335,600
Loan cancellations and write-offs	65,663	81,974
Fees assessed by the Commission for operations	<u>64,500</u>	<u>56,960</u>
Total operating expenses	<u>25,210,190</u>	<u>22,736,730</u>
Operating income	<u>3,126,255</u>	<u>493,241</u>
Nonoperating revenues (expenses):		
State appropriations	8,298,325	7,872,684
Payments on behalf of WVSOM	182,014	309,097
Investment income	301,094	728,736
Loss on disposal of capital assets	<u>(38,247)</u>	<u>(16,983)</u>
Net nonoperating revenues	<u>8,743,186</u>	<u>8,893,534</u>
Increase in net assets	<u>11,869,441</u>	<u>9,386,775</u>
Net assets-beginning of year	59,994,494	49,591,749
Cumulative effect of adoption of accounting principle	<u>-</u>	<u>1,015,970</u>
Net assets-beginning of year as adjusted	<u>59,994,494</u>	<u>50,607,719</u>
Net assets-end of year	<u>\$ 71,863,935</u>	<u>\$ 59,994,494</u>

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2009

16

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public support and revenue</u>				
Contributed services and operational expense revenue	\$ 476,293	\$ -	\$ -	\$ 476,293
Contributions	91,325	5,536	22,212	119,073
Continuing education revenue	115,649	-	-	115,649
Facility rental and function revenue	58,333	-	-	58,333
Investment revenue (losses and expenses)				
Interest and dividends	409	5,596	473	6,478
Realized losses	-	(6,107)	-	(6,107)
Unrealized losses	-	(44,565)	-	(44,565)
Bank and administrative fees	-	(2,460)	-	(2,460)
Other revenue	<u>2,046</u>	<u>-</u>	<u>-</u>	<u>2,046</u>
Total public support and revenue	<u>744,055</u>	<u>(42,000)</u>	<u>22,685</u>	<u>724,740</u>
<u>Expenses</u>				
Program services	432,653	8,950	-	441,603
Management and general	117,422	-	-	117,422
Fundraising	<u>161,464</u>	<u>-</u>	<u>-</u>	<u>161,464</u>
Total expenses	<u>711,539</u>	<u>8,950</u>	<u>-</u>	<u>720,489</u>
Excess of (expenses over public support and revenue) public support and revenue over expenses	32,516	(50,950)	22,685	4,251
Transfers from (to) other funds	<u>(54,176)</u>	<u>54,176</u>	<u>-</u>	<u>-</u>
(Decrease) increase in net assets	(21,660)	3,226	22,685	4,251
Net assets, beginning of year	<u>1,789,179</u>	<u>7,520</u>	<u>265,899</u>	<u>2,062,598</u>
Net assets, end of year	<u>\$ 1,767,519</u>	<u>\$ 10,746</u>	<u>\$ 288,584</u>	<u>\$ 2,066,849</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2008

17

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public support and revenue</u>				
Contributed services and operational expense revenue	\$ 422,425	\$ -	\$ -	\$ 422,425
Contributions	80,034	3,499	59,209	142,742
Continuing education revenue	118,494	-	-	118,494
Facility rental and function revenue	47,236	-	-	47,236
Loss on sale of real estate	1,356	(10,513)	406	(8,751)
Investment revenue	496	-	-	496
Other revenue	<u>670,041</u>	<u>(7,014)</u>	<u>59,615</u>	<u>722,642</u>
Total public support and revenue				
<u>Expenses</u>				
Program services	435,789	8,343	1,000	445,132
Management and general	90,279	-	-	90,279
Fundraising	<u>110,148</u>	<u>-</u>	<u>-</u>	<u>110,148</u>
Total expenses	<u>636,216</u>	<u>8,343</u>	<u>1,000</u>	<u>645,559</u>
Excess of (expenses over public support and revenue) public support and revenue over expenses	33,825	(15,357)	58,615	77,083
Transfers from (to) other funds	<u>(16,356)</u>	<u>16,356</u>	<u>-</u>	<u>-</u>
Increase in net assets	17,469	999	58,615	77,083
Net assets, beginning of year	<u>1,771,710</u>	<u>6,521</u>	<u>207,284</u>	<u>1,985,515</u>
Net assets, end of year	<u>\$ 1,789,179</u>	<u>\$ 7,520</u>	<u>\$ 265,899</u>	<u>\$ 2,062,598</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2009 AND 2008

18

	<u>2009</u>	<u>2008</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 28,320,016	\$ 24,176,329
Contracts and grants	341,177	505,533
Payments to and on behalf of employees	(15,706,665)	(13,684,969)
Payments to suppliers	(6,351,438)	(5,894,277)
Payments to utilities	(1,054,740)	(751,854)
Payments for scholarships and fellowships	(4,000)	(4,750)
Loans issued to students	(724,600)	(776,122)
Collection of loans to students	485,057	508,053
Auxiliary enterprise charges	601,270	656,677
Operation service assessed by Commission	(64,500)	(56,960)
Other receipts-net	<u>530,634</u>	<u>498,213</u>
Net cash provided by operating activities	<u>6,372,211</u>	<u>5,175,873</u>
Cash flows from noncapital financing activities:		
State appropriations	8,261,335	7,881,528
Federal Stafford loan program direct lending receipts	25,284,617	21,539,205
Federal Stafford loan program direct lending payments	<u>(25,284,617)</u>	<u>(21,539,205)</u>
Net cash provided by noncapital financing activities	<u>8,261,335</u>	<u>7,881,528</u>
Cash flows from capital financing activities:		
Purchases of capital assets	<u>(5,854,253)</u>	<u>(1,702,682)</u>
Net cash used in capital financing activities	<u>(5,854,253)</u>	<u>(1,702,682)</u>
Cash flows from investing activities:		
Interest on investments	331,524	744,807
Withdrawals from (deposits to) noncurrent cash and cash equivalents	<u>3,500,000</u>	<u>(3,500,000)</u>
Net cash provided by investing activities	<u>3,831,524</u>	<u>(2,755,193)</u>
Net increase in cash and cash equivalents	12,610,817	8,599,526
Cash and cash equivalents-beginning of year	<u>22,218,690</u>	<u>13,619,164</u>
Cash and cash equivalents-end of year	<u>\$ 34,829,507</u>	<u>\$ 22,218,690</u>
Reconciliation of operating income to net cash used in operating activities:		
Operating income	\$ 3,126,255	\$ 493,241
Adjustments to reconcile net operating income to net cash used in operating activities:		
Depreciation expense	1,667,310	1,335,600
Payments paid on behalf of WVSOM	182,014	309,097
Loan cancellations and write-offs	65,663	81,974
Changes in assets and liabilities:		
Accounts receivable	(735,712)	(48,229)
Loans to students	(172,494)	(189,458)
Prepaid expenses	(8,002)	(8,296)
Inventories	(28,065)	35,735
Accounts payable	(206,910)	506,812
Accrued liabilities	265,888	282,978
Compensated absences	35,780	(15,072)
Deferred revenue	<u>2,180,484</u>	<u>2,391,491</u>
Net cash provided by operating activities	<u>\$ 6,372,211</u>	<u>\$ 5,175,873</u>
Significant noncash transactions		
Cumulative effect of adoption of accounting principle	<u>\$ -</u>	<u>\$ 1,015,970</u>
Noncash payment on behalf of WVSOM	<u>\$ 182,014</u>	<u>\$ 309,097</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

NOTE 1. ORGANIZATION

The West Virginia School of Osteopathic Medicine (“WVSOM”) is governed by the West Virginia School of Osteopathic Medicine 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 institutions 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WVSOM have been prepared in accordance with accounting principles generally accepted in the United States of America 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 of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statement Nos. 34 and No. 35 provides a comprehensive, entity-wide perspective of WVSOM’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

WVSOM 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 - WVSOM is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. WVSOM is a separate entity which, along with all State institutions of higher education, the West Virginia Council of Community and Technical Colleges, and the Commission (which includes West Virginia Network for Educational Telecomputing), 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.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The accompanying financial statements present all funds under the authority of WVSOM. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM's ability to significantly influence operations and accountability for fiscal matters of related entities. The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the Foundation), The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the Clinic), and the Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI), a consortium, are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM 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, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14. As a result, the audited financial statements of the Foundation are presented here with WVSOM's financial statements for the fiscal years ended June 30, 2009 and 2008. The Foundation is a private non-profit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organization*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 12, 13 and 15).

Newly Adopted Statements Issued by the GASB - During 2009, the West Virginia School of Osteopathic Medicine adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, as required. The adoption of this statement had no significant 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. WVSOM adopted GASB Statement No. 55 upon issuance. The adoption of this statement had no significant impact on the financial statements.

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. WVSOM adopted GASB Statement No. 56 upon issuance. The adoption of this statement had no significant impact on the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation - GASB Statement No. 35, and No. 38, establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on such basis to focus on WVSOM as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of WVSOM obligations. WVSOM's net assets are classified as follows:

- *Invested In Capital Assets, net of related debt* - This represents WVSOM's total investment in capital assets, net of 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 investment in capital assets, net of related debt.
- *Restricted Net Assets, Expendable* - These include resources for which WVSOM 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 State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted Net Assets, Nonexpendable* - These include 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.
- *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 WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments ("BTI"). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. 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 State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund which consists of eight investment pools and participant-directed accounts (seven in 2008), three of which WVSOM 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 respective annual report. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, West Virginia 25301 or <http://www.wvbt.com>.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature and any other program investments authorized by the legislature.

Appropriations Due from Primary Government - For financial reporting purposes, appropriations due from the State are presented separately from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

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

Inventories - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Noncurrent Cash and Cash Equivalents - Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted, is classified as a noncurrent asset in the statement of net assets.

Current and Noncurrent Assets and Liabilities - Current assets are expected to be converted to cash, sold, or consumed in the next year or less. Current liabilities are debts that are expected to be paid with cash, goods, or services in the next year or less. Noncurrent assets and liabilities are all other assets and liabilities that are not expected to be extinguished in the next year.

Capital Assets - Capital assets include property, plant and equipment, and books and materials that are part of a catalogued library. 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, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 5 to 12 years for furniture and equipment. WVSOM's capitalization thresholds are \$15,000 for land and building improvement, \$5,000 for equipment, and \$150 for library books. There was no interest capitalized during 2009 and 2008. The accompanying combined financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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 and fees. Financial aid and other deposits are separately classified as deposits.

Compensated Absences and Other Post Employment Benefits - Effective July 1, 2007, WVSOM 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, WVSOM 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. The Plan provides the following retiree group insurance coverage to participants: medical and prescription drug coverage through a self-insured preferred provider benefit (PPB) plan and through external managed care organizations (MCOs), basic group life, accidental death, and prescription drug coverage for retired employees of the State and various related State and non-State agencies and their dependents. 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>.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WVSOM'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 $\frac{1}{3}$ 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, property and casualty, and medical malpractice liability coverage to WVSOM and its employees. Such coverage may be provided to WVSOM 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 WVSOM or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVSOM is currently charged by BRIM and the ultimate cost of that insurance based on WVSOM's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVSOM and WVSOM's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

West Virginia has a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies began to offer coverage to private-sector employers beginning July 1, 2008 and to government employers beginning July 1, 2012. Nearly every employer in the State, who has a payroll must have coverage. The cost of all coverage is paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues - WVSOM has classified its revenues according to the following criteria:

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, WVSOM 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, WVSOM has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

- ***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) sales and services of educational activities.
- ***Nonoperating Revenues*** - Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB 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 - WVSOM 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, WVSOM attempts to utilize restricted net assets first, when practicable.

Federal Financial Assistance Programs - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program. The activity of this program is not recorded in the accompanying financial statements. WVSOM has awarded \$25,284,617 and \$21,539,205 in 2009 and 2008, respectively, under the Federal Stafford Loan Program from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2009 and 2008, WVSOM received and disbursed \$316,315 and \$382,515, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by WVSOM, and the amount that is paid by students and/or third parties making payments on the student's behalf.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 Stafford Loan Program 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 school 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.

Government Grants and Contracts - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVSOM 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.

Income Taxes - WVSOM is exempt from income taxes, except for unrelated business income, as a governmental instrumentality under federal income tax laws and regulations of the Internal Revenue Service as described in Section 115 of the Internal Revenue Code.

Cash Flows - Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the statement 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 expenses during the reporting period. Actual results could differ from those estimates.

Risk and Uncertainties - Investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

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. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

NOTE 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30:

	<u>2009</u>	<u>2008</u>
Cash on deposit with the State Treasurer/BTI	\$ 34,269,945	\$ 25,095,490
Cash in bank	602,587	663,126
Cash on hand	<u>2,975</u>	<u>6,074</u>
	<u>\$ 34,875,507</u>	<u>\$ 25,764,690</u>

Cash held by the State Treasurer includes \$1,645,390 in 2009 and \$1,141,550 in 2008 of restricted cash.

The combined carrying amounts of cash in bank at June 30, 2009 and 2008 were \$602,587 and \$663,126, respectively, as compared with the combined bank balances of \$554,083 and \$4,784,259, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances at June 30, 2009 and 2008 were covered by federal depository insurance or were collateralized by securities held by the State's agent.

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

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

WV Money Market Pool

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. 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 WVSOM's ownership represents 1.20% and 0.81%, respectively.

WV Government Money Market Pool

Credit Risk — For the years ended June 30, 2009 and 2008, the WV Government 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 Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2009 and 2008, the WV Government Money Market Pool investments had a total carrying value of \$283,826,000 and \$187,064,000, of which WVSOM's ownership represents 0.09% and 0.10% respectively.

WV Short Term Bond Pool

Credit Risk — 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 Standards & 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):

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Security Type	Credit Rating*		2009		2008	
	Moody's	S&P	Carrying 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.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2009 and 2008, WVSOM's ownership represents 0.18% and 0.45%, respectively, of these amounts held by the BTI.

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.

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 bonds and 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>	47	<u>\$ 2,358,470</u>	40

The overall weighted average maturity of the investments of the WV Government 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 Government Money Market Pool:

Security Type	2009		2008	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 53,000	1	\$ 53,400	1
U.S. Treasury bills	74,424	94	29,929	58
U.S. agency discount notes	87,662	55	43,249	77
U.S. agency bonds/notes	68,608	37	60,420	84
Money market funds	132	1	66	1
	<u>\$ 283,826</u>	51	<u>\$ 187,064</u>	54

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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	<u>6,426</u>	1
	<u>\$ 314,932</u>	691

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	<u>2008</u>	
	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	1,231
U.S. agency mortgage backed securities	5,345	570
Commercial paper	<u>7,971</u>	50
	<u>\$ 353,979</u>	707

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate 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.

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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

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.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2009</u>	<u>2008</u>
Third party student tuition and fees-no allowance deemed necessary	\$ 1,073,772	\$ 238,000
Grants and contracts receivable	27,339	74,274
Other accounts receivable	<u>29,345</u>	<u>82,471</u>
	<u>\$ 1,130,456</u>	<u>\$ 394,745</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 5. CAPITAL ASSETS

The following is a summary of capital asset transactions of WVSOM for the years ended June 30:

	2009			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 636,289	\$ 289,507	\$ -	\$ 925,796
Construction in progress	<u>1,237,596</u>	<u>7,948,623</u>	<u>(8,922,676)</u>	<u>263,543</u>
Total capital assets not being depreciated	<u>\$ 1,873,885</u>	<u>\$ 8,238,130</u>	<u>\$ (8,922,676)</u>	<u>\$ 1,189,339</u>
Other capital assets:				
Land improvements	\$ 1,486,041	\$ 108,834	\$ (77,253)	\$ 1,517,622
Buildings	40,277,132	9,067,134	(173,703)	49,170,563
Equipment	5,336,438	417,386	(259,121)	5,494,703
Library books	<u>70,801</u>	<u>13,651</u>	<u>-</u>	<u>84,452</u>
Total other capital assets	<u>47,170,412</u>	<u>9,607,005</u>	<u>(510,077)</u>	<u>56,267,340</u>
Less accumulated depreciation for:				
Land improvements	(436,091)	(102,680)	30,681	(508,090)
Buildings	(6,511,798)	(996,121)	1,448	(7,506,471)
Equipment	(3,419,379)	(577,388)	200,997	(3,795,770)
Library books	<u>(41,038)</u>	<u>(10,277)</u>	<u>-</u>	<u>(51,315)</u>
Total accumulated depreciation	<u>(10,408,306)</u>	<u>(1,686,466)</u>	<u>233,126</u>	<u>(11,861,646)</u>
Other capital assets-net	<u>\$ 36,762,106</u>	<u>\$ 7,920,539</u>	<u>\$ (276,951)</u>	<u>\$ 44,405,694</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,873,885	\$ 8,238,130	\$ (8,922,676)	\$ 1,189,339
Other capital assets	<u>47,170,412</u>	<u>9,607,005</u>	<u>(510,077)</u>	<u>56,267,340</u>
Total cost of capital assets	49,044,297	17,845,135	(9,432,753)	57,456,679
Less accumulated depreciation	<u>(10,408,306)</u>	<u>(1,686,466)</u>	<u>233,126</u>	<u>(11,861,646)</u>
Capital assets-net	<u>\$ 38,635,991</u>	<u>\$16,158,669</u>	<u>\$ (9,199,627)</u>	<u>\$ 45,595,033</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 5. CAPITAL ASSETS (Continued)

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 636,289	\$ -	\$ -	\$ 636,289
Construction in progress	<u>-</u>	<u>1,237,596</u>	<u>-</u>	<u>1,237,596</u>
Total capital assets not being depreciated	<u>\$ 636,289</u>	<u>\$ 1,237,596</u>	<u>\$ -</u>	<u>\$ 1,873,885</u>
Other capital assets:				
Land improvements	\$ 1,486,821	\$ 406	\$ (1,186)	\$ 1,486,041
Buildings	40,155,724	133,936	(12,528)	40,277,132
Equipment	5,113,599	455,858	(233,019)	5,336,438
Library books	<u>143,475</u>	<u>25,749</u>	<u>(98,423)</u>	<u>70,801</u>
Total other capital assets	<u>46,899,619</u>	<u>615,949</u>	<u>(345,156)</u>	<u>47,170,412</u>
Less accumulated depreciation for:				
Land improvements	(336,848)	(99,243)	-	(436,091)
Buildings	(5,582,780)	(929,018)	-	(6,511,798)
Equipment	(3,446,188)	(189,226)	216,035	(3,419,379)
Library books	<u>(21,348)</u>	<u>(118,113)</u>	<u>98,423</u>	<u>(41,038)</u>
Total accumulated depreciation	<u>(9,387,164)</u>	<u>(1,335,600)</u>	<u>314,458</u>	<u>(10,408,306)</u>
Other capital assets-net	<u>\$ 37,512,455</u>	<u>\$ (719,651)</u>	<u>\$ (30,698)</u>	<u>\$ 36,762,106</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 636,289	\$ 1,237,596	\$ -	\$ 1,873,885
Other capital assets	<u>46,899,619</u>	<u>615,949</u>	<u>(345,156)</u>	<u>47,170,412</u>
Total cost of capital assets	47,535,908	1,853,545	(345,156)	49,044,297
Less accumulated depreciation	<u>(9,387,164)</u>	<u>(1,335,600)</u>	<u>314,458</u>	<u>(10,408,306)</u>
Capital assets-net	<u>\$ 38,148,744</u>	<u>\$ 517,945</u>	<u>\$ (30,698)</u>	<u>\$ 38,635,991</u>

WVSOM maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. 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.

At June 30, 2009, WVSOM had outstanding contractual commitments of \$3,126,339 for property, plant, and equipment expenditures.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of WVSOM for the years ended June 30:

	2009				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 896,713	\$ 35,780	\$ -	\$ 932,493	\$ 651,566
Noncurrent accrued liability (OPEB)	144,303	223,254	-	367,557	-
Advances from federal sponsors	<u>1,944,143</u>	<u>-</u>	<u>-</u>	<u>1,944,143</u>	<u>-</u>
Total long-term liabilities	<u>\$ 2,985,159</u>	<u>\$ 259,034</u>	<u>\$ -</u>	<u>\$ 3,244,193</u>	<u>\$ 651,566</u>
	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Accrued compensated absences	\$ 1,927,755	\$ -	\$ 1,031,042	\$ 896,713	\$ 620,170
Noncurrent accrued liability (OPEB)	-	144,303	-	144,303	-
Advances from federal sponsors	<u>1,944,143</u>	<u>-</u>	<u>-</u>	<u>1,944,143</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,871,898</u>	<u>\$ 144,303</u>	<u>\$ 1,031,042</u>	<u>\$ 2,985,159</u>	<u>\$ 620,170</u>

NOTE 7. 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 costs was \$367,557 and \$144,303, respectively. For the year ended June 30, 2008, WVSOM recorded a cumulative effect of the adoption of this accounting principle of \$1,015,970, 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 was \$795,442 and \$52,745, respectively, during 2009 and \$453,400 and \$56,860, respectively, during 2008. As of the year ended June 30, 2009, there were 26 retirees receiving these benefits, respectively.

NOTE 8. LEASES

WVSOM leases various equipment under agreements reported as operating leases. The WVSOM has no noncancelable leases. As of June 30, 2009, the future annual minimum lease payments are as follows:

2010	\$ 71,481
2011	52,966
2012	<u>17,972</u>
	<u>\$ 142,419</u>

The total rent expense for this equipment for the years ended June 30, 2009 and 2008 was \$89,186 and \$63,937 respectively.

NOTE 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVSOM receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM'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 colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (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 has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System (the "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. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2009 and 2008.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State of West Virginia. WVSOM was approved to receive \$4.0 million of these funds to assist in financing the Center for Technology and Rural Medicine. State lottery funds will be used to repay the debt, although WVSOM revenues are pledged if lottery funds prove insufficient. As of June 30, 2007, WVSOM had drawn and expended the \$4.0 million of available bond funds.

NOTE 10. UNRESTRICTED NET ASSETS

WVSOM unrestricted net assets include certain designated net assets as follows:

	<u>2009</u>	<u>2008</u>
Designated for auxiliaries	\$ 340,639	\$ 287,447
Undesignated	<u>20,382,813</u>	<u>16,179,809</u>
Total unrestricted net assets	<u>\$ 20,723,452</u>	<u>\$ 16,467,256</u>

NOTE 11. RETIREMENT PLANS

Substantially, all full-time employees of WVSOM participate in either the West Virginia State Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. 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 WVSOM 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. As of June 30, 2009, no employees were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. WVSOM accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for the years ended June 30, 2009 and 2008. Required employee contributions were at the rate of six percent of total annual salary for the years ended June 30, 2009 and 2008. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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. Annual pension benefits are based upon two percent of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the year ended June 30, 2009 were \$25,779, which consisted of \$18,414 from WVSOM and \$7,366 from covered employees. Total contributions to STRS for the year ended June 30, 2008 were \$67,288, which consisted of \$48,063 from WVSOM and \$19,225 from covered employees. Total contributions to STRS for the year ended June 30, 2007 were \$65,223, which consisted of \$46,588 from WVSOM and \$18,635 from covered employees.

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 WVSOM. 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, West Virginia 25305.

The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6 percent of total annual compensation. WVSOM matches the employees' six percent contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by WVSOM.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

38

NOTE 11. RETIREMENT PLANS (Continued)

Total contributions to the TIAA-CREF for the years ended June 30, 2009, 2008, and 2007 were \$1,347,110, \$1,238,522, and \$1,158,452, respectively, which consisted of equal contributions from WVSOM and covered employees of \$673,555, \$619,261, and \$579,226, in 2009, 2008, and 2007, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2009 and 2008 was \$11,616,009 and \$9,124,461, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$122,761 and \$11,493,248 in 2009, and 320,418 and \$8,804,044 in 2008, respectively.

NOTE 12. FOUNDATION

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. 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. Although WVSOM does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of WVSOM by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, WVSOM, the Foundation is considered a component unit of WVSOM and therefore, is discretely presented in accordance with GASB Statement No. 39. Complete financial statements of the Foundation can be obtained by writing to 400 North Lee Street, Lewisburg, West Virginia 24901.

Gifts, grants, pledges, bequests and other revenue contributed to the Foundation totaled \$119,073 and \$142,742 for the years ended June 30, 2009 and 2008, respectively.

WVSOM provided direct financial support of \$476,293 and \$422,425 for the years ended June 30, 2009 and 2008, respectively.

NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED)

The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the "Clinic") operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy, and maintains fiscal accountability over the financial affairs of the Clinic. The financial statements of the Clinic are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB Statement No. 39.

NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED) (Continued)

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic under which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2009 and 2008, the amount paid by WVSOM for instruction, office expenses, and equipment rental totaled approximately \$450,000 and approximately \$450,000, respectively. WVSOM made payments totaling approximately \$70,000 and approximately \$65,000 for the years ended June 30, 2009 and 2008, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are not publicly available.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. ("MSOPTI") is a consortium formed in 1998 through affiliation agreements between WVSOM and partner hospitals in the States of West Virginia and Ohio which provides post graduate clinical training to osteopathic interns and residents. The affiliation agreements with MSOPTI are renewed annually through contracts executed between each hospital, WVSOM and MSOPTI. As of June 30, 2009 MSOPTI had affiliation agreements with nine hospitals that were considered to be Full Partners. Full Partners have active AOA accredited training programs and pay full membership dues. Additionally, MSOPTI had one Associate Partner at June 30, 2009 that paid partial membership dues. Lastly, there were three hospitals considered Associates/Affiliates of MSOPTI meaning that they paid no membership dues at June 30, 2009. Only the Full Partners have voting privileges on the MSOPTI Board of Directors.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate 501(c)(3) non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Board of Directors, as specified in the MSOPTI by-laws, which is made up of three members from WVSOM and one member from each of the nine full partner hospitals. In carrying out its responsibilities, the Board of Directors of MSOPTI directs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For the years ended June 30, 2009 and 2008, WVSOM contributed \$50,000 and \$50,000, respectively, to MSOPTI. In addition, WVSOM incurred \$132,473 and \$124,431 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2009 and 2008, respectively.

NOTE 14. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against educational institutions 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 WVSOM would not impact seriously on the financial status of the institution.

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. WVSOM's management believes that disallowances, if any, will not have a significant financial impact on WVSOM's financial position.

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state, or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM 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 conditions become known. WVSOM 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.

NOTE 15. COMPONENT UNIT'S DISCLOSURES

On the following pages are the notes taken directly from the audited financial statements of the Foundation:

Note 1 — Description of the Organization

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (“**the Organization**”) is a non-profit West Virginia corporation organized to promote educational and fraternal opportunities for current students and alumni of the West Virginia School of Osteopathic Medicine (“**WVSOM**”), located in Lewisburg, West Virginia. The mission statement of the Organization states, “The mission of the Organization is to serve WVSOM, its faculty, students and alumni as an additional financing source through fundraising, managing funds, and overseeing the distribution of these funds.” The Organization accomplishes this by engaging in the following principal activities:

- Rental of and services provided at a conference/meeting facility located on the campus of WVSOM.
- Providing continuing education conference opportunities.
- Solicitation of restricted and unrestricted charitable contributions.
- Investment of available liquid assets.
- Awarding to qualified students, faculty or staff of WVSOM certain grants or scholarships.

Note 2 — Summary of Significant Accounting Policies

Basis of Accounting

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation

The Organization has implemented the financial statement presentation required by the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted.

Use of Estimates

The preparation of financial statements in conformity 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 and will likely differ from those estimates.

Cash and cash equivalents

Cash and equivalents include cash, demand deposits with a financial institution and other short-term investments with original maturities of three months or less.

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

Note 2 — Summary of Significant Accounting Policies (continued)

Pledges Receivable

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. There were no pledges receivable as of June 30, 2009 and 2008.

Loans Receivable

Loans receivable amounting to \$15,930 and \$15,960 at June 30, 2009 and 2008 respectively, represent loans made to current students, faculty and staff of WVSOM which are payable within 90 days of their issuance and accrue interest at the rate of 6 percent per annum. If the loans remain unpaid in excess of 90 days, the rate of interest payable on the loan increases to 10 percent per annum. These majority of these loans are typically made in order to provide certain students with a “funding bridge” until such time as their respective long-term tuition or other living expenses funding becomes available. No interest accrual has been reflected in the accompanying financial statements as it is undeterminable as to the ultimate amount collectible.

Beneficial Interest in Assets Held by Community Foundation

The Organization has placed with the Greater Kanawha Valley Foundation (“GKVF”) certain restricted assets in the form of a “Donor Designated Sub-Fund Agreements” (“the Agreements”). The substance of these agreements provides for the income resulting from the investment of the assets to be paid back to the Organization. It further provides for the Organization to have at its discretion the ability to invade 100% of the principal (corpus) placed with GKVF. Notwithstanding this, GKVF does have variance power with respect to these funds whereby the Board of GKVF by majority vote has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations, if in the sole judgment of this Board (without the approval of any trustee, custodian or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with charitable needs of the area served by the GKVF.

The financial statement presentation is determined by Statement of Financial Accounting Standard No. 136, Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others. It requires that if a community foundation accepts a contribution from an Agency and agrees to transfer those assets, the return on investment of those assets or both back to the Agency, then these contributions are presented as an asset in financial statements of the agency (in this case the Organization). Accordingly, the value of the assets held by GKVF as of June 30, 2009 is presented in the accompanying statement of financial position in the amount of \$189,297.

A condensed statement of financial position as of December 31, 2008 (the most recent audited financial statements) of GKVF is as follows:

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2009 AND 2008

Note 2 — Summary of Significant Accounting Policies (continued)

Beneficial Interest in Assets Held by Community Foundation (continued)

Assets

Cash and equivalents	\$ 629,223
Investments, at market value	103,085,329
Receivables	1,259,471
Property and equipment, net	21,886
Other assets	239,722
Total Assets	\$ 105,235,631

Liabilities and Net Assets

Organization endowment funds held for others	\$ 4,135,622
Grants payable	2,281,711
Notes payable	6,996
Deferred revenue	66,115
Accounts payable	987
Net assets	98,744,200
Total Liabilities and Net Assets	\$ 105,235,631

As of December 31, 2008, the most recent audited financial statements of GKVF reflect total investment assets, at market value and cost or donated value of \$103,085,329 and \$133,976,613, respectively. Comprised of the following:

	Market Value	Cost or Donated Value	Net Unrealized (Loss) Gain
Corporate stocks	\$ 244,576	\$ 252,701	\$ (8,125)
Mutual funds	182,646	226,221	(43,575)
Money market funds	6,573,684	6,573,684	-
US core equities	23,781,069	39,751,233	(15,970,164)
US mid/small growth equities	4,450,439	6,425,438	(1,974,999)
US mid/small value equities	5,149,030	6,635,666	(1,486,636)
International core equities	18,758,891	24,647,804	(5,888,913)
Alternative	17,552,143	17,277,333	274,810
Fixed income	16,469,385	18,204,473	(1,735,088)
Real assets	9,923,466	13,982,060	(4,058,594)
	\$ 103,085,329	\$ 133,976,613	\$ (30,891,284)

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

Note 2 — Summary of Significant Accounting Policies (continued)

Building and Equipment

Building, equipment and vehicles are carried at cost, or if donated, at estimated fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful life of the respective assets ranging from five to forty years using the straight-line method. The significant components of recorded value of these assets are as follows at June 30:

<u>Description</u>	<u>2009</u>	<u>2008</u>
Building	\$ 2,285,211	\$ 2,285,211
Equipment	28,088	28,088
Vehicles	-	22,000
	<hr/>	<hr/>
Total Cost or Donated Value	\$ 2,313,299	\$ 2,335,299
Less Accumulated Depreciation	(664,776)	(606,763)
	<hr/>	<hr/>
Building and Equipment, Net	<u>\$ 1,648,523</u>	<u>\$ 1,728,536</u>

Restricted and Unrestricted Revenue and Support

The Organization follows SFAS No. 11, Accounting for Contributions Received and Contributions Made. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when as stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets utilized for the specified purpose are accordingly reflected as expenses in the accompanying statement of activities.

Donated Goods, Facilities and Services

Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received as donations revenues with a corresponding expense.

Income Taxes

There is no provision for federal or state income taxes on income since the Organization is and exempt nonprofit association under Internal Revenue Code Section 501(c)(3). Management believes there is no unrelated business taxable income associated with the Organization.

Economic Geographic and Other Dependencies

The Organization generates a significant amount of its support and revenue (including fundraising activities) from the state of West Virginia. Its economy is largely dependent upon the mineral extraction (coal), timbering, farming, and recreation/resort industries. Changes in economies of these industries could significantly influence the Organization's ability to provide its services.

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

Note 2 — Summary of Significant Accounting Policies (continued)

The Organization is also dependent upon significant amounts of support in the form of salaries, wages and employee benefits and other operating costs provided by WVSOM. The ability or desire of WVSOM to continue to provide this support could significantly influence the Organization's ability to provide its services (See Note 4).

Functional Expenses

The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among program services and supporting services benefited.

Restricted Cash Equivalent and Investment

Restricted cash equivalent and investment amounting to \$62,855 and \$18,800, respectively at June 30, 2009 and \$86,230 and \$20,632, respectively at June 30, 2008 are restricted for the sole usage of the WVSOM Alumni Association. The restricted investment represents Xerox Corporation Medium Term Notes with a maturity date of April 1, 2016 and bearing a 7.2 percent interest rate.

Custodial Liabilities

Custodial liabilities represent funds held in trust and disbursed at the discretion various WVSOM student, faculty, alumni organizations. These liabilities amounted to \$128,619 and \$131,769 at June 30, 2009 and 2008, respectively.

Compensated Absences

Compensated absences are not provided for in the accompanying statement of financial position as WVSOM provides all compensation and benefits for employees who serve/operate the Organization (See Note 4).

Note 3 — Short-Term Note Payable

The Organization has a line of credit note payable with a commercial bank. The line has available borrowings of \$150,000 and there were no borrowings against this at June 30, 2009. Any outstanding balance accrues interest at the rate of 6.00%. This line is available through July 29, 2009.

Note 4 — Related Party Transactions

WVSOM provides a land lease and right of way to the land on which the Organization's building is situated. This is provided under the terms of lease/right-of-way agreement dated May 24, 1994. The agreement provides for the leasing of approximately 1.4 acres on the campus of WVSOM until June 17, 2092. The lease payment due each year is one dollar. The value of this arrangement has not been recorded in the accompanying financial statements, as there is no objective basis to determine its value.

WVSOM also provides furniture, fixtures and equipment which are used in the Organization's building. The value of the usage of these items has not been recorded in the accompanying financial statements, as there is no objective basis to determine the value of their usage.

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

Note 4 — Related Party Transactions (continued)

WVSOM also provides all the pay and employee benefits for the personnel who operate the Organization as well as assistance with certain operating costs. These are recorded as contributed services and operational expenses revenue and applicable expenses in the accompanying statement of activities. The total amount of the services and operating costs provided were \$476,293 and \$422,425 for the years ended June 30, 2009 and 2008, respectively.

Note 5 — Endowments and Transfer of Net Assets Resulting From Underwater Funds

Endowments consist of twelve individual funds established for a variety of specific purposes. Endowments include donor-restricted endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State of West Virginia Uniform Prudent Management of Institutional Funds Act (WVUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by WVUPMIFA. In accordance with WVUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Organization
7. The investment policies of the Organization.

During the year, certain endowment funds that are permanently restricted as to their usage incurred investment losses and payment of scholarship awards or grants that caused the funds to infringe upon the original corpus of the fund (“underwater funds”) (defined as being the accumulated contributions to these permanently restricted funds). In accordance with Financial Accounting Standards Board Staff Position, “FAS-117, Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosure”, transfers of net assets sufficient to restore these funds to their original corpus are made from the unrestricted net asset classification. This reclassification of net assets for the year ended June 30, 2009 amounting to \$54,176 is presented in the accompanying statements of activities, and changes in net assets.

Note 5 — Endowments and Transfer of Net Assets Resulting From Underwater Funds (continued)

These permanently restricted scholarship funds are entirely held and invested by the Greater Kanawha Valley Foundation in the form of Donor Designated Sub-Fund Agreements (**See Note 2**). Only the distributions/disbursements received from GKVF for these funds have been used to pay scholarships/grants during the year, which management believes have been determined in accordance with the provisions of the WVUPMIFA.

Note 6 — Fair Value of Financial Instruments

The following methods and assumptions were used by the Organization in estimating its fair value disclosure for financial instruments:

- Cash, cash equivalents, accounts and loans receivable, accounts payable, accrued expenses and custodial liabilities: The carrying amounts reported in the statement of financial position approximate fair values because of the short maturities of those instruments.
- Restricted investment (**See Note 2**): The fair value of restricted investment is based on quoted market prices for it or similar investments.
- Beneficial interest in assets held by community foundation: The fair value of organization endowment funds held by others is based on the values provided by Greater Kanawha Valley Foundation. These are based on the proportionate share of investment assets held by Greater Kanawha Valley Foundation that are represented by these agreements (**See Note 2**).

The estimated fair values of the Organization's financial instruments are as follows:

	Carrying Amount	Fair Value
Financial assets:		
Cash and equivalents	\$ 262,474	\$ 262,474
Accounts receivable	6,870	6,870
Loans receivable	15,930	15,930
Beneficial interest in assets held by community foundation	189,297	189,297
Restricted cash equivalents	62,855	62,855
Restricted investment	18,800	18,800
Financial liabilities:		
Accounts payable	281	281
Accrued expenses	9,000	9,000
Custodial liabilities	128,619	128,619

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

Note 6 — Fair Value of Financial Instruments (continued)

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

	Fair Value Measurement at Reporting Date Using		
Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Unobservable Inputs (Level 3)	
Beneficial interest in assets held by community foundation	\$ 189,197	\$ -	\$ 189,197
Restricted investment	18,800	18,800	-

Note 7 — Facilities Usage by School (Unaudited)

WVSOM uses the conference/meeting facility owned by the Organization (**See Note 1**) without charge for a variety of functions. It is estimated that the fair value of this usage for specific functions amounted to approximately \$51,000 and \$36,000 for the years ended June 30, 2009 and 2008, respectively. The facility is also available at all times for usage by students, faculty and staff for a variety of informal uses to include study and meetings. The value of this is estimated to be approximately \$204,000 for the year ended June 30, 2009.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2009 AND 2008

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

	2009								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 6,669,725	\$ 1,591,131	\$ 2,115,477	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,376,333
Research	248,444	71,179	190,429	-	-	-	-	-	510,052
Public service	47,562	9,165	39,820	-	-	-	-	-	96,547
Academic support	1,019,540	267,730	530,103	-	-	-	-	-	1,817,373
Student services	996,745	255,627	741,384	-	-	-	-	-	1,993,756
General institutional support	3,154,517	784,650	1,029,251	-	-	-	-	-	4,968,418
Operations and maintenance of plant	781,237	219,419	975,375	1,086,279	-	-	-	-	3,062,310
Student financial aid	-	-	-	-	4,000	-	-	-	4,000
Auxiliary enterprises	63,192	10,484	498,091	-	-	-	-	-	571,767
Depreciation	-	-	-	-	-	1,667,310	-	-	1,667,310
Other	-	-	12,161	-	-	-	65,663	64,500	142,324
Total	\$ 12,980,962	\$ 3,209,385	\$ 6,132,091	\$ 1,086,279	\$ 4,000	\$ 1,667,310	\$ 65,663	\$ 64,500	\$ 25,210,190

	2008								
	Salaries And Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 5,785,106	\$ 1,478,683	\$ 2,001,639	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 9,265,428
Research	242,568	69,352	207,849	-	-	-	-	-	519,769
Public service	88,988	10,903	27,237	-	-	-	-	-	127,128
Academic support	1,184,832	312,451	529,805	-	-	-	-	-	2,027,088
Student services	939,127	243,883	783,825	-	-	-	-	-	1,966,835
General institutional support	2,159,055	743,055	1,017,789	-	-	-	-	-	3,919,899
Operations and maintenance of plant	723,527	212,951	848,076	707,549	-	-	-	-	2,492,103
Student financial aid	-	-	-	-	4,750	-	-	-	4,750
Auxiliary enterprises	60,528	12,022	625,903	-	-	-	-	-	698,453
Depreciation	-	-	-	-	-	1,335,600	-	-	1,335,600
Other	-	-	240,743	-	-	-	81,974	56,960	379,677
Total	\$ 11,183,731	\$ 3,083,300	\$ 6,282,866	\$ 707,549	\$ 4,750	\$ 1,335,600	\$ 81,974	\$ 56,960	\$ 22,736,730



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*

Governing Board
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

We have audited the financial statements of West Virginia School of Osteopathic Medicine (WVSOM) as of and for the year ended June 30, 2009, and have issued our report thereon dated October 26, 2009, which states reliance on other auditors for the discretely presented component unit. 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. The financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether WVSOM'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*.

We noted certain matters that we reported to management of WVSOM in a separate letter dated October 26, 2009.

This report is intended solely for the information and use of WVSOM Governing Board, management of WVSOM, and 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 those specified parties.



Charleston, West Virginia
October 26, 2009