

# West Virginia Higher Education Fund

(A Component Unit of the State of West Virginia)

Combined Financial Statements as of and for the  
Years Ended June 30, 2009 and 2008, Additional  
Information as of and for the Year Ended June 30,  
2009, and Independent Auditors' Reports

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

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## INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education  
Policy Commission:

We have audited the accompanying combined statements of net assets of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2009 and 2008, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Concord University, Glenville State College, New River Community and Technical College, Southern West Virginia Community and Technical College, West Virginia Northern Community and Technical College, and West Virginia School of Osteopathic Medicine (collectively "Other Institutions") for the years ended June 30, 2009 and 2008, which statements reflect total assets, total net assets, and total revenues constituting approximately 11%, 15%, and 12%, respectively, of the Fund in 2009 and 10%, 15%, and 11%, respectively, of the Fund in 2008. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund for the years ended June 30, 2009 and 2008, is based solely on the reports of such other auditors. We also did not audit the discretely presented component units' financial statements. The component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors.

We and the auditors for the Other Institutions and Marshall University Foundation, Inc. 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 discretely presented component units' financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*, except for Marshall University Foundation, Inc. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund'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 these audits provide a reasonable basis for our opinion.

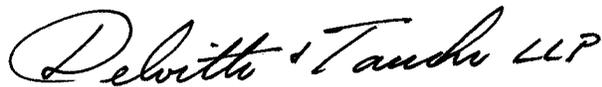
In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

The Management's Discussion and Analysis (MD&A) on pages 3 to 15 is not a required part of the combined financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the Fund'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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of the Fund's management. Such information has been subjected to the auditing procedures applied in our audits of these basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2010, on our consideration of the Fund'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 on 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.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 8, 2010

# **West Virginia Higher Education Fund**

## **Management's Discussion and Analysis**

### **Fiscal Year 2009 (Unaudited)**

#### **Overview of the Combined Financial Statements and Financial Analysis**

The West Virginia Higher Education Fund (the "Fund") is comprised of twenty public colleges and universities and two administrative units. Twenty institutions is up from fifteen last year because House Bill No. 3215 created a separation of five community and technical colleges which are now under their own Board of Governors. The Fund is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the West Virginia Higher Education Policy Commission (the "Commission") and the West Virginia Council for Community and Technical College Education (the "Council") are responsible for the development and implementation of a higher education policy agenda.

The Governmental Accounting Standards Board (GASB) has issued directives for presentation of college and university financial statements that were adopted for presentation in Fiscal Year 2002 by the Fund. The previous reporting format presented financial balances and activities by fund groups. The current format places emphasis on the overall economic resources of the organization. This is the seventh fiscal year for this format.

As of July 1, 2003, West Virginia Higher Education Institutions adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, which is an amendment to GASB Statement No. 14. As a result, the audited financial statements of certain institutions' component units are separately presented as a discrete component unit in the Fund's financial statements for the fiscal years ended June 30, 2009 and 2008. These component units are private nonprofit organizations that report under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2009 and 2008 and is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and the Combined Statement of Cash Flows.

#### **Combined Statement of Net Assets**

The Combined Statement of Net Assets presents the assets, liabilities, and net assets of the Fund and is a point of time financial statement, designed to present to the readers of the financial statements a fiscal snapshot of the Fund. The Combined Statement of Net Assets presents end-of-year financial information on Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (assets minus liabilities).

From the data presented, readers of the Combined Statement of Net Assets are able to determine the assets available to continue the operations of the Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the Fund.

Net assets are divided into three major categories as follows:

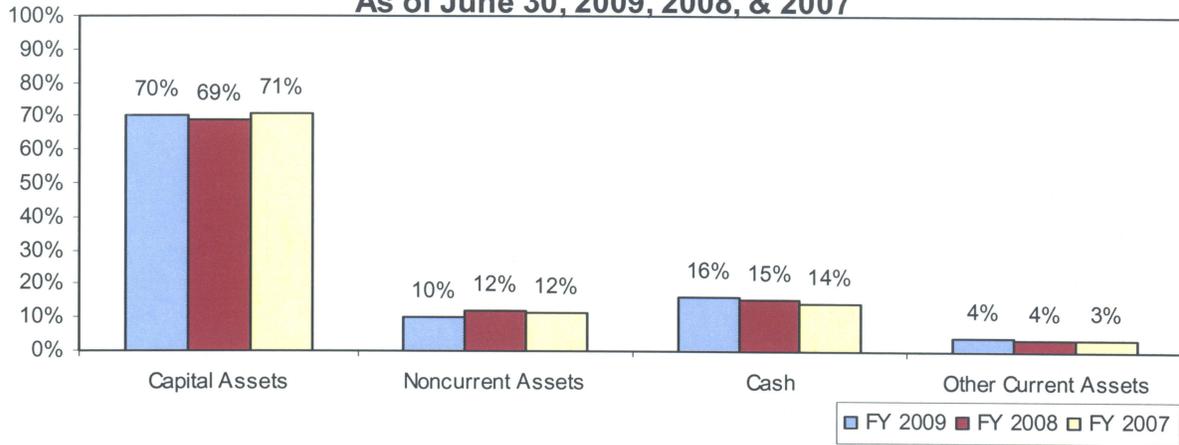
- (1) Invested in Capital Assets, Net of Related Debt, which provides the Fund's equity in property, plant and equipment owned by the Fund.
- (2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.
- (3) Unrestricted net assets are available for expenditure and can be used for any lawful purpose of the Fund.

**Condensed Statements of Net Assets  
(In thousands of dollars)**

	June 30 2009	June 30 2008	June 30 2007	Change From 2008 to 2009
Assets				
Current Assets	\$ 542,442	\$ 491,652	\$ 404,934	\$ 50,790
Capital Assets, net	1,857,926	1,767,642	1,642,452	90,284
Other Noncurrent Assets	<u>245,212</u>	<u>303,961</u>	<u>267,718</u>	<u>(58,749)</u>
Total Assets	<u>\$ 2,645,580</u>	<u>\$ 2,563,255</u>	<u>\$ 2,315,104</u>	<u>\$ 82,325</u>
Liabilities				
Current Liabilities	\$ 259,359	\$ 236,858	\$ 222,740	\$ 22,501
Noncurrent Liabilities	<u>851,481</u>	<u>846,481</u>	<u>863,563</u>	<u>5,000</u>
Total Liabilities	<u>1,110,840</u>	<u>1,083,339</u>	<u>1,086,303</u>	<u>27,501</u>
Net Assets				
Invested in Capital Assets, net	1,095,650	1,044,109	975,920	51,541
Restricted-expendable	230,330	227,311	104,309	3,019
Restricted-nonexpendable	5,354	5,454	5,729	(100)
Unrestricted	<u>203,406</u>	<u>203,042</u>	<u>142,843</u>	<u>364</u>
Total Net Assets	<u>1,534,740</u>	<u>1,479,916</u>	<u>1,228,801</u>	<u>54,824</u>
Total Liabilities and Net Assets	<u>\$ 2,645,580</u>	<u>\$ 2,563,255</u>	<u>\$ 2,315,104</u>	<u>\$ 82,325</u>

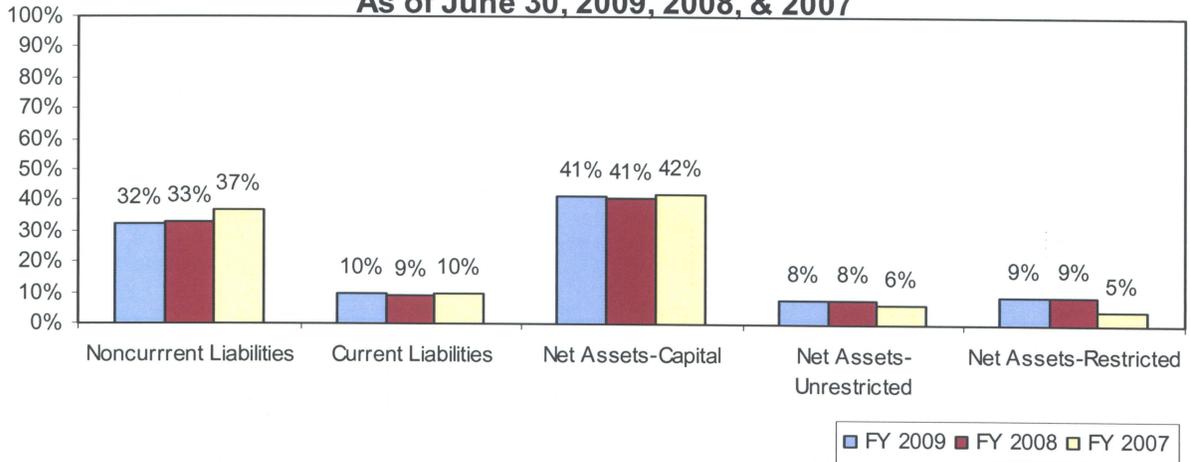
## Asset Composition

**As of June 30, 2009, 2008, & 2007**



## Liabilities & Net Assets

**As of June 30, 2009, 2008, & 2007**



Major items of note in the Combined Statement of Net Assets include:

- Total current assets of \$542.4 million exceeded total current liabilities of \$259.4 million as of June 30, 2009 for net working capital of \$283.0 million as compared to net working capital of \$254.8 million as of June 30, 2008. Current assets increased by \$50.70 million over the prior year, while current liabilities increased by \$22.5 million.
- The major components of current assets include cash and cash equivalents of \$431.9 million and \$394.1 million and net accounts receivable of \$71.8 million and \$66.9 million as of June 30, 2009 and 2008, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer which invested with Board of Treasury Investments at both June 30, 2009 and 2008.
- The major components of current liabilities include \$82.6 million and \$66.5 million of deferred revenue, \$58.4 million and \$57.9 million in accounts payable, \$40.2 million and \$36.8 million of accrued liabilities, \$40.1 million and \$34.8 million in accrued compensated absences, and \$24.4 million and \$23.4 million in bonds payable, as of June 30, 2009 and 2008, respectively.
- The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations, anticipation of upcoming projects including current construction projects, increases in grant activities, and the general growth of the higher education institutions.
- Noncurrent assets total \$2,103.1 million and \$2,071.6 million and noncurrent liabilities total \$851.5 million and \$846.5 million as of June 30, 2009 and 2008, respectively. Noncurrent assets increased by \$31.5 million over the prior year while noncurrent liabilities increased by \$5.0 million.
  - The primary noncurrent asset is \$1,857.9 million and \$1,767.6 million of net capital assets as of June 30, 2009 and 2008, respectively. Also included as noncurrent assets are cash and cash equivalents primarily for capital purposes of \$79.2 million and \$102.8 million and investments for capital purposes totaling \$86.6 million and \$114.8 million as of June 30, 2009 and 2008, respectively. Net loans to students total \$53.5 million and \$53.3 million as of June 30, 2009 and 2008, respectively.
  - Major components of noncurrent liabilities include long-term bonds payable totaling \$655.0 million and \$680.2 million, capital leases of \$44.2 million and \$42.2 million, advances from federal sponsors of \$41.5 million and \$41.7 million, notes payable of \$31.2 million and \$20.8 million, and accruals for other post employment benefit liability of \$24.0 million and \$10.3 million as of June 30, 2009 and 2008, respectively.
  - The increase in post employment benefit liability of \$13.7 million is partially attributed to decreases in payments on behalf of West Virginia Higher Education Fund and decreases in investment returns by the State's Multiple-Employer Trust Fund resulting in an increase of the Annual Required Contribution (ARC).
  - The increase in notes payable of \$10.4 million is primarily attributed to the West Virginia University Research Corporation drawing funds against the loan commitment with the West Virginia Infrastructure and Jobs Development Council for renovations to the Health Sciences Center.

- Other changes from the prior year in noncurrent assets and liabilities primarily reflect new capital projects financed by prior year revenue bonds at Fairmont State University, Glenville State College, Marshall University, Shepherd University, West Virginia University, and a system bond issue by the Commission as discussed in more detail in a later section.
- The net assets of the Fund total \$1,534.7 million and \$1,479.9 million as of June 30, 2009 and 2008, respectively, an increase of \$54.8 million and \$251.1 million from each previous year end.
- Net assets invested in capital assets total \$1,095.6 million and \$1,044.1 million as of June 30, 2009 and 2008 respectively.
- Restricted expendable net assets total \$230.3 million and \$227.3 million and include \$96.4 million and \$100.0 million for sponsored projects, \$70.8 million and \$68.0 million for capital projects, and \$27.9 million and \$27.5 million for loan programs as of June 30, 2009 and 2008, respectively.
- Unrestricted net assets total \$203.4 million and \$203.0 million as of June 30, 2009 and 2008, respectively, and represent net assets available to the Fund for any lawful purpose of the Fund.
- The increase in Net Assets is more fully explained in the following section.

### **Combined Statement of Revenues, Expenses, and Changes in Net Assets**

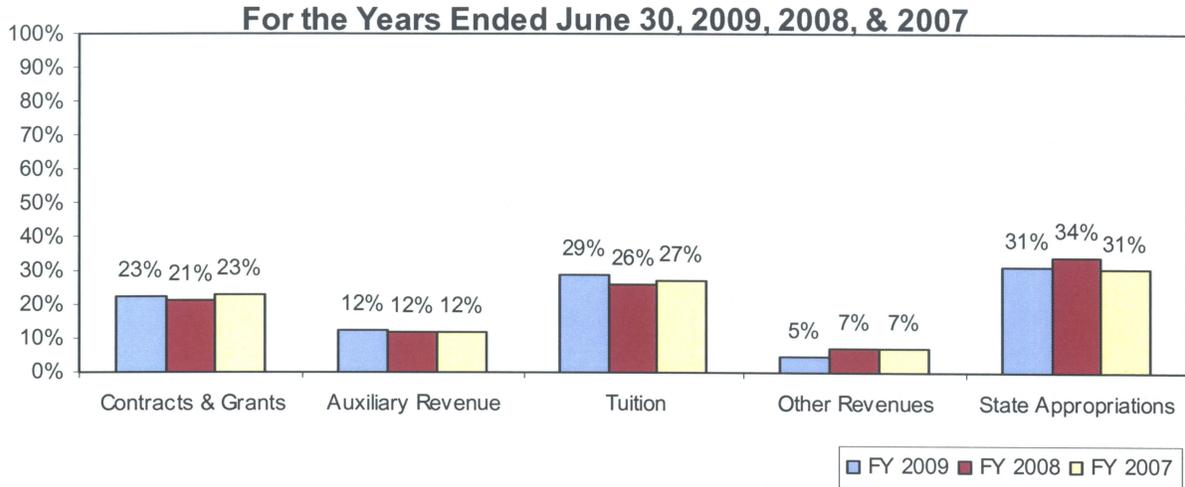
Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the expenses of the Fund, operating and nonoperating, and any other revenues, expenses, gains or losses of the Fund.

Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Fund. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Fund without the Legislature directly receiving commensurate goods and services for those revenues.

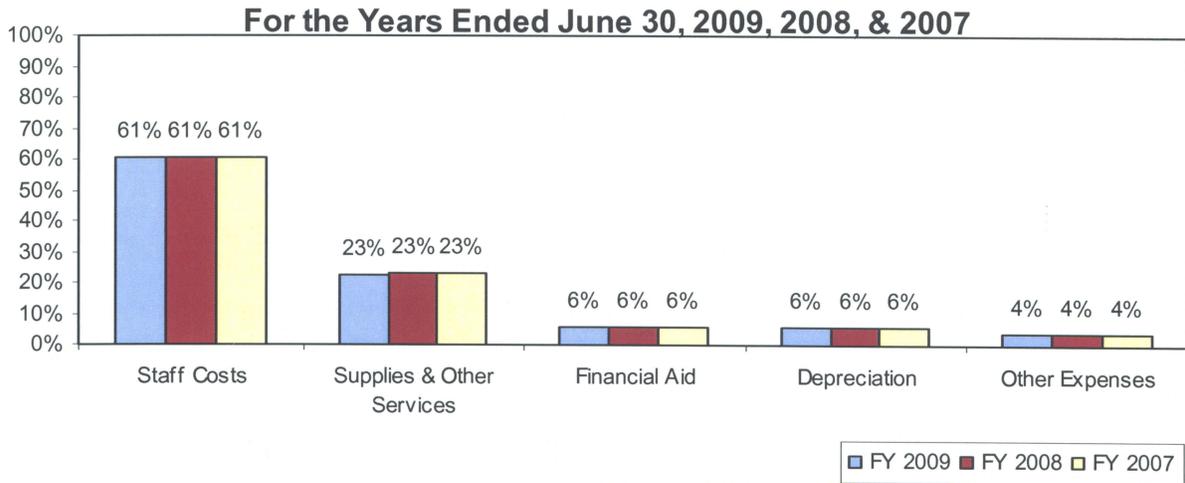
**Condensed Statements of Revenues, Expenses, and Changes in Net Assets**  
**(In thousands of dollars)**

	<b>FY 2009</b>	<b>FY 2008</b>	<b>FY 2007</b>	<b>Change From 2008 to 2009</b>
Operating Revenues	\$ 963,888	\$ 900,435	\$ 836,865	\$ 63,453
Operating Expenses	<u>1,491,160</u>	<u>1,396,116</u>	<u>1,292,113</u>	<u>95,044</u>
Operating Loss	(527,272)	(495,681)	(455,248)	(31,591)
Net Nonoperating Revenues	<u>537,986</u>	<u>606,764</u>	<u>487,359</u>	<u>(68,778)</u>
Income Before Other Revenues, Expenses, Gains or Losses	10,714	111,083	32,111	(100,369)
Capital Grants and Gifts-Net	<u>43,633</u>	<u>78,174</u>	<u>77,912</u>	<u>(34,541)</u>
Increase in Net Assets Before Cumulative Effect	54,347	189,257	110,023	(134,910)
Net Assets-Beginning of Year	<u>1,479,916</u>	<u>1,228,801</u>	<u>1,118,778</u>	<u>251,115</u>
Cumulative Effect Of Adoption Of Accounting Principle	<u>477</u>	<u>61,858</u>	<u>-</u>	<u>(61,381)</u>
Net Assets-End of Year	<u>\$ 1,534,740</u>	<u>\$ 1,479,916</u>	<u>\$ 1,228,801</u>	<u>\$ 54,824</u>

## Total Revenues



## Total Expenses



Major items of note in the Combined Statement of Revenue, Expenses and Changes in Net Assets include:

- Operating Revenues of the Fund totaled \$963.3 million and \$900.1 million, an increase of \$63.2 million compared to the prior year increase of \$63.1 million.
  - Student tuition and fees revenues totaled \$447.1 million in FY 2009, an increase of \$40.3 million or 9.9% in FY 2009 compared to an 8.1% increase in FY 2008. Tuition is reported net of scholarship allowances totaling \$106.5 million and \$91.0 million for the years ended June 30, 2009 and 2008, respectively. This increase is a combination of increases in tuition and number of students.
  - Federal grant and contracts totaled \$135.8 million and \$131.5 million for the years ended June 30, 2009 and 2008, respectively. The increase of \$4.3 million represents normal fluctuations in grant activities. Federal grants include funding for sponsored research, and other miscellaneous federal programs.
  - Auxiliary enterprises generated revenues of \$190.5 million and \$184.2 million, net of \$16.1 million and \$15.7 million of scholarship allowances for the years ended June 30, 2009 and 2008, respectively. FY 2009 net auxiliary revenues increased by \$6.3 million or 3.4% compared to a 11.6% increase in FY 2008, reflecting primarily increases in rates as there were no new significant additions to level of service in 2009.
  - State grants and contracts totaled \$64.6 million and \$65.0 million for the years ended June 30, 2009 and 2008, respectively, a decrease of \$0.4 million from FY 2008 compared to an increase of \$2.3 million from FY 2007. Private grants and contracts totaled \$70.2 million and \$59.7 million for the years ended June 30, 2009 and 2008 respectively, an increase of \$10.5 million from FY 2008, compared to an increase of \$0.8 million from FY 2007. These changes represent normal fluctuations in grant activities.
- Operating expenses totaled \$1,490.6 million and \$1,396.1 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$94.5 million and \$104.0 million from each previous year.
  - Staff salary costs totaled \$698.7 million and \$645.8 million, an increase of \$52.9 million and \$34.7 million for the years ended June 30, 2009 and 2008, respectively, or 8.2% from FY 2008. This increase is attributed to salary increases and an additional year of service of annual increment. Benefit costs increased by \$7.4 million in FY 2009, or 3.5% from FY 2008.
  - Supplies and other services totaled \$340.1 million and \$325.6 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$14.5 million from FY 2008, compared to an increase \$22.5 million from FY 2007. The largest increases in the functional areas are related to general institution support and operations and maintenance of plant of \$11.6 million and \$9.1 million, respectively.
  - Scholarships and fellowships totaled \$89.7 million and \$79.3 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$10.4 million or 13.1% from FY 2008 compared to an increase of \$3.6 million or 4.8% from FY 2007.

- Depreciation on capital assets totaled \$82.1 million and \$78.6 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$3.5 million from FY 2008 compared to a \$4.1 million increase from FY 2007.
- The result from operations was a net operating loss of \$527.3 million and \$496.0 million for the years ended June 30, 2009 and 2008, respectively, which excludes State appropriations of \$483.5 million and \$536.1 million and Federal Pell grants of \$80.7 million and \$72.2 million for the years ended June 30, 2009 and 2008, respectively, which are recorded as non-operating revenue. The net operating loss increased by \$31.3 million in FY 2009, from the increase in operating expenses of \$94.5 million, in excess of increases in revenue of \$63.2 million. The increase in net operating loss of \$31.3 million is less than the FY 2008 increase of \$40.9 million.
- Net non-operating revenue totaled \$538.0 million and \$607.1 million for the years ended June 30, 2009 and 2008, respectively, a decrease of \$69.1 million.
  - State general revenue and lottery appropriations totaled \$483.5 million and \$536.1 million for the years ended June 30, 2009 and 2008, respectively, a decrease of \$52.6 million, primarily attributed to a decrease in State appropriations from FY 2008 for research primarily the Emminent Scholars Program which was \$50.0 million in FY 2008 and Community and Technical College Education system initiatives.
  - Interest incurred on indebtedness totaled \$36.5 million and \$36.2 million, an increase of \$0.3 million from FY 2008, compared to \$1.3 million from FY 2007.
  - Interest (loss) income on investments totaled \$(1.0) million and \$17.4 million for the years ended June 30, 2009 and 2008, respectively, a decrease of \$18.4 million from the prior year. This decrease is due to declining investment returns by the Board of Treasury Investments (BTI) and losses in market value of investments by West Virginia University and Marshall University.
  - Payments on behalf of West Virginia Higher Education Fund totaled \$10.9 million and \$18.0 million for the years ended June 30, 2009 and 2008 and is attributed to OPEB credits from the State of West Virginia for retiree insurance premiums.
  - Student financial aid payments to other institutions totaled \$20.5 million and \$18.2 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$2.3 million from FY 2008, compared to an increase of \$2.9 million from FY 2007.
- Other revenues consist of capital grants and gifts totaling \$43.6 million and \$78.2 million for the years ended June 30, 2009 and 2008, respectively, a decrease of \$34.6 million from FY 2008, compared to an increase of \$0.3 million from FY 2007. The decrease from FY 2008 is primarily attributed to a one time \$30.0 million capital appropriation in FY 2008 for the construction of two advanced technology centers within the Community and Technical College System.
- The activity for FY 2009 resulted in an increase of net assets totaling \$54.3 million, as compared to the \$189.3 million increase in net assets during FY 2008. This increase is before the cumulative effect of adoption of accounting principles. The cumulative effect totaled \$0.5 million and \$61.9 million for the years ended June 30, 2009 and 2008. The additional increases in net assets at June 30, 2008, will be offset in future years by additional OPEB liability, as it continues to accrue over the next couple of years.

- As reported below on a functional expenditure basis, expenditures for Educational and General Expenses were \$1,149.7 million and \$1,069.7 million for the years ended June 30, 2009 and 2008, respectively, an increase of \$80.0 million or 7.5% from FY 2008. Cost of instruction constitutes 39.2% of total educational and general expenses. Plant operations grew by 15.5% over FY 2008 due to increases in utilities and operations. Institutional support increased by 12.3% over FY 2008.

**Functional Expenditure Comparisons  
(in thousands of dollars)**

	<b>FY09</b>	<b>% of</b>	<b>FY08</b>	<b>% of</b>	<b>FY07</b>	<b>% of</b>
	<b>Total</b>	<b>E&amp;G Total</b>	<b>Total</b>	<b>E&amp;G Total</b>	<b>Total</b>	<b>E&amp;G Total</b>
Instruction	\$ 450,986	39.2%	\$ 419,054	39.2%	\$ 386,738	39.0%
Research	152,535	13.3%	152,181	14.2%	135,214	13.7%
Public Service	87,671	7.6%	81,935	7.7%	79,096	8.0%
Academic Support	78,557	6.8%	76,288	7.1%	78,178	7.9%
Student Services	72,302	6.3%	69,441	6.5%	63,406	6.4%
Plant Operations	125,891	11.0%	108,970	10.2%	93,659	9.4%
Institutional Support	181,804	15.8%	161,837	15.1%	154,127	15.6%
<b>Total E &amp; G Expenses</b>	<b>1,149,746</b>	<b>100.0%</b>	<b>1,069,706</b>	<b>100.0%</b>	<b>990,418</b>	<b>100.0%</b>
Financial Aid	88,232		77,858		75,364	
Auxiliary Enterprises	168,821		168,064		150,749	
Depreciation	82,113		78,642		74,461	
Other	2,248		1,846		1,121	
<b>Total Operating Expenses</b>	<b>\$ 1,491,160</b>		<b>\$ 1,396,116</b>		<b>\$ 1,292,113</b>	

**Combined Statement of Cash Flows**

The final statement presented is the Combined Statement of Cash Flows. The Combined Statement of Cash Flows presents detailed information about the cash activity of the Fund during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used by the operating activities of the Fund. 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 and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth part reconciles the net cash used to the operating loss reflected on the Combined Statement of Revenues, Expenses, and Changes in Net Assets.

**Condensed Statements of Cash Flows**  
**(In thousands of dollars)**

	FY 2009	FY 2008	FY 2007	Change From 2008 to 2009
Cash Provided (Used) By:				
Operating Activities	\$ (400,958)	\$ (366,983)	\$ (284,342)	\$ (33,975)
Noncapital Financing Activities	565,023	628,834	433,057	(63,811)
Capital and Related Financing Activities	(158,366)	(240,599)	(239,976)	82,233
Investing Activities	<u>32,056</u>	<u>47,988</u>	<u>101,042</u>	<u>(15,932)</u>
Increase in Cash and Cash Equivalents	37,755	69,240	9,781	(31,485)
Cash and Cash Equivalents, beginning of year	<u>394,135</u>	<u>324,895</u>	<u>315,114</u>	<u>69,240</u>
Cash and Cash Equivalents, end of year	<u>\$ 431,890</u>	<u>\$ 394,135</u>	<u>\$ 324,895</u>	<u>\$ 37,755</u>

Major items of note in the Combined Statement of Cash Flows include:

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$401.0 million and \$367.0 million for the years ended June 30, 2009 and 2008, respectively, primarily due to the reporting of State appropriations and Federal Pell grants as noncapital financing activities. Primary sources of cash from Operating Activities during FY 2009 and 2008, respectively, were Student tuition and fees of \$443.1 million and \$412.4 million; Contracts and grants of \$274.7 million and \$264.6 million; and Auxiliary enterprise charges of \$199.9 million and \$183.5 million. Primary uses of cash for FY 2009 and 2008, respectively, included payments to and on behalf of employees of \$888.9 million and \$826.2 million and payments to suppliers of \$337.3 million and \$319.3 million.
- Net cash provided from noncapital financing activities for FY 2009 and 2008, respectively, totaled \$565.0 million and \$628.8 million, of which \$474.9 million and \$550.0 million was from State General Revenue and Lottery appropriations and \$80.7 million and \$71.9 million was from Federal Pell Grants.
- Net cash used in capital and related financing activities for FY 2009 totaled \$158.4 million primarily for purchases of capital assets of \$171.8 million, offset by proceeds from bond issuances and borrowings totaling \$10.0 million as compared to net cash used of \$240.6 million in FY 2008 primarily for purchases of capital assets of \$208.5 million offset by proceeds from bond issuances and borrowings of \$37.9 million.
- Net cash provided by investing activities for FY 2009 was \$32.1 million and for FY 2008 was \$48.0 million and represents return on investments and the net sale of investments for funding capital expenditures. The decrease is due to less amounts invested and lower rates of return.
- Net cash for FY 2009 increased by \$37.8 million compared to increase in net cash for FY 2008 of \$69.2 million. This increase is the net result of all the previous activity discussed.

**Capital Asset and Long-Term Debt Activity**

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Expenditures for capital assets totaled \$171.8

million in FY 2009, as compared to \$208.5 million in FY 2008. Institutional projects at all the institutions are under way due to institutional bond issues in FY 2003, 2004, 2005, 2006 and 2008 and a system bond issue in FY 2005. For FY 2009, expenditures at West Virginia University, Marshall University and Shepherd University accounted for \$140.5 million of the \$171.8 million total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. Major projects at Shepherd University include a new housing complex, infrastructure upgrades, improvements to the Arts Center and construction of the Ken Boone Field House at Ram Stadium. The remaining expenditures reflect on-going capital projects at the other state colleges, universities and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of \$135.9 million as of June 30, 2009. This includes the State College and University System Bonds prior to the Facilities 2004 System Bonds and the 2007 Refunding Bonds, which are funded from tuition collections at the institutions. The Facilities 2004 System Bonds of \$147.9 million are funded from excess lottery revenue. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

On December 8, 2009, the Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (2009 Bonds). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commence July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of \$5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of \$4,999,750. In addition, pursuant to Section 18 (j) (1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bond holders, on the proceeds of the State Lottery Fund, up to a maximum of \$7,500,000 annually.

### **Other Factors Impacting the Financial Position and Results of Operations of the Fund**

The mission of the Commission is to align the West Virginia Higher Education System to a new master plan for 2007-2012. The master plan has two sections. The first section, The Public Agenda – Meeting West Virginia’s Needs: A Vision for Higher Education in West Virginia, is a vision statement and an executive summary of the master plan. It will set forth the overarching goals for West Virginia public higher education and provides the conceptual framework for the 2007-2012 master plan of the Higher Education Policy Commission. The plan will focus on five areas that are central to meeting current challenges in West Virginia higher education:

1. Economic Growth
2. Access
3. Cost and Affordability
4. Learning and Accountability
5. Innovation

The second section, Achieving the Goals – What We Need to Do, will provide findings, outlines goals, and suggests strategies for West Virginia’s public colleges and universities to address in each of the five

areas of the public agenda. The findings, goals, and strategies constitute the plan for addressing needs in higher education in West Virginia from 2007 to 2012 and are the basis for developing new elements in the establishment of new institutional compacts for the state's four-year public colleges and universities.

The achievement of the goals for the higher education system as described in the Master Plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is \$1,534.7 million, including \$203.4 million in unrestricted net assets. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 32% of operating and nonoperating revenues of the Fund in FY 2009 are from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

While State appropriations decreased approximately 10% in FY 2009 from FY 2008, this was primarily attributable to special appropriations in FY 2008. The recurring State appropriations primarily used for operations increased approximately 5% in fiscal year 2009 for all state higher education institutions. Unlike the majority of the nation, West Virginia was not impacted as quickly by the downturn in the economy and mid year budget reductions did not occur in fiscal year 2009. For fiscal year 2010, as the West Virginia economy has worsened, State appropriations for operations have been reduced by approximately 4% and the potential for mid year budget reductions exist. Due to the American Recover and Reinvestment Act (ARRA), State higher education institutions are expected to have their budget reductions backfilled by the State Fiscal Stabilization Fund Program in the amount of \$9.9 million. For fiscal year 2011 the Governor's Office instructed that budget requests are to be at 95% of the FY 2010 level. The 5% reduction to higher education institutions are expected again to be backfilled from ARRA funds.

The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. The adoption of GASB Statement No. 45 by the Fund resulted in a cumulative effect adjustment of approximately \$61.9 million which increased net assets as the existing liability of the Fund was transferred to the State's Multiple-Employer Trust Fund. The Trust Fund invoiced the Fund \$10.3 million in fiscal year 2008 in excess of current amounts paid, and this amount was booked as a liability. For fiscal year 2009 the Trust Fund invoiced the Fund \$13.7 million in excess of current amounts paid, and this amount was booked bringing the liability to \$24.0 million. However, there is no commitment of any payments made on behalf of the Fund from the State for years after fiscal year 2009, at this time. Accordingly, in approximately two years, the GASB Statement No. 45 liability could exceed the amount that was recognized as a positive cumulative effect in FY 2008.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the State. Increased attendance by non-resident students is another factor in the future financial stability of the Fund. Net student tuition and fees provide approximately 29% of the total revenues of the Fund.

One of the key goals of the higher education system is to improve the economic environment of the State of West Virginia. The full impact of the current economic environment and the resulting impact on the future economic environment by various factors including the performance of the higher education system cannot be predicted with any certainty. The current financial condition of the Fund will be beneficial in meeting the challenges that lie ahead.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2009 AND 2008**  
**(Dollars in thousands)**

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<b>ASSETS</b>	<b>2009</b>	<b>2008</b>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 431,890	\$ 394,135
Appropriations due from Primary Government	23,741	17,764
Accounts receivable — net	71,807	66,865
Loans receivable — current portion	6,589	4,480
Other current assets	2,581	2,594
Inventories	<u>5,834</u>	<u>5,814</u>
Total current assets	<u>542,442</u>	<u>491,652</u>
<b>NONCURRENT ASSETS:</b>		
Cash and cash equivalents	79,188	102,822
Investments	86,580	114,818
Appropriations due from Primary Government	2,979	2,994
Loans receivable — net of allowance of \$8,855 and \$8,455 in 2009 and 2008, respectively	53,524	53,306
Other assets	22,941	30,021
Capital assets — net	<u>1,857,926</u>	<u>1,767,642</u>
Total noncurrent assets	<u>2,103,138</u>	<u>2,071,603</u>
<b>TOTAL</b>	<u>\$ 2,645,580</u>	<u>\$ 2,563,255</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF NET ASSETS**  
**AS OF JUNE 30, 2009 AND 2008**  
**(Dollars in thousands)**

	<b>2009</b>	<b>2008</b>
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 58,420	\$ 57,924
Due to State of West Virginia	223	36
Accrued liabilities	40,204	36,800
Deferred revenue	82,615	66,463
Deposits	6,267	8,307
Other liabilities — current portion	287	843
Compensated absences — current portion	40,141	34,826
Notes payable — current portion	885	165
Capital lease obligations — current portion	2,536	4,578
Interest payable	3,385	3,528
Bonds payable — current portion	<u>24,396</u>	<u>23,388</u>
Total current liabilities	<u>259,359</u>	<u>236,858</u>
<b>NONCURRENT LIABILITIES:</b>		
Advances from federal sponsors	41,542	41,667
Compensated absences	3,213	6,194
Notes payable	31,208	20,784
Capital lease obligations	44,226	42,249
Deferred interest payable	26,060	22,426
Bonds payable	655,028	680,205
Other post employment benefit liability	23,990	10,288
Other noncurrent liabilities	<u>26,214</u>	<u>22,668</u>
Total noncurrent liabilities	<u>851,481</u>	<u>846,481</u>
Total liabilities	<u>1,110,840</u>	<u>1,083,339</u>
<b>NET ASSETS:</b>		
Invested in capital assets — net of related debt	<u>1,095,650</u>	<u>1,044,109</u>
Restricted for:		
Expendable:		
Scholarships	20,732	22,464
Sponsored projects	96,416	100,004
Loans	27,877	27,504
Capital projects	70,764	68,046
Debt service	7,527	7,143
Other	<u>7,014</u>	<u>2,150</u>
Total restricted expendable	<u>230,330</u>	<u>227,311</u>
Nonexpendable	<u>5,354</u>	<u>5,454</u>
Unrestricted	<u>203,406</u>	<u>203,042</u>
Total net assets	<u>1,534,740</u>	<u>1,479,916</u>
<b>TOTAL</b>	<u>\$2,645,580</u>	<u>\$2,563,255</u>

See notes to combined financial statements.

(Concluded)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2009**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc. *	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. **	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
<b>ASSETS</b>															
CASH AND CASH EQUIVALENTS	\$ 1,143,172	\$ 49,880	\$ 1,216,309	\$ 105,009	\$ 65,925	\$ 256,566	\$ 617,817	\$ 1,286,567	\$ 1,194,217	\$ 484,880	\$ 680,899	\$ 7,048	\$ 325,329	\$ 769,543	\$ 391,214
INVESTMENTS	5,977,683		18,367,739	9,554,979	9,874,365		77,073,781	7,884,235	19,844,150	1,748,498	7,822,069	1,653,171	18,800	3,218,314	5,396,287
NET INVESTMENT IN DIRECT FINANCING LEASES							4,052,229								
PLEDGES AND CONTRIBUTIONS RECEIVABLE	4,563		825,406	3,270,269	713,231		6,287,280		1,557,592	782,851	275,251	84,520			99,047
INTEREST AND DIVIDENDS RECEIVABLE	12,413		55,086	8,921				19,835	76,269	7,767					28,491
NOTES RECEIVABLE							56,734					75,114		20,053	
OTHER ASSETS	7,308	149,954	12,035	15,000	13,898	6,407	921,793	2,684,175	4,810	6,907	61,850	9,579	212,097	7,400	16,945
BENEFICIAL INTERESTS						631,591	6,018,545				1,744,618			109,518	
PROPERTY, PLANT, AND EQUIPMENT — Net		4,929,286	15,823		143,666		7,918,330	81,811,611	4,164	4,697			1,648,523	964,831	
<b>TOTAL</b>	<b>\$ 7,145,139</b>	<b>\$ 5,129,120</b>	<b>\$ 20,492,398</b>	<b>\$ 12,954,178</b>	<b>\$ 10,811,085</b>	<b>\$ 894,564</b>	<b>\$ 102,946,509</b>	<b>\$ 93,686,423</b>	<b>\$ 22,681,202</b>	<b>\$ 3,035,600</b>	<b>\$ 10,584,687</b>	<b>\$ 1,829,432</b>	<b>\$ 2,204,749</b>	<b>\$ 5,089,659</b>	<b>\$ 5,931,984</b>

\* Formerly Greenbrier Community College Foundation, Inc.

\*\* December 31 year end.

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2009**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc. *	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. **	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
<b>LIABILITIES AND NET ASSETS</b>															
<b>LIABILITIES:</b>															
Accounts payable	\$ -	\$ 70,223	\$ 7,700	\$ 40	\$ 25,295	\$ 8,663	\$ 639,094	\$ 1,194,482	\$ 250	\$ 21,000	\$ 88,457	\$ 706	\$ 281	\$ 5,189	\$ 9,359
Other accrued liabilities		354			17,330	42,530	780,191	1,203,620	1,562	305,507		4,900	9,000		
Amounts held on behalf of others	3,737	65,869	878,555						3,230,255				128,619		
Annuity obligations			188,950	68,795			727,458		167,649						
Bonds and notes payable		3,727,121			7,567		6,306,563	90,065,000			71,401				
Swap liability								8,879,900							
<b>Total liabilities</b>	<b>3,737</b>	<b>3,863,567</b>	<b>1,075,205</b>	<b>68,835</b>	<b>50,192</b>	<b>51,193</b>	<b>8,453,306</b>	<b>101,343,002</b>	<b>3,399,716</b>	<b>326,507</b>	<b>159,858</b>	<b>5,606</b>	<b>137,900</b>	<b>5,189</b>	<b>9,359</b>
<b>NET ASSETS (DEFICIT):</b>															
Unrestricted	1,010,404	1,265,553	104,120	477,400	848,054	(153,906)	14,904,732	(7,656,579)	(3,195,799)	27,859	1,203,957	292,744	1,767,519	329,997	200,498
Temporarily restricted	5,113,808		3,797,857	4,569,930	(805,673)	52,267	12,036,205		4,056,902	2,666,234	595,871	1,072,256	10,746	1,018,701	4,191,348
Permanently restricted	1,017,190		15,515,216	7,838,013	10,718,512	945,010	67,552,266		18,420,383	15,000	8,625,001	458,826	288,584	3,735,772	1,530,779
<b>Total net assets (deficit)</b>	<b>7,141,402</b>	<b>1,265,553</b>	<b>19,417,193</b>	<b>12,885,343</b>	<b>10,760,893</b>	<b>843,371</b>	<b>94,493,203</b>	<b>(7,656,579)</b>	<b>19,281,486</b>	<b>2,709,093</b>	<b>10,424,829</b>	<b>1,823,826</b>	<b>2,066,849</b>	<b>5,084,470</b>	<b>5,922,625</b>
<b>TOTAL</b>	<b>\$ 7,145,139</b>	<b>\$ 5,129,120</b>	<b>\$ 20,492,398</b>	<b>\$ 12,954,178</b>	<b>\$ 10,811,085</b>	<b>\$ 894,564</b>	<b>\$ 102,946,509</b>	<b>\$ 93,686,423</b>	<b>\$ 22,681,202</b>	<b>\$ 3,035,600</b>	<b>\$ 10,584,687</b>	<b>\$ 1,829,432</b>	<b>\$ 2,204,749</b>	<b>\$ 5,089,659</b>	<b>\$ 5,931,984</b>

\* Formerly Greenbrier Community College Foundation, Inc.

\*\* December 31 year end.

See notes to combined financial statements.

(Concluded)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2008**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. **	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.
<b>ASSETS</b>														
CASH AND CASH EQUIVALENTS	\$ 1,092,090	\$ 91,907	\$ 2,686,572	\$ 21,055	\$ 68,430	\$ 144,010	\$ 8,847,710	\$ 6,205	\$ 1,725,230	\$ 1,200,166	\$ 382,830	\$ 3,811	\$ 151,593	\$ 553,152
INVESTMENTS	7,178,636		21,711,576	11,259,434	7,421,105	844,391	93,628,042	39,088,038	21,597,259	1,366,118	10,501,085	1,749,103	20,632	3,539,394
NET INVESTMENT IN DIRECT FINANCING LEASES							4,498,005							
PLEDGES AND CONTRIBUTIONS RECEIVABLE		33,708	1,314,625	943,760	710,374		6,181,201		869,736	869,528	315,060	49,000		
INTEREST AND DIVIDENDS RECEIVABLE	19,799		77,999	2,071					99,909	8,931				
NOTES RECEIVABLE							153,423					94,560		6,068
OTHER ASSETS	4,776	109,857	16,913	20,000	83,090		891,395	2,768,237	4,019	78,793	60,958	4,705	329,473	7,703
BENEFICIAL INTERESTS							7,381,412				2,127,240			136,696
PROPERTY, PLANT, AND EQUIPMENT — Net		5,194,916	16,785		37,108		2,732,806	49,157,235	6,064	21,273			1,728,536	1,000,540
<b>TOTAL</b>	<b>\$ 8,295,301</b>	<b>\$ 5,429,680</b>	<b>\$ 25,824,470</b>	<b>\$ 12,246,320</b>	<b>\$ 8,320,107</b>	<b>\$ 988,401</b>	<b>\$ 124,313,994</b>	<b>\$ 91,019,715</b>	<b>\$ 24,302,217</b>	<b>\$ 3,544,809</b>	<b>\$ 13,387,173</b>	<b>\$ 1,901,179</b>	<b>\$ 2,230,234</b>	<b>\$ 5,243,553</b>

\* Eighteen months ended June 30, 2008.

\*\* December 31 year end.

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF NET ASSETS**  
**AS OF JUNE 30, 2008**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. **	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.
<b>LIABILITIES AND NET ASSETS</b>														
<b>LIABILITIES:</b>														
Accounts payable	\$ -	\$ 37,619	\$ -	\$ 17,270	\$ 14,187	\$ -	\$ 543,984	\$ 3,690,629	\$ 19,953	\$ 4,936	\$ 45,196	\$ 2,304	\$ 26,867	\$ 42,331
Other accrued liabilities		1,476		15,000	24,859	21,645	96,435	352,433		543,457			9,000	
Amounts held on behalf of others	6,743	62,662	895,111						2,949,021				131,769	
Annuity obligations			200,025	95,391	7,130		561,924		173,775		61,495			
Bonds and notes payable		3,779,150					4,516,015	83,765,000						
Swap liability								3,211,653						
<b>Total liabilities</b>	<b>6,743</b>	<b>3,880,907</b>	<b>1,095,136</b>	<b>127,661</b>	<b>46,176</b>	<b>21,645</b>	<b>5,718,358</b>	<b>91,019,715</b>	<b>3,142,749</b>	<b>548,393</b>	<b>106,691</b>	<b>2,304</b>	<b>167,636</b>	<b>42,331</b>
<b>NET ASSETS:</b>														
Unrestricted	1,181,667	1,548,773	517,388	1,864,561	861,523	30,417	21,596,127		35,572	95,965	2,407,164	348,784	1,789,179	552,949
Temporarily restricted	6,144,603		7,492,522	3,951,827	174,739	57,529	33,592,997		2,995,614	2,885,451	2,338,287	1,136,798	7,520	964,929
Permanently restricted	962,288		16,719,424	6,302,271	7,237,669	878,810	63,406,512		18,128,282	15,000	8,535,031	413,293	265,899	3,683,344
<b>Total net assets</b>	<b>8,288,558</b>	<b>1,548,773</b>	<b>24,729,334</b>	<b>12,118,659</b>	<b>8,273,931</b>	<b>966,756</b>	<b>118,595,636</b>	<b>-</b>	<b>21,159,468</b>	<b>2,996,416</b>	<b>13,280,482</b>	<b>1,898,875</b>	<b>2,062,598</b>	<b>5,201,222</b>
<b>TOTAL</b>	<b>\$ 8,295,301</b>	<b>\$ 5,429,680</b>	<b>\$ 25,824,470</b>	<b>\$ 12,246,320</b>	<b>\$ 8,320,107</b>	<b>\$ 988,401</b>	<b>\$ 124,313,994</b>	<b>\$ 91,019,715</b>	<b>\$ 24,302,217</b>	<b>\$ 3,544,809</b>	<b>\$ 13,387,173</b>	<b>\$ 1,901,179</b>	<b>\$ 2,230,234</b>	<b>\$ 5,243,553</b>

\* Eighteen months ended June 30, 2008.

\*\* December 31 year end.

See notes to combined financial statements.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollars in thousands)**

	<b>2009</b>	<b>2008</b>
<b>OPERATING REVENUES:</b>		
Student tuition and fees — net of scholarship allowance of \$106,499 in 2009 and \$90,985 in 2008	\$ 447,080	\$ 406,818
Federal land grants	8,797	8,350
Local grants	1,056	1,089
Contracts and grants:		
Federal	135,781	131,529
State	64,583	65,042
Local	1,425	1,211
Private	70,172	59,656
Interest on student loans receivable	896	876
Sales and services of educational activities	20,183	18,760
Auxiliary enterprise revenue — net of scholarship allowance of \$16,099 in 2009 and \$15,671 in 2008	190,468	184,238
Other operating revenues	<u>23,447</u>	<u>22,866</u>
Total operating revenues	<u>963,888</u>	<u>900,435</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	698,667	645,769
Benefits	221,412	214,021
Supplies and other services	340,115	325,562
Utilities	47,865	44,646
Student financial aid — scholarships and fellowships	89,674	79,349
Depreciation	82,113	78,642
Other operating expenses	<u>11,314</u>	<u>8,127</u>
Total operating expenses	<u>1,491,160</u>	<u>1,396,116</u>
<b>OPERATING LOSS</b>	<u>(527,272)</u>	<u>(495,681)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State appropriations	483,534	536,101
Federal Pell grants	80,668	71,930
Payment on behalf of West Virginia Higher Education Fund	10,864	18,000
Gifts	21,092	19,548
Investment (loss) income (including unrealized loss of \$(9,356) in 2009 and \$(3,900) in 2008)	(961)	17,426
Interest on indebtedness	(36,504)	(36,181)
Payments to other institutions	(20,492)	(18,222)
Other nonoperating revenues (expenses) — net	<u>(215)</u>	<u>(1,838)</u>
Net nonoperating revenues	<u>537,986</u>	<u>606,764</u>
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	10,714	111,083
<b>CAPITAL GRANTS AND GIFTS</b>	<u>43,633</u>	<u>78,174</u>
<b>INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT</b>	54,347	189,257
<b>NET ASSETS — Beginning of year</b>	1,479,916	1,228,801
<b>CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE</b>	<u>477</u>	<u>61,858</u>
<b>NET ASSETS — End of year</b>	<u>\$1,534,740</u>	<u>\$1,479,916</u>

See notes to combined financial statements.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2009**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc. *	The Marshall University Foundation, Inc.	MSH-Marshall, LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.**	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:															
Unrestricted:															
Gifts, contributions, and other	\$ 39,617	\$ 858,704	\$ 395,233	\$ 1,209,618	\$ 531,464	\$ 232,279	\$ 797,494	\$ 5,206,116	\$ 28,149	\$ -	\$ 157,310	\$ 15,822	\$ 711,047	\$ 428,754	\$ 2,607
Investment income (loss)	(114,872)		(499,288)	(1,744,367)	82,804	(20,723)	(23,379,223)	322,835	(2,608,036)	(4,424)	16,591	(64,560)	409	(551,007)	(56,227)
Temporarily restricted:															
Gifts, contributions, and other	92,851	146,515	350,595	2,600,109	621,965	26,000	6,408,172		1,952,570	416,253	704,446	173,609	5,536	272,231	340,748
Investment income (loss)	(956,457)		(1,436,929)	9,641	(520,157)	(150,160)	3,325,876		537,730	(62,505)	(1,979,850)	(108,963)	(47,536)	22,090	(776,556)
Permanently restricted:															
Gifts, contributions, and other	37,902		499,674	1,515,518	3,541,621	66,200	2,476,989		223,777		(196,774)	45,533	22,212	327,103	
Investment income (loss)			(1,336,328)	20,224	(60,671)		(721,725)		18,131		84,596		473		(349,463)
Total revenues, gains, and other support	<u>(900,959)</u>	<u>1,005,219</u>	<u>(2,027,043)</u>	<u>3,610,743</u>	<u>4,197,026</u>	<u>153,596</u>	<u>(11,092,417)</u>	<u>5,528,951</u>	<u>152,321</u>	<u>349,324</u>	<u>(1,213,681)</u>	<u>61,441</u>	<u>692,141</u>	<u>499,171</u>	<u>(838,891)</u>
EXPENSES:															
Scholarships, awards, and grants	103,076	1,081,648	469,316	1,012,959		54,430	2,420,726		1,314,424	189,943	498,891	24,343		8,435	107,337
College support	103,478		2,368,037	1,600,311	1,188,449		7,064,577		157,596	237,775	990,812	58,092		305,760	137,182
Management and general	<u>39,643</u>	<u>206,791</u>	<u>447,745</u>	<u>230,789</u>	<u>521,615</u>	<u>222,551</u>	<u>3,524,713</u>		<u>558,283</u>	<u>208,929</u>	<u>152,269</u>	<u>54,055</u>	<u>687,890</u>	<u>301,728</u>	<u>133,270</u>
Total expenses	<u>246,197</u>	<u>1,288,439</u>	<u>3,285,098</u>	<u>2,844,059</u>	<u>1,710,064</u>	<u>276,981</u>	<u>13,010,016</u>	<u>7,585,139</u>	<u>2,030,303</u>	<u>636,647</u>	<u>1,641,972</u>	<u>136,490</u>	<u>687,890</u>	<u>615,923</u>	<u>377,789</u>
CHANGE IN NET ASSETS	(1,147,156)	(283,220)	(5,312,141)	766,684	2,486,962	(123,385)	(24,102,433)	(2,056,188)	(1,877,982)	(287,323)	(2,855,653)	(75,049)	4,251	(116,752)	(1,216,680)
NET ASSETS — Beginning of year	<u>8,288,558</u>	<u>1,548,773</u>	<u>24,729,334</u>	<u>12,118,659</u>	<u>8,273,931</u>	<u>966,756</u>	<u>118,595,636</u>		<u>21,159,468</u>	<u>2,996,416</u>	<u>13,280,482</u>	<u>1,898,875</u>	<u>2,062,598</u>	<u>5,201,222</u>	<u>7,139,305</u>
NET ASSETS (Deficit) — End of year	<u>\$ 7,141,402</u>	<u>\$ 1,265,553</u>	<u>\$ 19,417,193</u>	<u>\$ 12,885,343</u>	<u>\$ 10,760,893</u>	<u>\$ 843,371</u>	<u>\$ 94,493,203</u>	<u>\$ (2,056,188)</u>	<u>\$ 19,281,486</u>	<u>\$ 2,709,093</u>	<u>\$ 10,424,829</u>	<u>\$ 1,823,826</u>	<u>\$ 2,066,849</u>	<u>\$ 5,084,470</u>	<u>\$ 5,922,625</u>

\* Formerly Greenbrier Community College Foundation, Inc.

\*\* December 31 year end.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMPONENT UNITS — STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2008**

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glennville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc. *	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.**	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:													
Unrestricted:													
Gifts, contributions, and other	\$ 59,972	\$ 1,736,110	\$ 320,501	\$ 345,888	\$ 732,536	\$ 204,501	\$ 1,314,039	\$ 31,365	\$ -	\$ 143,446	\$ 1,011	\$ 668,685	\$ 293,911
Investment income (loss)	14,591		58,543	(519,194)	16,405	8,602	(2,947,646)	(611,568)	(800)	237,700	421	1,356	8,622
Temporarily restricted:													
Gifts, contributions, and other	148,895	189,940	688,161	1,794,708	496,428	21,390	10,512,776	1,384,761	735,984	820,743	351,946	3,499	112,090
Investment income (loss)	(596,565)		(803,622)	450,938	(416,976)	43,499	3,147,795	741,693	66,952	(859,960)	(26,153)	(10,513)	
Permanently restricted:													
Gifts, contributions, and other	127,534		293,688	392,260	2,640,897	91,187	2,541,691	1,201,979		32,496	48,756	59,209	303,767
Investment income (loss)			(314,623)	2,151	(545)		35,892	78,283		97,520		406	(225,600)
Total revenues, gains, and other support	<u>(245,573)</u>	<u>1,926,050</u>	<u>242,648</u>	<u>2,466,751</u>	<u>3,468,745</u>	<u>369,179</u>	<u>14,604,547</u>	<u>2,826,513</u>	<u>802,136</u>	<u>471,945</u>	<u>375,981</u>	<u>722,642</u>	<u>492,790</u>
EXPENSES:													
Scholarships, awards, and grants	289,121	490,870	478,286	1,079,948		62,995	2,359,511	1,022,672	131,673	510,656	25,448		3,517
College support	136,711		524,899	895,044	940,668		12,205,288	145,016	144,211	1,248,909	260,892		279,504
Management and general	32,618	174,161	409,792	253,771	340,816	226,959	3,106,307	518,438	94,063	184,554	83,988	645,559	312,722
Total expenses	<u>458,450</u>	<u>665,031</u>	<u>1,412,977</u>	<u>2,228,763</u>	<u>1,281,484</u>	<u>289,954</u>	<u>17,671,106</u>	<u>1,686,126</u>	<u>369,947</u>	<u>1,944,119</u>	<u>370,328</u>	<u>645,559</u>	<u>595,743</u>
CHANGE IN NET ASSETS	(704,023)	1,261,019	(1,170,329)	237,988	2,187,261	79,225	(3,066,559)	1,140,387	432,189	(1,472,174)	5,653	77,083	(102,953)
NET ASSETS — Beginning of year	<u>8,992,581</u>	<u>287,754</u>	<u>25,899,663</u>	<u>11,880,671</u>	<u>6,086,670</u>	<u>887,531</u>	<u>121,662,195</u>	<u>20,019,081</u>	<u>2,564,227</u>	<u>14,752,656</u>	<u>1,893,222</u>	<u>1,985,515</u>	<u>5,304,175</u>
NET ASSETS — End of year	<u>\$ 8,288,558</u>	<u>\$ 1,548,773</u>	<u>\$ 24,729,334</u>	<u>\$ 12,118,659</u>	<u>\$ 8,273,931</u>	<u>\$ 966,756</u>	<u>\$ 118,595,636</u>	<u>\$ 21,159,468</u>	<u>\$ 2,996,416</u>	<u>\$ 13,280,482</u>	<u>\$ 1,898,875</u>	<u>\$ 2,062,598</u>	<u>\$ 5,201,222</u>

\* Eighteen months ended June 30, 2008.

\*\* December 31 year end.

See notes to combined financial statements.

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollars in thousands)**

	<b>2009</b>	<b>2008</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 443,082	\$ 412,398
Federal and local land grants	9,853	9,440
Contracts and grants	274,669	264,641
Payments to and on behalf of employees	(888,860)	(826,241)
Payments to suppliers	(337,332)	(319,291)
Payments to utilities	(49,072)	(44,721)
Payments for scholarships and fellowships	(92,768)	(82,819)
Loans issued to students	(9,526)	(10,745)
Collection of loans to students	6,233	6,502
Sales and service of educational activities	22,396	20,504
Interest earned on loans to students	664	600
Auxiliary enterprise charges	199,852	183,539
Other receipts — net	<u>19,851</u>	<u>19,210</u>
Net cash used in operating activities	<u>(400,958)</u>	<u>(366,983)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	480,009	549,976
Federal Pell grants	80,668	71,930
Payments to other institutions	(15,128)	(17,160)
Gift receipts	21,067	19,129
Direct and Stafford lending receipts	351,725	307,833
Direct and Stafford lending payments	(351,272)	(308,121)
Other nonoperating (disbursements) receipts — net	<u>(2,046)</u>	<u>5,247</u>
Net cash provided by noncapital financing activities	<u>565,023</u>	<u>628,834</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Proceeds from bond issuances and borrowings	10,049	37,911
Proceeds from capital asset disposals	3,368	130
Withdrawals from noncurrent cash and cash equivalents	28,106	18,773
Deposits to noncurrent cash and cash equivalents	(7,993)	(65,763)
Capital grants and gifts received	37,961	41,580
Purchases of capital assets	(171,828)	(208,464)
Principal paid on notes, bonds, and leases	(24,390)	(29,698)
Interest paid on notes, bonds, and leases	(33,595)	(34,144)
Bond proceeds to outside entities	<u>(44)</u>	<u>(924)</u>
Net cash used in capital financing activities	<u>(158,366)</u>	<u>(240,599)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Receipts from sales of investments	31,527	80,646
Purchase of investments	(8,711)	(54,971)
Investment income	<u>9,240</u>	<u>22,313</u>
Net cash provided by investing activities	<u>32,056</u>	<u>47,988</u>
INCREASE IN CASH AND CASH EQUIVALENTS	37,755	69,240
CASH AND CASH EQUIVALENTS — Beginning of year	<u>394,135</u>	<u>324,895</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 431,890</u>	<u>\$ 394,135</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**COMBINED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**  
**(Dollars in thousands)**

	2009	2008
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(527,272)	\$(495,681)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	93,784	88,463
Expenses paid on behalf of the Fund	10,864	18,000
Changes in assets and liabilities:		
Receivables — net	(14,460)	(10,885)
Loans receivable — net	(2,328)	(3,362)
Prepaid expenses	102	756
Inventories	(20)	(325)
Accounts payable	6,254	6,002
Accrued liabilities	16,884	17,431
Compensated absences	2,916	1,153
Deferred revenue	12,424	11,527
Deposits	101	298
Advances from federal sponsors	(122)	(637)
Other	(85)	277
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(400,958)</u>	<u>\$(366,983)</u>
SIGNIFICANT NONCASH TRANSACTIONS:		
Assets purchased on capital leases	<u>\$ -</u>	<u>\$ 2,203</u>
Cumulative effect of adoption of accounting principle	<u>\$ 477</u>	<u>\$ 61,858</u>
Construction in progress and capital asset additions included in accounts payable and accrued liabilities	<u>\$ 8,225</u>	<u>\$ 10,905</u>
Donated capital assets	<u>\$ 10,595</u>	<u>\$ 7,451</u>
Loss on disposal	<u>\$ 2,887</u>	<u>\$ 936</u>

See notes to combined financial statements.

(Concluded)

# **WEST VIRGINIA HIGHER EDUCATION FUND**

## **(A Component Unit of the State of West Virginia)**

### **NOTES TO COMBINED FINANCIAL STATEMENTS**

#### **AS OF AND FOR THE YEARS ENDED JUNE 30, 2009 AND 2008**

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## **1. ORGANIZATION**

The West Virginia Higher Education Fund (the “Fund”) is comprised of the following:

- Bluefield State College
- Blue Ridge Community and Technical College
- Bridgemont Community and Technical College (formerly Community and Technical College at West Virginia University Institute of Technology)
- Concord University
- Eastern West Virginia Community and Technical College
- Fairmont State University
- Glenville State College
- Marshall University (including Marshall University Graduate College)
- Marshall Community and Technical College
- New River Community and Technical College
- Shepherd University
- Southern West Virginia Community and Technical College
- West Liberty University (formerly West Liberty State College)
- West Virginia Council for Community and Technical College Education
- West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing)
- West Virginia Northern Community College
- West Virginia State University
- West Virginia State Community and Technical College (Kanawha Valley Community and Technical College effective July 1, 2009)
- West Virginia School of Osteopathic Medicine
- West Virginia University (including Potomac State College and West Virginia University Institute of Technology)
- West Virginia University at Parkersburg Community and Technical College

The Fund is a discretely presented component unit of the State of West Virginia (the “State”).

Each college and university (the “Institutions”) in the Fund is governed by its own Governing Board, which is responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. The West Virginia Higher Education Policy Commission (the “Policy Commission”), in accordance with Senate Bill No. 653, is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. The Policy Commission is comprised of 10 persons appointed by the Governor with the advice and consent of the Senate. Senate Bill No. 448 gives the West Virginia Council for Community and Technical College Education (the “Council”) the responsibility of developing, overseeing, and advancing the State’s public policy agenda as it relates to community and technical college education. The Council is comprised of 12 persons appointed by the Governor with the advice and consent of the Senate.

During fiscal year 2008, House Bill No. 3215 was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the “Universities”) established their own Boards of Governors. Except for Fairmont State University and Pierpont Community and Technical College which were granted an extension to be effective July 1, 2009, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities as required. The division of all assets and liabilities was effective retroactively to July 1, 2008. The amount of net assets transferred out from the Universities to the separately established community and technical colleges was \$26,111,703 during 2009. The Universities and the separately established community and technical colleges developed a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Fund 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 combined financial statements.

**Reporting Entity** — The accompanying combined financial statements present all entities under the authority of the Fund under GASB Statement No. 14, *The Financial Reporting Entity*, including:

- Concord University Research and Development Corporation
- Glenville State College Research Corporation
- Glenville State College Housing Corporation
- Marshall University Research Corporation (MURC)
- Shepherd University Research and Development Corporation
- West Virginia State University Research and Development Corporation
- West Virginia University Research and Development Corporation

These entities are included in the combined financial statements as blended component units of the Fund.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund’s ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund are not part of the Fund’s reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the foundations and other affiliates under GASB Statement No. 14.

The Fund applies GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units, an amendment to GASB Statement No. 14* and as a result, certain component units' financial statements are discretely presented here with the Fund's financial statements. The component units are the separate private nonprofit organization of each applicable institution that are required to be reported under GASB No. 39. These discretely presented component unit organizations report under FASB standards, including FASB Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The component units consist of foundations and other entities which meet the criteria for inclusion under GASB No. 39.

**Financial Statement Presentation** — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a combined basis to focus on the Fund as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Fund obligations. The Fund's net assets are classified as follows:

- *Invested in Capital Assets — Net of Related Debt* — This represents the Fund's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets — net of related debt.
- *Restricted Net Assets — Expendable* — This includes resources in which the Fund is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia 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 No. 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

- *Restricted Net Assets — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted Net Assets* — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

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

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

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 the 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 and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of eight investment pools and participant-directed accounts (seven in 2008), three of which the state and local governmental agencies invest. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

**Investments** — GASB Statement No. 31 requires the Fund to record certain investment balances at fair value. As provided in the statement, the Fund's investments maintained by the BTI and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Other investments, other than alternative investments, are presented at fair value, based upon quoted market prices.

The alternative investments are carried at fair value as of June 30, 2009 and 2008. These valuations include assumptions and methods that were reviewed by Fund management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The majority of the alternative investments have a readily determinable market value. The Fund believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2009 and 2008. Because a portion of alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligation); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements, asset-backed securities; certificates of deposits; 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.

The Fund's investments held with the foundations and other agents are governed by investment policies that determine the permissible investments by category. The holdings include appropriately rated U.S. debt and equity securities, foreign debt and equity securities, as well as alternative investments. The respective investment policies outline the acceptable exposure to each category of investment and generally outline a liquidity goal.

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

**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, or (3) held for permanently restricted net assets, is classified as a noncurrent asset in the combined statements of net assets.

**Capital Assets** — Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was approximately \$1.8 million and \$2.3 million for the years ended June 30, 2009 and 2008, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment. The combined financial statements reflect all adjustments required by GASB No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*.

**Deferred Revenue** — Cash received for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room, and board. Financial aid and other deposits are separately classified as deposits.

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

Effective July 1, 2007, the Fund 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 2007, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the Fund was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), State Capitol complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

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

The Fund'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 on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. This liability is then provided for under the multiple employer cost-sharing plan sponsored by the State.

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

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

**Risk Management** — The State's Board of Risk and Insurance Management (BRIM) provides general liability, medical malpractice liability, property and auto insurance coverage to the Fund and its employees. Such coverage is provided to the Fund through a self-insurance program maintained by BRIM for general liability, medical malpractice liability, and auto insurance coverage. BRIM maintains a self-insurance program to pay the first \$1 million of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1 million. The BRIM self-insurance programs may involve experience and exposure-related premiums.

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

The West Virginia University's (WVU) and Marshall University's (Marshall) Schools of Medicine (SOMs) have established a \$250,000 deductible program under BRIM's professional liability coverage for the SOMs effective July 1, 2005. Prior to this date, the SOMs were totally covered by BRIM at a limit of \$1 million per occurrence. Starting July 1, 2005, the SOMs assumed the risk and responsibility for any and all indemnity amounts up to \$250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance.

Under the program, the SOMs entered into an agreement with BRIM whereby the SOMs have on deposit \$4.6 million as of both June 30, 2009 and 2008, respectively, in escrow accounts created in the State Treasurer from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOMs. Additionally, the WVU Health Sciences Center also has on deposit \$14.0 million and \$13.3 million as of June 30, 2009 and 2008, respectively, in an investment earnings account with the West Virginia Foundation to cover the liabilities under this program. Marshall has a receivable from the University Physicians & Surgeons, Inc. for the funding it has agreed to provide for the self-insurance liability of \$4,673,642 and \$4,130,596 as of June 30, 2009 and 2008, respectively. Based on actuarial valuations of this self insurance program, the Fund has recorded a liability of \$24.8 million and \$20.9 million to reflect projected claim payments at June 30, 2009 and 2008, respectively, for both WVU's and Marshall's SOMs.

In addition, through its participation in the PEIA and third-party insurers, the Fund 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 insurers, the Fund has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

**Classification of Revenues** — The Fund has classified its revenues according to the following criteria:

- *Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, (4) federal appropriations for land grant institutions, and (5) sales and services of educational activities.
- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting*, and GASB Statement No. 34, such as State appropriations and investment income.
- *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

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

**Federal Financial Assistance Programs** — The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through the institutions within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Fund's combined statements of net assets. In 2009 and 2008, the Fund received and disbursed, or awarded, approximately \$377 million and \$315 million, respectively, under both Student Loan Programs, which is not included as revenue and expense on the combined statements of revenues, expenses, and changes in net assets.

The Fund also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2009 and 2008, the Fund received and disbursed approximately \$94 million and \$82 million, 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 combined statements of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the Fund, and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College 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. The Fund 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** — The Fund is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

**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 combined statements of cash flows.

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

**Reclassification** — Certain reclassifications have been made to the 2008 financial statements to conform to the 2009 classifications. Revenues from Pell grants in the amount of approximately \$71,930,000 were reclassified from operating revenues to nonoperating revenues.

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

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

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

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

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

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

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2009 and 2008, was held as follows (dollars in thousands):

	<b>2009</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer:			
Fund	\$ 364,194	\$ 52,529	\$ 416,723
Municipal Bond Commission	5,526		5,526
Trustee	96	20,806	20,902
Bank	41,887	667	42,554
Cash equivalents	20,085	5,186	25,271
On hand	<u>102</u>		<u>102</u>
	<u>\$ 431,890</u>	<u>\$ 79,188</u>	<u>\$ 511,078</u>

	<b>2008</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer:			
Fund	\$ 338,090	\$ 50,736	\$ 388,826
Municipal Bond Commission	1,333	1,499	2,832
Trustee	314	44,825	45,139
Bank	34,418	505	34,923
Cash equivalents	19,873	5,257	25,130
On hand	<u>107</u>	<u>          </u>	<u>107</u>
	<u>\$ 394,135</u>	<u>\$ 102,822</u>	<u>\$ 496,957</u>

Amounts held by the Municipal Bond Commission or trustee represent various project revenue, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other amounts held by the State Treasurer include \$30.1 million and \$48.4 million of restricted cash at June 30, 2009 and 2008, respectively.

The combined carrying amounts of cash in the bank at June 30, 2009 and 2008, were \$42.6 million and \$34.9 million, as compared with the combined bank balance of \$38.1 million and \$43.3 million, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2009 and 2008, are comprised of the following investment pools:

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 is 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.

### **WV Money Market**

*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 the Fund's ownership represents 10.24% and 9.52%, respectively.

### **WV Government Money Market Pool**

*Credit Risk* — For the years ended June 30, 2009 and 2008, the WV Government 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 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 the Fund's ownership represents 0.77% and 1.15% 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):

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>
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.

At June 30, 2009 and 2008, the Fund's ownership represents 1.57% and 5.30% 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:

<b>Security Type</b>	<b>2009</b>		<b>2008</b>	
	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>
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	<u>150,223</u>	1	<u>150,058</u>	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:

<b>Security Type</b>	<b>2009</b>		<b>2008</b>	
	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>
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	<u>132</u>	1	<u>66</u>	1
	<u>\$ 283,826</u>	51	<u>\$ 187,064</u>	54

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:

<b>Security Type</b>	<b>Carrying Value (in Thousands)</b>	<b>Effective Duration (Days)</b>
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:

<b>Security Type</b>	<b>2008</b>	
	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>
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.

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.

Amounts with Trustee as of June 30, 2009 and 2008, are comprised of the following:

<b>Investment Type</b>	<b>Moody's Rating</b>	<b>Standard and Poor's Rating</b>	<b>2009</b>	<b>2008</b>
			<b>Carrying Value</b>	<b>Carrying Value</b>
U.S. Treasury money market fund	Aaa	AAAm	\$ 17,110	\$ 37,987
Commercial paper	Aaa	AAAm	153	921
Money market fund (Credit Enhancers/ Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	N/A	83	83
Money market fund	Aaa	N/A		3
Money market fund	AAA	N/A	364	2,953
Guaranteed Investment Contract (GIC)	N/A	N/A	<u>3,192</u>	<u>3,192</u>
			<u>\$ 20,902</u>	<u>\$ 45,139</u>

These investments have no significant custodial risk or interest rate risk and they are not exposed to a concentration of credit risk nor any foreign currency risk.

At both June 30, 2009 and 2008, the GIC investments of approximately \$3,192,000, have a fixed rate of interest of 5.18%. No rating is available for this investment.

The remaining amounts on deposit with Trustee are invested in funds, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities.

#### 4. INVESTMENTS

Investments at June 30, 2009, were as follows (dollars in thousands):

Investment Type	2009			Total
	Level 1	Level 2	Level 3	
Mutual Bond Funds:				
BTI Short Term Bond Pool	\$ 12,660	\$ -	\$ -	\$ 12,660
Income Research & Management	6,919			6,919
Other	3,672			3,672
State and Local Government Securities:				
Auction Rate Certificates		10,950		10,950
Mutual Money Market Funds:				
State Street Cash — SSGA Money Market		6,658		6,658
Mutual Stock Funds:				
MFS	2,335			2,335
Dodge & Cox Stock Fund	2,012			2,012
Other	1,834			1,834
Other Investments	2,257	477		2,734
Other Alternative Investments:				
CF Multi-Strategy Equity Fund		10,669		10,669
CF Multi-Strategy Bond Fund		8,342		8,342
CF Multi-Strategy Bond Investors Fund		5,728		5,728
CFI Multi-Strategy Equity Fund		3,795		3,795
Robeco-Sage Capital International			3,413	3,413
CF Intermediate Fund		1,887		1,887
Other		870	2,102	2,972
	<u>\$ 31,689</u>	<u>\$ 49,376</u>	<u>\$ 5,515</u>	<u>\$ 86,580</u>

Investments at June 30, 2008, were as follows (dollars in thousands):

	<b>2008</b>
Repurchase agreements	\$ 15,649
BTI — short-term bond pool	12,205
U.S. Bonds/TIPS Fund — IRM	6,613
Auction rate securities (WVU)	6,500
Stock fund:	
Dodge and Cox	4,597
MFS	
Other	
Money market	494
Mutual funds	3,908
U.S. Government securities	169
Other	2,901
Other alternative investments:	
Equity funds	21,934
Bond funds	19,249
Guaranteed investment contracts	11,462
Other	<u>9,137</u>
	<u>\$ 114,818</u>

Investments have been reported at fair value and categorized in 2009 as Level 1, 2, or 3. Level 1 represents investments that have a quoted price in the active markets. Level 2 represents investments with direct or indirect observable market inputs. Level 3 represents investments with no observable market.

Historically, the Fund was unable to invest excess operating funds outside of the Treasurer. In 2005, the West Virginia State Legislature passed Senate Bill No. 603 (S.B. 603). S.B. 203 granted WVU and Marshall the ability to invest a limited amount of funds with their foundations. The amounts invested with the two foundations at June 30, 2009 and 2008, were approximately \$44,694,000 and \$45,479,000, respectively.

In May 2008, the West Virginia University invested in the BTI's WV Short Term Bond Pool an amount which represents long-term investment monies of the University. The WV Short Term Bond Pool is a bond mutual fund which was created to invest monies of participants which have a perceived longer term investment horizon. The goal of the portfolio is to earn incremental returns over the WV Money Market Pool with an objective of capital growth rather than current income. The portfolio is restricted to monthly contributions and withdrawals and calculates a per-unit price each month. The risk factor on this portfolio is higher than the WV Money Market Pool. See additional disclosures in Note 3. As of June 30, 2009 and 2008, the investment was \$12.7 million and \$12.2 million, respectively.

WVU, through its board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARC's are variable rate debt that reset at auction every 28 days. Based on guidance from bond counsel, the WVU Research and Development Corporation began to submit bids to purchase the ARC's in the April 23, 2008 auction. At June 30, 2009 and 2008, the carrying value of these investments was approximately \$10.95 million and \$6.5 million, respectively. These ARCs mature in October 2012. These investments have been rated A+ by Standard & Poor's for both years.

At June 30, 2009 and 2008, certain other investments had the following Standard and Poor's (S&P) ratings:

Investment Type	Standard & Poor's Rating	
	2009	2008
Income Research & Management (IRM)	AA	AA+
State Street Cash — SSGA Money Market	Am	-
CF Multi-Strategy Bond Fund	AA	AA
CF Multi-Strategy Bond Investors Fund	AA	AA
CF Intermediate Fund	AA	AA+

The repurchase agreements of approximately \$15,649,000 invest in securities issued by the United States government or the Government National Mortgage Association, and securities issued or guaranteed by Freddie Mac or Fannie Mac or other agency, corporation, or instrumentality of the United States of America and such other securities as the Royal Bank of Canada and the Bond Trustee may agree to in writing. These funds have no significant custodial credit risk or interest rate risk and are not exposed to a concentration of credit risk nor any foreign currency risk.

At June 30, 2008, approximately \$6,613,000 of U.S. Bonds/TIPS Fund — IRM were rated AA+ by Standard & Poor's.

Approximately \$11,462,000 as of June 30, 2008, of the GIC investments are unsecured GICs with FSA Capital Management Services L.L.C., a subsidiary of FSA Incorporated and have a rating of AAA by S&P and Aaa by Moody's. These GICs had a fixed rate of interest of 2.83%, and were restricted by the bond indenture. The interest risk was minimized by the maturity date being through May 5, 2009. The investment was not exposed to any foreign currency risk.

Remaining investments have not been rated.

Other than listed above, these investments have no significant custodial credit risk or interest rate risk and they are not exposed to a concentration of credit risk or any foreign currency risk.

## 5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009 and 2008, were as follows (dollars in thousands):

	2009	2008
Students — net of allowance of \$11,502 and \$10,332 in 2009 and 2008, respectively	\$ 10,810	\$ 8,975
Grants and contracts — net of allowance of \$1,101 and \$877 in 2009 and 2008, respectively	42,708	41,495
Auxiliary services — net of allowance of \$713 and \$399 in 2009 and 2008, respectively	1,945	1,345
Due from State and State agencies	3,948	2,672
Other — net of allowance of \$14 and \$12 in 2009 and 2008, respectively	<u>12,396</u>	<u>12,378</u>
	<u>\$ 71,807</u>	<u>\$ 66,865</u>

## 6. CAPITAL ASSETS

The following, for the years ended June 30, 2009 and 2008, is a summary of capital assets transactions for the Fund (dollars in thousands):

	2009			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 73,325	\$ 1,361	\$ 965	\$ 73,721
Construction in progress	142,108	132,903	140,028	134,983
Other	132			132
Total capital assets not being depreciated	<u>\$ 215,565</u>	<u>\$134,264</u>	<u>\$140,993</u>	<u>\$ 208,836</u>
Other capital assets:				
Land improvements	\$ 49,126	\$ 2,694	\$ 77	\$ 51,743
Infrastructure	289,578	24,046	685	312,939
Buildings	1,799,161	121,638	7,470	1,913,329
Equipment	290,624	26,543	23,413	293,754
Software	45,646	1,571	225	46,992
Library books	135,703	8,477	724	143,456
Intangibles		670		670
Total other capital assets	<u>2,609,838</u>	<u>185,639</u>	<u>32,594</u>	<u>2,762,883</u>
Less accumulated depreciation for:				
Land improvements	14,509	3,153	30	17,632
Infrastructure	219,176	9,906	217	228,865
Buildings	482,749	37,661	3,774	516,636
Equipment	189,529	22,876	21,205	191,200
Software	43,004	1,339	166	44,177
Library books	108,794	7,145	689	115,250
Intangibles		33		33
Total accumulated depreciation	<u>1,057,761</u>	<u>82,113</u>	<u>26,081</u>	<u>1,113,793</u>
Other capital assets — net	<u>\$ 1,552,077</u>	<u>\$103,526</u>	<u>\$ 6,513</u>	<u>\$ 1,649,090</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 215,565	\$134,264	\$140,993	\$ 208,836
Other capital assets	<u>2,609,838</u>	<u>185,639</u>	<u>32,594</u>	<u>2,762,883</u>
Total cost of capital assets	2,825,403	319,903	173,587	2,971,719
Less accumulated depreciation	<u>1,057,761</u>	<u>82,113</u>	<u>26,081</u>	<u>1,113,793</u>
Capital assets — net	<u>\$ 1,767,642</u>	<u>\$237,790</u>	<u>\$147,506</u>	<u>\$ 1,857,926</u>

	<b>2008</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 70,214	\$ 4,123	\$ 1,012	\$ 73,325
Construction in progress	242,553	153,800	254,245	142,108
Other	<u>132</u>			<u>132</u>
Total capital assets not being depreciated	<u>\$ 312,899</u>	<u>\$157,923</u>	<u>\$255,257</u>	<u>\$ 215,565</u>
Other capital assets:				
Land improvements	\$ 27,414	\$ 22,314	\$ 602	\$ 49,126
Infrastructure	277,922	11,670	14	289,578
Buildings	1,570,933	234,590	6,362	1,799,161
Equipment	276,076	31,080	16,532	290,624
Software	44,307	1,509	170	45,646
Library books	<u>127,788</u>	<u>8,550</u>	<u>635</u>	<u>135,703</u>
Total other capital assets	<u>2,324,440</u>	<u>309,713</u>	<u>24,315</u>	<u>2,609,838</u>
Less accumulated depreciation for:				
Land improvements	12,291	2,706	488	14,509
Infrastructure	209,282	9,888	(6)	219,176
Buildings	448,451	34,289	(9)	482,749
Equipment	181,060	23,284	14,815	189,529
Software	41,606	1,263	(135)	43,004
Library books	<u>102,197</u>	<u>7,212</u>	<u>615</u>	<u>108,794</u>
Total accumulated depreciation	<u>994,887</u>	<u>78,642</u>	<u>15,768</u>	<u>1,057,761</u>
Other capital assets — net	<u>\$ 1,329,553</u>	<u>\$231,071</u>	<u>\$ 8,547</u>	<u>\$ 1,552,077</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 312,899	\$157,923	\$255,257	\$ 215,565
Other capital assets	<u>2,324,440</u>	<u>309,713</u>	<u>24,315</u>	<u>2,609,838</u>
Total cost of capital assets	2,637,339	467,636	279,572	2,825,403
Less accumulated depreciation	<u>994,887</u>	<u>78,642</u>	<u>15,768</u>	<u>1,057,761</u>
Capital assets — net	<u>\$ 1,642,452</u>	<u>\$388,994</u>	<u>\$263,804</u>	<u>\$ 1,767,642</u>

The Fund 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.

The Fund has construction commitments at June 30, 2009, of approximately (dollars in thousands):

Bluefield State College	\$ 208
Concord University	4,000
Eastern West Virginia Community and Technical College	178
Fairmont State University	1,731
Marshall University	1,300
West Liberty State College	247
West Virginia Northern Community College	294
West Virginia School of Osteopathic Medicine	3,126
West Virginia University	<u>31,100</u>
	<u>\$42,184</u>

## 7. LONG-TERM LIABILITIES

The following, for the years ended June 30, 2009 and 2008, is a summary of long-term obligation transactions for the Fund (dollars in thousands):

	<u>2009</u>				<u>Current Portion</u>
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	
Bonds, capital leases, and notes payable:					
Notes payable	\$ 20,949	\$ 11,534	\$ (390)	\$ 32,093	\$ 885
Capital leases payable	46,827	4,539	(4,604)	46,762	2,536
Revenue bonds payable	<u>703,593</u>	<u>          </u>	<u>(24,169)</u>	<u>679,424</u>	24,396
Total bonds, capital leases, and notes payable	771,369	16,073	(29,163)	758,279	
Advances from federal sponsors	41,667	75	(200)	41,542	
Accrued compensated absences	41,020	4,022	(1,688)	43,354	40,141
Deferred interest payable	22,426	3,634		26,060	
OPEB liability	10,288	13,702		23,990	
Other noncurrent liabilities	<u>23,511</u>	<u>6,711</u>	<u>(3,720)</u>	<u>26,502</u>	287
Total long-term liabilities	<u>\$910,281</u>	<u>\$44,217</u>	<u>\$ (34,771)</u>	<u>\$919,727</u>	

	<b>2008</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Bonds, capital leases, and notes payable:					
Notes payable	\$ 6,886	\$ 14,156	\$ (93)	\$ 20,949	\$ 165
Capital leases payable	37,243	15,564	(5,980)	46,827	4,578
Revenue bonds payable	<u>703,497</u>	<u>24,102</u>	<u>(24,006)</u>	<u>703,593</u>	23,388
Total bonds, capital leases, and notes payable	747,626	53,822	(30,079)	771,369	
Advances from federal sponsors	42,293	525	(1,151)	41,667	
Accrued compensated absences	100,027	9,938	(68,945)	41,020	34,826
Deferred interest payable	19,003	3,423		22,426	
OPEB liability		10,288		10,288	
Other noncurrent liabilities	<u>19,274</u>	<u>5,263</u>	<u>(1,026)</u>	<u>23,511</u>	843
Total long-term liabilities	<u>\$928,223</u>	<u>\$ 83,259</u>	<u>\$(101,201)</u>	<u>\$910,281</u>	

## 8. OTHER POST EMPLOYMENT BENEFITS

With the adoption of GASB Statement No. 45 for the year ended June 30, 2008, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2009 and 2008, the noncurrent liability related to OPEB costs was \$24,192,135 and \$10,287,932, respectively. For the year ended June 30, 2008, the Fund recorded a cumulative effect of the adoption of this accounting principle of \$61,858,387 an amount equal to the June 30, 2007 liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$44,835,894 and \$20,856,773, respectively, during 2009, and \$52,681,934 and \$24,110,949, respectively, during 2008. As of June 30, 2009 and 2008, there were approximately 1,160 and 1,170 retirees receiving these benefits, respectively.

## 9. LEASE OBLIGATIONS

**Capital** — The Fund leases certain property, plant, and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2009 (dollars in thousands):

<b>Years Ending June 30</b>	<b>Total</b>
2010	\$ 4,698
2011	4,550
2012	13,217
2013	3,673
2014	3,735
2015–2019	18,554
2020–2024	11,022
2025	<u>220</u>
Future minimum lease payments	59,669
Less interest	<u>12,907</u>
Total	<u><u>\$46,762</u></u>

The following are related-party capital leases:

Marshall has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the “MUGC Foundation”) for the Marshall University Graduate College’s administration facility (the “Facility”). The fair value of the Facility was estimated by independent appraisal during the year ended June 30, 1995, at \$5 million (building \$4.3 million and land \$700,000), and the 21-year lease term commenced with the Marshall University Graduate College’s occupancy of the Facility in June 1995. Ownership of the Facility transfers to Marshall at the end of the lease term.

**Operating** — The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2009, are as follows (dollars in thousands):

<b>Years Ending June 30</b>	
2010	\$ 8,056
2011	6,765
2012	5,828
2013	5,016
2014	5,227
2015–2019	17,498
2020–2024	9,880
2025–2029	9,880
2030–2034	<u>3,955</u>
Total	<u><u>\$72,105</u></u>

Total rent expense for these operating leases for the years ended June 30, 2009 and 2008, was approximately \$10.6 million and \$9.9 million, respectively.

The following is a related-party operating lease:

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving 30 days' written notice.

## **10. NOTES PAYABLE**

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation (Eddie Mac) to have available a line of credit of \$3.5 million to be used to renovate dormitories. As of June 30, 2009 and 2008, West Virginia State University had \$2,718,067 and \$2,810,043 outstanding, respectively, at an interest rate of approximately 6.3% with monthly principal and interest payments of approximately \$21,068 payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State University's dormitories and receives a monthly service fee. West Virginia State University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

During fiscal year 2008, West Virginia University Research Corporation drew their final approximately \$2.1 million on their \$6 million loan with West Virginia Housing Development Fund (WVHDF). The proceeds of the WVHDF loan were disbursed on a draw basis as construction progressed. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The note is due 240 months from the closing date of October 24, 2005. A note modification agreement dated April 26, 2007, allows the West Virginia University Research Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009, and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest is amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2009, and June 30, 2008, was \$468,000 and \$305,000, respectively, and is included in notes payable on the statement of net assets.

During fiscal year 2008, West Virginia University Research Corporation drew the entire amount of their \$9 million loan with West Virginia Economic Development Authority (WVEDA). The proceeds of the WVEDA loan were disbursed on a draw basis as construction progressed. The principal balance of the WVEDA loan bears interest at a fixed rate of 5.51% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest on the loan will accrue but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2009, and June 30, 2008, was \$886,000 and \$354,000, respectively, and is included in the notes payable on the statement of net assets.

During fiscal year 2009, the West Virginia University Research Corporation drew the entire amount of their \$9.4 million loan with West Virginia Infrastructure and Jobs Development Council (WVIJDC). The proceeds of the WVIJDC were disbursed on a draw basis as construction progressed. The principal balance of the WVIJDC loan bears interest at a fixed rate of 3% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest on the loan will accrue but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2009, was \$139,000 and is included in notes payable on the statement of net assets. After the expiration of the five-year period, the interest rate applicable to \$3 million in principal for the balance of the term of the loan will be based on the satisfaction of certain employment criteria.

During fiscal year 2008, MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments commencing on October 10, 2008, for the interest due on the loan semi-annually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. Any remaining principal balance shall be payable in full on April 10, 2028. The interest rate on the bonds is 3.2% at April 10, 2008, and continuing to and including year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date plus 1.67% per annum. The principal balance at June 30, 2009 and 2008 is \$2,890,606 and \$3 million, respectively.

During fiscal 2009, Glenville State College entered into a \$635,000 promissory note collateralized by a first lien on various parcels of real estate and a motel building. Interest is 6.56% with annual principal payments of \$15,249. The note matures May 2030.

The Fund also has other notes of approximately \$20,000 and \$100,000 outstanding at June 30, 2009 and 2008, respectively.

Principal maturities for the years ending after June 30, 2009, are as follows (dollars in thousands):

<b>Years Ending June 30</b>	
2010	\$ 885
2011	1,321
2012	1,471
2013	1,541
2014	1,612
2015–2019	9,216
2020–2024	11,538
2025–2029	<u>4,509</u>
Total	<u>\$ 32,093</u>

## 11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund, at June 30, 2009 and 2008, have the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Annual Installments	Principal Outstanding	
			2009	2008
West Virginia University — Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement Bonds 2004, Series A, due through 2035	Variable	\$975–\$4,200	\$ 11,625	\$ 15,450
West Virginia University — Revenue Refunding Bonds 2004, Series B, due through 2021	5.00 %	\$0–\$6,685	55,430	55,430
West Virginia University — Revenue Improvement Bonds 2004, Series C, due through 2035	5.00 %	\$0–\$12,780	138,710	138,710
Marshall University — University Facilities Revenue Bonds 2001, due through 2031	5.30 %	\$1,045–\$3,035	41,775	42,820
Glenville State University — Student Housing Bonds, Series 2000A, due 2030	6.20 %	\$90–\$1,280	4,410	4,505
Glenville State University — Campus Community Center Bonds, Series 2006, due 2026	4.30 % (10-year reset)	\$50–\$456	1,375	1,426
Glenville State University — Science Building Bonds, Series 2007, due in 2037	4.68 % (10-year reset)	\$127	3,985	4,052
Fairmont State University — College Facilities Revenue Bonds 2002, Series A, due through 2032	5.38 %	\$390–\$1,145	15,995	16,385
Fairmont State University — Infrastructure Revenue Bonds 2002, Series B, due through 2032	5.00 %	\$205–\$565	8,070	8,275
Fairmont State University — College Facilities Revenue Bonds 2003, Series A, due through 2032	5.25 %	\$300–\$860	12,160	12,460
Fairmont State University — Student Activity Revenue Bonds 2003, Series B, due through 2032	5.25 %	\$520–\$1,475	20,920	21,440
Fairmont State University — Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18 % (10-year reset)	\$303–\$611	7,622	7,925
Shepherd University — Student Fee Revenue Bonds, due through 2033	5.13 %	\$105–\$370	5,440	5,555
Shepherd University — Infrastructure Revenue Bonds, Series 2004B, due through 2024	4.50 %	\$125–\$240	2,730	2,865
Shepherd University — Residence Facilities Revenue Bonds, due through 2035	5.00 %	\$435–\$1,450	22,040	22,490
Shepherd University — Wellness Center Facilities Revenue Bonds, Series 2007, due through 2037	4.77 %	\$435–\$1,170	19,055	19,400
WV State University — Student Union Revenue Bonds 2002, Series A, due through 2022	6.20 %	\$215–\$420	4,120	4,350
West Liberty State University — Dormitory Revenue Bonds 2003, Series A, due through 2028	6.13 %	\$225–\$650	7,650	7,875
West Liberty State University — University Union Revenue Bonds 2003, Series B, due through 2018	5.63 %	\$75–\$120	865	940
West Liberty State University — Capital Improvement Revenue Bonds 2003, Series C, due through 2028	6.00 %	\$100–\$285	3,345	3,445
			387,322	395,798
Less unamortized bond discount			(575)	(516)
Loss on bond defeasance			(3,235)	(3,994)
Add unamortized bond premium			5,378	5,587
			<u>\$388,890</u>	<u>\$396,875</u>

Prior to fiscal 2003, each of the above bond issues was specific to an individual institution within the Fund, although the bonds were also issued in the names of the Fund's former governing boards, previously responsible for the governance of the State's higher education system. The bonds issued after fiscal 2002 were issued by the Institution's Governing Board only.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2009, is as follows (dollars in thousands):

<b>Years Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2010	\$ 8,838	\$ 18,534	\$ 27,372
2011	9,202	18,170	27,372
2012	9,602	17,809	27,411
2013	9,968	17,441	27,409
2014	10,239	17,053	27,292
2015–2019	58,703	77,887	136,590
2020–2024	73,709	61,967	135,676
2025–2029	88,311	41,757	130,068
2030–2034	86,926	18,514	105,440
2035–2038	<u>31,824</u>	<u>1,734</u>	<u>33,558</u>
Total	<u>\$ 387,322</u>	<u>\$ 290,866</u>	<u>\$ 678,188</u>

## 12. SYSTEM BONDS PAYABLE

The Fund receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Fund's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Fund with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's universities and colleges, including certain facilities within the Fund. Financing for these facilities was provided through revenue bonds issued by various former governing boards which are now administered by the Policy Commission.

The Policy Commission has the authority to assess each institution of the Fund for payment of debt service on these system bonds. The tuition and registration fees of the Institutions are generally pledged as collateral for the Fund's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain a capital obligation of the Fund.

The 2007 Series A Bonds were issued in April 2007 in the original principal amount of \$25,915,000 with rates up to 5% and a total all-in interest cost of 4.34%, maturing serially through April 1, 2027. The 2007 Series A Bonds were issued to provide funding for a refinancing of a portion of the State College System 1997 Series A Bonds (\$7,885,000), State University System 1997 Series A Bonds (\$9,990,000), and State University System 2000 B Bonds (\$6,970,000). The amount refinanced was \$24,815,000 and with the reduced interest rates will provide a total cash savings of \$1,813,791 to the State. The economic gain on the refinancing was \$1,253,171.

The Commission, at June 30, 2009 and 2008, has the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Original Range of Annual Installments	Principal Outstanding	
			2009	2008
Series 1998 — University System Bonds, due through 2028	5.25 %	\$1,065–\$3,625	\$ 44,930	\$ 46,265
Series 2000A — University System Bonds, due through 2031	6.26	\$0–\$3,264	36,591	36,591
Series 2000B — University System Bonds, due through 2010	5.96	\$210–\$625	285	555
Series 2003A — University Facilities Bonds, due through 2012	5.00	\$5,740–\$7,875	22,520	29,320
Series 2003A — College Facilities Bonds, due through 2012	5.00	\$2,325–\$2,690	6,520	9,025
Series 2004B — Higher Education Facilities Bonds, due through 2034	6.00	\$2,680–\$9,520	147,925	151,720
Series 2007A — Revenue Refunding Bonds, due through 2027	5.00	\$185–\$1,880	<u>25,010</u>	<u>25,730</u>
			283,781	299,206
Add bond premium and deferred gain			<u>6,753</u>	<u>7,512</u>
			<u>\$290,534</u>	<u>\$306,718</u>

A summary of the annual aggregate principal payments for years subsequent to June 30, 2009, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2010	\$ 16,070	\$ 12,182	\$ 28,252
2011	16,780	11,456	28,236
2012	15,985	10,683	26,668
2013	10,474	13,435	23,909
2014	10,627	13,285	23,912
2015–2019	52,675	63,310	115,985
2020–2024	57,282	56,324	113,606
2025–2029	58,500	45,740	104,240
2030–2034	<u>45,388</u>	<u>18,201</u>	<u>63,589</u>
Total	<u>\$ 283,781</u>	<u>\$ 244,616</u>	<u>\$ 528,397</u>

### 13. UNRESTRICTED NET ASSETS

The Fund's unrestricted net assets at June 30, 2009 and 2008, include certain designated net assets as follows:

	<b>2009</b>	<b>2008</b>
Designated for auxiliaries	\$ 2,598	\$ 7,179
Designated for repair and replacement of property	1,195	10,300
Designated for new projects		1,560
Designated for affiliate organizations	103	273
Undesignated	<u>199,510</u>	<u>183,730</u>
Total unrestricted net assets	<u>\$ 203,406</u>	<u>\$ 203,042</u>

### 14. RETIREMENT PLANS

Substantially all full-time employees of the Fund participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable 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. 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 New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

Total contributions to Educators Money for the years ended June 20, 2009, 2008, and 2007, were \$730,900, \$669,000, and \$559,700, respectively, which consisted of approximately \$362,300, \$331,400, and \$276,700, from the Fund in 2009, 2008, and 2007, respectively, and approximately \$368,600, \$337,700, and \$283,000, from the covered employees in 2009, 2008, and 2007, respectively.

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

Total contributions to the STRS for the years ended June 30, 2009, 2008, and 2007, were approximately \$6,993,700, \$6,893,000, and \$7,043,000 respectively, which consisted of approximately \$4,884,200, \$4,779,200, and \$4,885,500, from the Fund in 2009, 2008, and 2007, respectively, and approximately \$2,149,500, \$2,113,800, and \$2,158,000, from the covered employees in 2009, 2008, and 2007, respectively.

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

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% of total annual compensation. The Fund matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by the Fund.

Total contributions to the TIAA-CREF for the years ended June 30, 2009, 2008, and 2007, were approximately \$69.8 million, \$65.8 million, and \$61.8 million, respectively, which consisted of approximately \$34.9 million, \$32.9 million, and \$30.9 million, from the Fund and from the covered employees in 2009, 2008, and 2007, respectively.

The Fund's total payroll for the years ended June 30, 2009 and 2008, was approximately \$694.8 million and \$642.5 million, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$39.1 million, \$587.5 million, and \$6.8 million, for the year ended June 30, 2009, and \$36.9 million, \$543.5 million, and \$5.5 million for the year ended June 30, 2008.

## **15. FOUNDATIONS**

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose "... to aid, strengthen, and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations ...". Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the combined financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore discretely presented with the Fund's combined financial statements in accordance with GASB Statement No. 39.

The West Virginia University Foundation, Incorporated is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled \$426.0 million and \$540.9 million at June 30, 2009 and 2008, respectively. The Eastern West Virginia Community and Technical College Foundation Inc. is not included for the years ended June 30, 2009 and 2008, because it was not significant to its institution. The Higher Education Foundation is not included for the years ended June 30, 2009 and 2008, because it does not entirely or almost entirely benefit any one institution and because it was not significant to the Fund. Blue Ridge Community and Technical College and Kanawha Valley Community and Technical College do not have related foundations. MCTC Foundation, Inc. is not included for the year ended June 30, 2009, because it only came into existence

effective July 1, 2009. Tech Foundation, Inc. is not included for the years ended June 30, 2009 and 2008, because it is not significant to the Fund.

Complete financial statements for any discretely presented component unit foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301. See also Note 19.

## **16. OTHER DISCRETE COMPONENT UNITS**

In addition to the Foundations included as discretely presented component units, the Fund has two other component units which are material and entirely or almost entirely for the benefit of the Fund's individual institutions. Oversight of the other discrete component units is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund.

## **17. AFFILIATED ORGANIZATIONS**

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under GASB No. 14. They are not included in the Fund's accompanying financial statements under GASB No. 39 as discretely presented component units because they are (1) not significant or (2) have dual purpose (i.e., not entirely or almost entirely for the benefit of the Fund).

## **18. CONTINGENCIES AND COMMITMENTS**

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

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. Management believes disallowances, if any, would not have a significant financial impact on the Fund's financial position.

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

The Fund and Institutions within the Fund own various buildings that are known to contain asbestos. The Fund is not required by federal, state, or local law to remove the asbestos from the buildings. The Fund is required by federal environmental, health, and safety regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund 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.

**Commitments** — West Virginia University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were approximately \$9.1 million and \$7.9 million in 2009 and 2008, respectively. West Virginia University anticipates meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

## 19. COMPONENT UNITS' DISCLOSURES

The following are the significant notes for the financial statements of the discretely presented component units:

### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations** — The foundations are nonprofit organizations incorporated in the State of West Virginia. The primary purpose of the foundations is to provide assistance and support for the students, facilities, and programs of their respective institution. The other two component units are also nonprofit organizations, one incorporated in the State of West Virginia and one in Delaware. Their primary purpose is also to support their respective institutions.

**Basis of Presentation** — Financial statement presentation follows the requirements of 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 component units are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

**Basis of Accounting** — The financial statements of the component units are presented on the accrual basis of accounting, in accordance with accounting principles generally accepted in the United States of America (GAAP). Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the component units and changes therein are classified and reported as follows:

*Unrestricted Net Assets* — Net assets that are not subject to donor-imposed stipulations.

*Temporarily Restricted Net Assets* — Net assets subject to donor-imposed stipulations that will be met either by actions of the component units and/or the passage of time.

*Permanently Restricted Net Assets* — Net assets subject to donor-imposed stipulations that they be maintained permanently by the component units. Generally, the donors of these assets permit the component units to use all or part of the income earned from related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the component units on behalf of an Institution and/or departments of the Institution are reported as custodial liabilities. The component units are responsible for the management and administration of these funds.

**Investments** — The component units account for their investments in accordance with GAAP. Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets.

**Property and Equipment** — Purchased assets are recorded at cost. Donated assets are recorded at their fair value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the assets.

**Gift Annuities** — The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

**Contributions** — Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

**Newly Adopted Statements Issued by the FASB** — The FASB has issued FASB Staff Position (FSP) FAS 117-1, *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 Disclosures for All Endowment Funds*, effective for fiscal years ending after December 15, 2008. This statement provides guidance on classifying net assets for entities in jurisdictions that have enacted as state law a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA). This statement also requires new disclosures about endowment funds, including board-designated endowment funds. See separately issued component unit financial statement for endowment related disclosures. For the year ended June 30, 2009, there were no material reclasses among net asset classes nor were there material changes in the endowments.

The FASB also issued SFAS No. 157, *Fair Value Measurements*, effective for fiscal years beginning after November 15, 2007. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and expands disclosures about fair value measurements. See separately issued component unit financial statements for fair value disclosures. At June 30, 2009, there were not material items classified as Level 3 in the fair value hierarchy.

**Recent Statements Issued by the FASB** — In December 2008, FASB issued FASB Staff Position 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which amends FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits* — an amendment of FASB Statements No. 87, 88, and 106, to provide guidance on an employer's disclosures

about plan assets of a defined benefit pension or other postretirement plan. The disclosures primarily focus on the valuation of plan assets by category, including valuation techniques and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 is effective for the fiscal year ending June 30, 2010. The component units have not yet determined the impact adoption of this standard may have on the financial statements.

In June 2009, SFAS No. 168, *The FASB Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*, was issued. The objective of this pronouncement is to integrate and topically organize all relevant accounting pronouncements comprising GAAP into a single codified database. SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, identified the sources of accounting principles and the framework for selecting the principles used in preparing financial statements in accordance with GAAP. Statement No. 168 is effective beginning July 1, 2009 and will not have an impact on the financial statements.

In September 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-06, *Income Taxes (Topic 740): Implementation Guidance on Accounting for Uncertainty in Income Taxes and Disclosure Amendments for Nonpublic Entities*, effective for fiscal years ending after September 15, 2009. ASU No. 2009-06 provides clarification on accounting for uncertainty in income taxes as it relates to nonpublic entities and as was previously provided for in FASB Interpretation (FIN) No. 48, *Accounting for Uncertainty in Income Taxes — an interpretation of FASB Statement No. 109*. ASU No. 2009-06 also provides guidance on the disclosures required by nonpublic entities. The component units have not yet determined the impact adoption of this standard may have on the financial statements, if any.

#### **PLEDGES RECEIVABLE**

Pledges receivable represent amounts due to the foundations for legally enforceable pledges.

## INVESTMENTS

The component units' investment securities at June 30, 2009 and 2008, are composed of the following:

	2009												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
Cash and temporary investments	\$ 430,070	\$ 1,276,062	\$ 635,714	\$ -	\$ -	\$ -	\$ 1,716,153	\$ 1,458,306	\$ -	\$ 570,042	\$ -	\$ 370,882	\$ 1,264,514
U.S. Government securities	1,147,251	2,903,962			863,890		1,216,103	9,148,140	244,456	251,695		353,627	
Corporate and municipal bonds and notes	241,985	1,102,284	1,114,034			25,593,324	4,951,979	161,358	728,433	47,604		541,543	1,034,277
Mutual funds	119,847	7,746,851	4,005,274	8,959,759					4,914,866	115,429		1,570,266	2,630,674
Equity investments	4,038,530	4,998,775	3,697,823	209,692	848,002	38,729,426		8,931,547	1,578,036	612,804		381,996	466,822
Other		339,805	102,134	704,914	36,606	12,751,031		144,799	356,278	55,597	18,800		
	<u>\$5,977,683</u>	<u>\$18,367,739</u>	<u>\$9,554,979</u>	<u>\$9,874,365</u>	<u>\$1,748,498</u>	<u>\$77,073,781</u>	<u>\$7,884,235</u>	<u>\$19,844,150</u>	<u>\$7,822,069</u>	<u>\$1,653,171</u>	<u>\$18,800</u>	<u>\$3,218,314</u>	<u>\$5,396,287</u>
	2008												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	Greenbrier Community College Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Cash and temporary investments	\$ -	\$ -	\$ 802,970	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,710,925	\$ -	\$ 605,237	\$ -	\$ 3,119
U.S. Government securities	1,159,703	4,126,374				1,031,002		170,325	9,737,564	856,226	353,347		601,454
Corporate and municipal bonds and notes	515,753	1,469,635	2,762,137				22,854,907	38,917,713	489,399	193,671	47,921		541,862
Mutual funds	122,637	7,698,616	3,697,892	6,458,189						5,316,684	55,130		1,438,360
Equity investments	4,951,173	8,077,146	3,858,071	258,002		309,399	46,829,899		9,510,567	3,778,226	652,048		954,599
Other	429,370	339,805	138,364	704,914	844,391	25,717	23,943,236		148,804	356,278	35,420	20,632	
	<u>\$7,178,636</u>	<u>\$21,711,576</u>	<u>\$11,259,434</u>	<u>\$7,421,105</u>	<u>\$844,391</u>	<u>\$1,366,118</u>	<u>\$93,628,042</u>	<u>\$39,088,038</u>	<u>\$21,597,259</u>	<u>\$10,501,085</u>	<u>\$1,749,103</u>	<u>\$20,632</u>	<u>\$3,539,394</u>

The component units' property, plant, and equipment at June 30, 2009 and 2008, consists of the following:

	2009								
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land and land improvements	\$ 499,365	\$ -	\$ 15,000	\$ -	\$ 1,357,000	\$ 1,245,194	\$ -	\$ -	\$ 166,000
Buildings	4,714,694		86,000		285,000	75,965,559		2,285,211	1,276,425
Equipment	145,941	64,579	97,701	50,350	218,204	6,730,833	16,019	28,088	46,448
Construction in progress					6,385,426				
Accumulated depreciation	(430,714)	(48,756)	(55,035)	(45,653)	(327,300)	(2,129,975)	(11,855)	(664,776)	(524,042)
Net book value	<u>\$4,929,286</u>	<u>\$ 15,823</u>	<u>\$143,666</u>	<u>\$ 4,697</u>	<u>\$7,918,330</u>	<u>\$81,811,611</u>	<u>\$ 4,164</u>	<u>\$1,648,523</u>	<u>\$ 964,831</u>
	2008								
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land	\$ 499,365	\$ -	\$ -	\$ -	\$1,567,000	\$ -	\$ -	\$ -	\$ 166,000
Buildings	4,714,694				595,000			2,285,211	1,276,425
Equipment	145,941	61,829	80,154	50,350	207,842		16,019	50,088	46,448
Construction in progress					745,904	49,157,235			
Accumulated depreciation	(165,084)	(45,044)	(43,046)	(29,077)	(382,940)		(9,955)	(606,763)	(488,333)
Net book value	<u>\$5,194,916</u>	<u>\$ 16,785</u>	<u>\$ 37,108</u>	<u>\$ 21,273</u>	<u>\$2,732,806</u>	<u>\$49,157,235</u>	<u>\$ 6,064</u>	<u>\$1,728,536</u>	<u>\$1,000,540</u>

## 20. SUBSEQUENT EVENT

On December 8, 2009, the Policy Commission, on behalf of the Council, issued \$78,295,000 of Community and Technical Colleges Improvement Revenue Bonds, 2009 Series A (2009 Bonds). The proceeds of the 2009 Bonds will be used to finance the acquisition, construction, equipping, or improvement of community and technical college facilities in West Virginia. The interest rate on the 2009 Bonds ranges from 2.5% to 5.0% and the due dates commence July 1, 2010 and end July 1, 2028. State Lottery proceeds of a maximum of \$5,000,000 per year will be used to repay the debt, which has a maximum annual debt service of \$4,999,750. In addition, pursuant to Section 18 (j) (1) of the Lottery Act, the Commission has granted a third-in-party lien, for the benefit of the bond holders, on the proceeds of the State Lottery Fund, up to a maximum of \$7,500,000 annually.

## 21. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

Descriptive information for each of the Fund's segments is shown below:

West Virginia University Board of Governors Auction Rate Certificates, Federally Taxable University Revenue Refunding, and Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B; and the University Revenue Improvement Bonds 2004 Series C (Collectively, the "2004 Bonds") — On November 1, 2004, the West Virginia University Board of Governors (the "Board") issued \$25,900,000 of the 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bond 1997 Series A, and the \$3,250,500 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at West Virginia University, including reimbursement to West Virginia for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds, and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

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

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

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

**State of West Virginia, Higher Education Interim Governing Board, Marshall University Facilities Revenue Bonds, 2001 Series A** — In June 2001, the Board sold \$46,610,000 of revenue bonds, Marshall University Facilities 2001 Series A (the "2001 Bonds"). The 2001 Bonds are secured by and payable from the revenues of the dormitories and parking facilities, and certain funds held under the Indenture. The proceeds of the 2001 Bonds are being used (1) to finance a portion of the costs of acquisition, construction and equipping of a new student housing complex and parking facilities at the University and renovations and improvements to existing dormitories at the University, (2) to fund capitalized interest on the 2001 Bonds, (3) to fund debt service reserves for the 2001 Bonds, and (4) to pay a portion of the costs of issuance of the 2001 Bonds.

**The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds, Glenville State College Housing Corporation Project (the "Corporation"), Series 2000A** — In September 2001, the Corporation sold \$4,990,000 of revenue bonds, 2000 Housing Facilities Series A Bonds. The bonds are secured by and payable from the revenues of the student housing facilities and

certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to pay all or part of the cost of constructing two ten-story apartment buildings, each containing four units to be used as student housing and (2) to pay a portion of the cost of issuing the bonds.

**Board of Governors of Glenville State College, Facilities Improvement Revenue Bonds, Series 2006** — In November 2006 Glenville State College sold \$1,500,000 of revenue bonds, 2006 Facilities Improvement Revenue Bonds, Series 2006. The bonds are secured by and payable from the revenues of Glenville State College’s auxiliary and auxiliary capital fee and certain funds held under the Indenture. The proceeds of the 2006 Bonds are being used (1) to finance all or part of the cost of renovating the student center (Mollohan Campus Community Center), (2) to reimburse the Board for cash amounts previously expended to pay renovation costs, and (3) to pay the cost of issuing the bonds.

**Board of Governors of Glenville State College, Student Fee Revenue Bonds, Glenville State College Science Building Project, Series 2007** — In December 2007, Glenville State College sold \$4,125,000 of revenue bonds, 2007 Student Fee Revenue Bonds, Series 2007. The bonds are secured by and payable from the revenues of Glenville State College education and general capital fees and certain funds held under the Indenture. The proceeds of the bonds are being used (1) to finance all or part of the cost of renovating the science building, (2) to reimburse the Board for cash amounts previously expended to pay renovation costs, and (3) to pay the cost of issuing the bonds.

**Fairmont State College Facilities Revenue Bonds 2002 and 2003, Series A** — On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the “2002A Bonds”) amounting to \$18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) to finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facility, (3) to establish a debt service reserve fund for the 2002A Bonds, (4) to capitalize interest on the 2002A Bonds, and (5) to pay the cost of issuance of the 2002A Bonds and related costs.

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the “2003A Bonds”) amounting \$13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction, and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) to make a deposit to the debt service reserve fund for the 2003A Bonds, (3) to capitalize interest on the 2003A Bonds, and (4) to pay the costs of issuance of the 2003A Bonds and related costs.

**Fairmont State Infrastructure Revenue Bonds 2002, Series B** — On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the “2002B Bonds”) amounting to \$9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) to pay the costs of issuance of the 2002B bonds and related costs.

**Fairmont State Student Activity Revenue Bonds 2003, Series B** — On March 1, 2003, Fairmont State issued student Activity Revenue Bonds (the “2003B Bonds”) amounting to \$22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) to capitalize interest on the 2003B Bonds during reasonable time after the construction of the Project, and (3) to pay the costs of issuance of the 2003B Bonds and related costs.

**Fairmont State Facilities Improvement Revenue Bonds, 2006 Series** — On May 9, 2006, Fairmont State issued Facilities Improvement Revenue Bonds (the “2006 Bonds”) amounting to \$8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain

necessary improvements in the facilities of the main campus of Fairmont State University, including but not limited to a technology wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Board and (2) pay the costs of issuance of the 2006 Bonds and related costs.

**State of West Virginia, Shepherd University, Student Fee Revenue Bonds, Series 2003** — In January 2003, \$5,990,000 of Shepherd University Student Fee Revenue Bonds, Series 2003 were sold. These bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) to establish a debt service reserve fund, (3) to establish a capitalized interest fund to pay interest on these bonds due on December 1, 2003, and (4) to pay the costs of issuance of the bonds and related costs.

**State of West Virginia, Shepherd University, Infrastructure Revenue Bonds, Series 2004** — In September 2004, \$3,405,000 of Shepherd University Infrastructure Revenue Bonds, Series 2004 were sold. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of Shepherd University and other capital renovations and improvements to Shepherd University's campus, and (2) to pay the costs of issuance of these bonds and related costs.

**State of West Virginia, Shepherd University, Residence Facilities Revenue Bonds, Series 2005** — In May 2005, \$22,925,000 of Shepherd University Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2005 were sold. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of Shepherd University; (2) fund capitalized interest on the Series 2005 Bonds to January 1, 2007; (3) refund the Issuer's \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall and Thatcher Hall and other capital renovations and improvements to Shepherd University's residence facilities pending issuance of the Series 2005 Bonds; and (4) to pay the costs of issuance of the Series 2005 bonds.

**State of West Virginia, Shepherd University, Wellness Center Facilities Revenue Bonds, Series 2007** — In October 2007, \$20,090,000 of Shepherd University Wellness Center revenue bonds, Series 2007 were sold. The bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a new wellness center on the Shepherd University's campus and other capital improvements for use by Shepherd University; and to pay the costs of issuance of the bonds and related costs.

**State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002 Series A** — On August 1, 2002, the West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds were issued to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the College Union, (2) to establish a debt service reserve fund, and (3) to pay the costs of issuance of the Bonds and related costs.

**Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B & C** — On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to \$8,870,000. The bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College's (the "College") existing residence

halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture, and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

On September 3, 2003, the West Liberty State College issued College Union Revenue Bonds 2003 Series B, amounting to \$1,145,000. The bonds were issued (1) to finance certain capital improvements consisting of improvements to the College's existing student union building located on the campus of the College known as the "College Union," including improvements to existing offices and meeting areas, the upgrading of entryways and façades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) to pay costs of issuance of the 2003 Series B Bonds and related costs.

On September 3, 2003, the West Liberty State College issued Capital Improvement Revenue Bonds 2003 Series C, amounting to \$3,890,000. The bonds were issued (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College's Hall of Fine Arts, and to make certain improvements to roads, sidewalks and parking areas on the College's campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) to pay costs of issuance of the 2003 Series C Bonds and related costs.

Condensed financial information for the Fund's segments as of June 30, 2009 and 2008, is as follows (dollars in thousands):

	2008														
	WVU 2004 Auxiliaries	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Glenville 2006 Facilities	Glenville 2007 Student Fees	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A, B & C
CONDENSED STATEMENT OF NET ASSETS:															
Assets:															
Current assets	\$ 28,624	\$ 7,840	\$ 416	\$ 708	\$ 217	\$ 236	\$ 21	\$ 174	\$ 228	\$ 732	\$ 233	\$ 6,567	\$ 240	\$ 255	\$ 1,691
Noncurrent assets	422,264	47,065	5,724	9,328	9,807	34,677	10,699	26,087	8,987	4,946	3,105	21,823	21,537	5,797	13,451
Total assets	<u>\$ 450,888</u>	<u>\$ 54,905</u>	<u>\$ 6,140</u>	<u>\$ 10,036</u>	<u>\$ 10,024</u>	<u>\$ 34,913</u>	<u>\$ 10,720</u>	<u>\$ 26,261</u>	<u>\$ 9,215</u>	<u>\$ 5,678</u>	<u>\$ 3,338</u>	<u>\$ 28,390</u>	<u>\$ 21,777</u>	<u>\$ 6,052</u>	<u>\$ 15,142</u>
Liabilities															
Current liabilities	\$ 30,311	\$ 3,053	\$ 327	\$ 65	\$ 66	\$ 841	\$ 237	\$ 707	\$ 586	\$ 138	\$ 144	\$ 1,516	\$ 1,562	\$ 253	\$ 458
Noncurrent liabilities	207,321	41,958	4,395	1,074	3,986	28,412	7,985	21,351	7,622	5,440	2,730	23,251	18,935	4,024	11,721
Total liabilities	<u>237,632</u>	<u>45,011</u>	<u>4,722</u>	<u>1,139</u>	<u>4,052</u>	<u>29,253</u>	<u>8,222</u>	<u>22,058</u>	<u>8,208</u>	<u>5,578</u>	<u>2,874</u>	<u>24,767</u>	<u>20,497</u>	<u>4,277</u>	<u>12,179</u>
Net assets (deficit):															
Invested in capital assets — net of related debt	211,729	4,245	1,013	8,201	5,755	674	1,662	2,192	333	(1,369)	146	(2,352)	(13,780)	1,040	169
Restricted	27	83	200	696	217	4,986	836	2,011	674	738	85	312	14,886	509	1,111
Unrestricted	1,500	5,566	205	696	217	5,566	2,498	4,203	1,007	731	233	5,663	174	226	1,683
Total net assets	<u>213,256</u>	<u>9,894</u>	<u>1,418</u>	<u>8,897</u>	<u>5,972</u>	<u>5,660</u>	<u>2,498</u>	<u>4,203</u>	<u>1,007</u>	<u>100</u>	<u>464</u>	<u>3,623</u>	<u>1,280</u>	<u>1,775</u>	<u>2,963</u>
TOTAL	<u>\$ 450,888</u>	<u>\$ 54,905</u>	<u>\$ 6,140</u>	<u>\$ 10,036</u>	<u>\$ 10,024</u>	<u>\$ 34,913</u>	<u>\$ 10,720</u>	<u>\$ 26,261</u>	<u>\$ 9,215</u>	<u>\$ 5,678</u>	<u>\$ 3,338</u>	<u>\$ 28,390</u>	<u>\$ 21,777</u>	<u>\$ 6,052</u>	<u>\$ 15,142</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:															
Operating:															
Operating revenues	\$ 109,823	\$ 16,135	\$ 545	\$ 351	\$ 345	\$ 4,994	\$ 986	\$ 3,321	\$ 631	\$ 452	\$ 312	\$ 13,110	\$ 1,399	\$ 895	\$ 1,399
Operating expenses	(103,649)	(13,233)	(175)	(118)		(3,450)	(575)	(879)	(141)	(172)	(236)	(11,353)	(10)	(665)	(1)
Net operating income	6,174	2,902	370	233	345	1,544	411	2,442	490	280	76	1,757	1,389	230	1,398
Nonoperating:															
Transfers (to) from Institution	7,335	(210)											(526)		
Nonoperating revenues	14,150	536	9	119	350	229	5	81	119	26	1	300	501	15	48
Nonoperating expenses	(13,669)	(2,248)	(284)	(63)	(54)	(1,913)	(1,016)	(1,598)	(93)	(273)	(116)	(1,067)	(84)	(218)	(969)
INCREASE (DECREASE) IN NET ASSETS	13,990	980	95	289	641	(140)	(600)	925	516	33	(39)	990	1,280	27	477
NET ASSETS — Beginning of year	199,266	8,914	1,323	8,608	5,331	5,800	3,098	3,278	491	67	503	2,633		1,748	2,486
NET ASSETS — End of year	<u>\$ 213,256</u>	<u>\$ 9,894</u>	<u>\$ 1,418</u>	<u>\$ 8,897</u>	<u>\$ 5,972</u>	<u>\$ 5,660</u>	<u>\$ 2,498</u>	<u>\$ 4,203</u>	<u>\$ 1,007</u>	<u>\$ 100</u>	<u>\$ 464</u>	<u>\$ 3,623</u>	<u>\$ 1,280</u>	<u>\$ 1,775</u>	<u>\$ 2,963</u>
CONDENSED STATEMENT OF CASH FLOWS															
Net cash provided by operating activities	\$ 7,156	\$ 4,565	\$ 488	\$ 234	\$ 344	\$ 2,375	\$ 972	\$ 1,772	\$ -	\$ 452	\$ 312	\$ 2,797	\$ 1,379	\$ 363	\$ 1,398
Net cash provided (used in) by capital financing activities	(22,299)	(3,193)	(429)	75	(127)	(1,981)	(587)	(2,014)	(5,428)	(708)	(247)	(4,111)	(1,290)	(432)	(1,092)
Net cash provided by investing activities	48,350					114		73		297		1,399	76		
INCREASE (DECREASE) IN CASH	33,207	1,372	59	309	217	508	385	(169)	(5,428)	41	65	85	165	(69)	306
CASH — Beginning of year	19,815	* 9,509	* 353	274		3,813	* 303	* 1,852	* 6,349	* 687	163	5,877		324	1,384
CASH — End of year	<u>\$ 53,022</u>	<u>* \$ 10,881</u>	<u>* \$ 412</u>	<u>\$ 583</u>	<u>\$ 217</u>	<u>\$ 4,321</u>	<u>* \$ 688</u>	<u>* \$ 1,683</u>	<u>* \$ 921</u>	<u>* \$ 728</u>	<u>\$ 228</u>	<u>\$ 5,962</u>	<u>\$ 165</u>	<u>\$ 255</u>	<u>\$ 1,690</u>

\* The cash of WVU, Marshall, Glenville, and Fairmont includes current and noncurrent cash

	2009														
	WVU 2004 Auxiliaries	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Glenville 2006 Facilities	Glenville 2007 Student Fees	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A, B & C
CONDENSED STATEMENT OF NET ASSETS:															
Assets:															
Current assets	\$ 27,050	\$ 7,605	\$ 35	\$ 672	\$ 500	\$ 2,862	\$ 1,095	\$ 2,250	\$ 14	\$ 986	\$ 301	\$ 6,414	\$ 673	\$ 95	\$ 2,203
Noncurrent assets	427,607	45,805	6,855	9,400	9,833	31,499	8,875	23,878	8,943	4,607	2,870	21,986	21,052	5,649	13,144
Total assets	\$ 454,657	\$ 53,410	\$ 6,890	\$ 10,072	#####	\$ 34,361	\$ 9,970	\$ 26,128	\$ 8,957	\$ 5,593	\$ 3,171	\$ 28,400	\$ 21,725	\$ 5,744	\$ 15,347
Liabilities:															
Current liabilities	\$ 28,354	\$ 3,088	\$ 507	\$ 57	\$ 69	\$ 947	\$ 242	\$ 711	\$ 382	\$ 142	\$ 149	\$ 1,472	\$ 1,097	\$ 263	\$ 477
Noncurrent liabilities:	204,487	40,913	4,909	1,321	3,917	27,692	7,778	20,768	7,306	5,284	2,589	22,688	18,586	3,795	11,308
Total liabilities:	232,841	44,001	5,416	1,378	3,986	28,639	8,020	21,479	7,688	5,426	2,738	24,160	19,683	4,058	11,785
Net assets (deficit):															
Invested in capital assets — net of related deb	220,851	4,030	1,637	8,025	5,437	394	734	2,243		(1,386)	51	(1,623)	293	1,112	351
Restricted	1	82	202		410	5,328	1,216	2,406	1,146	566	81	298	1,224	511	1,109
Unrestricted	964	5,297	(365)	669	500				123	987	301	5,565	525	63	2,102
Total net assets	221,816	9,409	1,474	8,694	6,347	5,722	1,950	4,649	1,269	167	433	4,240	2,042	1,686	3,562
TOTAL	\$ 454,657	\$ 53,410	\$ 6,890	\$ 10,072	#####	\$ 34,361	\$ 9,970	\$ 26,128	\$ 8,957	\$ 5,593	\$ 3,171	\$ 28,400	\$ 21,725	\$ 5,744	\$ 15,347
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:															
Operating:															
Operating revenues	\$ 120,233	\$ 14,075	\$ 706	\$ 385	\$ 416	\$ 5,421	\$ 990	\$ 5,585	\$ 631	\$ 450	\$ 317	\$ 13,746	\$ 1,892	\$ 842	\$ 8,268
Operating expenses	(108,203)	(12,005)	(337)	(528)	(200)	(2,825)	(10)	(3,555)	(83)	(136)	(235)	(12,155)	(571)	(722)	(5,222)
Other						(64)	(383)	48	348						
Net operating income	12,030	2,070	369	(143)	216	2,532	597	2,078	896	314	82	1,591	1,321	120	3,046
Nonoperating:															
Transfers (to) from Institution	(8,203)	(515)						27	5	23				2	42
Nonoperating revenues	17,663	166	2	1	348	122	1					88	337		
Nonoperating expenses	(12,930)	(2,206)	(315)	(61)	(189)	(2,592)	(1,146)	(1,659)	(639)	(270)	(113)	(1,062)	(896)	(211)	(2,489)
INCREASE (DECREASE) IN NET ASSETS	8,560	(485)	56	(203)	375	62	(548)	446	262	67	(31)	617	762	(89)	599
NET ASSETS — Beginning of year	213,256	9,894	1,418	8,897	5,972	5,660	2,498	4,203	1,007	100	464	3,623	1,280	1,775	2,963
NET ASSETS — End of year	\$ 221,816	\$ 9,409	\$ 1,474	\$ 8,694	\$ 6,347	\$ 5,722	\$ 1,950	\$ 4,649	\$ 1,269	\$ 167	\$ 433	\$ 4,240	\$ 2,042	\$ 1,686	\$ 3,562
CONDENSED STATEMENT OF CASH FLOWS															
Net cash provided by operating activities	\$ 11,863	\$ 2,982	\$ 515	\$ 85	\$ 416	\$ 2,620	\$ 980	\$ 1,905	\$ -	\$ 448	\$ 316	\$ 2,246	\$ 1,534	\$ 278	\$ 3,046
Net cash provided (used in) by capital financing activities	(32,075)	(3,203)	(696)	(122)	(133)	(2,215)	(594)	(1,549)	(767)	(464)	(248)	(3,612)	(1,921)	(438)	(2,534)
Net cash provided by investing activities	478					39		26		270		1,172	876		
INCREASE (DECREASE) IN CASH	(19,734)	(221)	(181)	(37)	283	444	386	382	(767)	254	68	(194)	489	(160)	512
CASH — Beginning of year	53,022	* 10,881	* 412	* 583	* 217	* 4,321	* 688	* 1,683	* 921	* 728	* 228	* 5,962	* 165	* 255	* 1,690
CASH — End of year	\$ 33,288	* \$ 10,660	* \$ 231	* \$ 546	* \$ 500	* \$ 4,765	* \$ 1,074	* \$ 2,065	* \$ 154	* \$ 982	* \$ 296	* \$ 5,768	* \$ 654	* \$ 95	* \$ 2,202

\* The cash of WVU, Marshall, Glenville, and Fairmont includes current and noncurrent cash

## 22. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2009 and 2008, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2009							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other	
Instruction	\$307,311	\$ 91,557	\$ 49,667	\$ 439	\$ 214	\$ -	\$ 1,798	\$ 450,986
Research	71,808	29,797	43,292	501	23		7,114	152,535
Public service	47,546	13,319	26,352	355	47		52	87,671
Academic support	45,713	13,284	19,385	162	13			78,557
Student services	40,071	13,020	18,414	30	767			72,302
Operations and maintenance of plant	37,527	15,001	39,888	33,234	7		234	125,891
General institutional support	<u>91,228</u>	<u>28,644</u>	<u>61,150</u>	<u>324</u>	<u>373</u>		<u>85</u>	<u>181,804</u>
Total education and general	641,204	204,622	258,148	35,045	1,444	-	9,283	1,149,746
Student financial aid					88,230		2	88,232
Auxiliary enterprises	57,463	16,790	81,682	12,820			66	168,821
Depreciation						82,113		82,113
Other			<u>285</u>				<u>1,963</u>	<u>2,248</u>
Total	<u>\$698,667</u>	<u>\$221,412</u>	<u>\$340,115</u>	<u>\$47,865</u>	<u>\$89,674</u>	<u>\$82,113</u>	<u>\$11,314</u>	<u>\$1,491,160</u>

2008

	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Depreciation</b>	<b>Other</b>	<b>Total</b>
Instruction	\$279,391	\$ 87,960	\$ 49,876	\$ 404	\$ 237	\$ -	\$ 1,186	\$ 419,054
Research	70,483	28,991	46,946	762	13		4,986	152,181
Public service	44,214	12,669	24,709	258	21		64	81,935
Academic support	44,406	13,392	18,315	175				76,288
Student services	37,470	12,598	19,322	45	5		1	69,441
Operations and maintenance of plant	33,130	14,689	30,745	30,205	7		194	108,970
General institutional support	<u>83,988</u>	<u>26,764</u>	<u>49,555</u>	<u>287</u>	<u>1,216</u>		<u>27</u>	<u>161,837</u>
 Total education and general	 593,082	 197,063	 239,468	 32,136	 1,499	 -	 6,458	 1,069,706
 Student financial aid			3		77,850		5	77,858
Auxiliary enterprises	52,687	16,958	85,850	12,510			59	168,064
Depreciation						78,642		78,642
Other			241				1,605	1,846
 Total	 <u>\$645,769</u>	 <u>\$214,021</u>	 <u>\$325,562</u>	 <u>\$44,646</u>	 <u>\$79,349</u>	 <u>\$78,642</u>	 <u>\$8,127</u>	 <u>\$1,396,116</u>

\* \* \* \* \*

## **ADDITIONAL INFORMATION**

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING NET ASSETS INFORMATION**  
**AS OF JUNE 30, 2009**  
**(Dollars in thousands)**

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	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
<b>ASSETS</b>			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 431,890	\$ 7,712	\$ 439,602
Short-term investments		12,214	12,214
Appropriations due from Primary Government	23,741		23,741
Accounts receivable — net	71,807	5,260	77,067
Loans receivable — current portion	6,589	110	6,699
Other current assets	2,581	4,436	7,017
Inventories	<u>5,834</u>	<u>6</u>	<u>5,840</u>
Total current assets	<u>542,442</u>	<u>29,738</u>	<u>572,180</u>
NONCURRENT ASSETS:			
Cash and cash equivalents	79,188	329	79,517
Investments	86,580	145,757	232,337
Appropriations due from Primary Government	2,979		2,979
Loans receivable — net of allowance of \$8,855	53,524	63	53,587
Other assets	22,941	26,683	49,624
Capital assets — net	<u>1,857,926</u>	<u>102,847</u>	<u>1,960,773</u>
Total noncurrent assets	<u>2,103,138</u>	<u>275,679</u>	<u>2,378,817</u>
<b>TOTAL</b>	<u>\$2,645,580</u>	<u>\$305,417</u>	<u>\$2,950,997</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING NET ASSETS INFORMATION**  
**AS OF JUNE 30, 2009**  
**(Dollars in thousands)**

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES:</b>			
Accounts payable	\$ 58,420	\$ 2,134	\$ 60,554
Due to State of West Virginia	223		223
Accrued liabilities	40,204	5,429	45,633
Deferred revenue	82,615		82,615
Deposits/custodial/annuity liabilities	6,267	1,202	7,469
Other liabilities — current portion	287		287
Compensated absences — current portion	40,141		40,141
Notes payable — current portion	885	8	893
Capital lease obligations — current portion	2,536		2,536
Interest payable	3,385	1,150	4,535
Bonds payable — current portion	<u>24,396</u>	<u>464</u>	<u>24,860</u>
Total current liabilities	<u>259,359</u>	<u>10,387</u>	<u>269,746</u>
<b>NONCURRENT LIABILITIES:</b>			
Advances from federal sponsors	41,542		41,542
Compensated absences	3,213		3,213
Notes payable	31,208		31,208
Capital lease obligations	44,226	4,252	48,478
Deferred interest payable	26,060		26,060
Bonds payable	655,028	95,399	750,427
Other post employment benefit liability	23,990		23,990
Other noncurrent liabilities	<u>26,214</u>	<u>8,915</u>	<u>35,129</u>
Total noncurrent liabilities	<u>851,481</u>	<u>108,566</u>	<u>960,047</u>
Total liabilities	<u>1,110,840</u>	<u>118,953</u>	<u>1,229,793</u>
<b>NET ASSETS:</b>			
Invested in capital assets — net of related debt	<u>1,095,650</u>	<u>5,571</u>	<u>1,101,221</u>
Restricted for:			
Expendable:			
Scholarships	20,732		20,732
Sponsored projects	96,416	28,131	124,547
Loans	27,877	16,235	44,112
Capital projects	70,764	258	71,022
Debt service	7,527	1,111	8,638
Other	<u>7,014</u>	<u>8,664</u>	<u>15,678</u>
Total restricted expendable	230,330	54,399	284,729
Nonexpendable	5,354	127,574	132,928
Unrestricted	<u>203,406</u>	<u>(1,080)</u>	<u>202,326</u>
Total net assets	<u>1,534,740</u>	<u>186,464</u>	<u>1,721,204</u>
<b>TOTAL</b>	<u>\$2,645,580</u>	<u>\$305,417</u>	<u>\$2,950,997</u>

(Concluded)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND  
 CHANGES IN NET ASSETS INFORMATION  
 FOR THE YEAR ENDED JUNE 30, 2009  
 (Dollars in thousands)**

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
<b>OPERATING REVENUES:</b>			
Student tuition and fees — net of scholarship allowance of \$106,499	\$ 447,080	\$ -	\$ 447,080
Gift and contributions		23,187	23,187
Federal land grants	8,797		8,797
Local grants	1,056		1,056
Contracts and grants:			
Federal	135,781	90	135,871
State	64,583	63	64,646
Local	1,425		1,425
Private	70,172	5	70,177
Interest on student loans receivable	896		896
Sales and services of educational activities	20,183		20,183
Auxiliary enterprise revenue — net of scholarship allowance of \$16,099	190,468		190,468
Other operating revenues	23,447	17,450	40,897
	<u>963,888</u>	<u>40,795</u>	<u>1,004,683</u>
Total operating revenues			
<b>OPERATING EXPENSES:</b>			
Salaries and wages	698,667	3,194	701,861
Benefits	221,412	584	221,996
Supplies and other services	340,115	3,799	343,914
Utilities	47,865	776	48,641
Student financial aid — scholarships and fellowships	89,674	7,576	97,250
Depreciation	82,113	2,573	84,686
Other operating expenses	11,314	18,232	29,546
	<u>1,491,160</u>	<u>36,734</u>	<u>1,527,894</u>
Total operating expenses			
<b>OPERATING LOSS</b>	<u>(527,272)</u>	<u>4,061</u>	<u>(523,211)</u>

(Continued)

**WEST VIRGINIA HIGHER EDUCATION FUND**  
**(A Component Unit of the State of West Virginia)**

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND  
CHANGES IN NET ASSETS INFORMATION  
FOR THE YEAR ENDED JUNE 30, 2009**  
**(Dollars in thousands)**

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 483,534	\$ -	\$ 483,534
Federal Pell grants	80,668		80,668
Payment on behalf of West Virginia Higher Education Fund	10,864		10,864
Gifts	21,092		21,092
Investment income (loss) — net	(961)	(39,805)	(40,766)
Interest on indebtedness	(36,504)		(36,504)
Payments to other institutions	(20,492)		(20,492)
Other nonoperating expenses — net	(215)	372	157
	<u>537,986</u>	<u>(39,433)</u>	<u>498,553</u>
Net nonoperating revenues (expenses)			
	<u>537,986</u>	<u>(39,433)</u>	<u>498,553</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	10,714	(35,372)	(24,658)
CAPITAL GRANTS AND GIFTS	<u>43,633</u>	<u>715</u>	<u>44,348</u>
INCREASE (LOSS) IN NET ASSETS BEFORE CUMULATIVE EFFECT	<u>54,347</u>	<u>(34,657)</u>	<u>19,690</u>
NET ASSETS — Beginning of year	1,479,916	221,121	1,701,037
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	<u>477</u>		<u>477</u>
NET ASSETS — Beginning of year as adjusted for cumulative effect	<u>1,480,393</u>	<u>221,121</u>	<u>1,701,514</u>
NET ASSETS — End of year	<u>\$1,534,740</u>	<u>\$186,464</u>	<u>\$1,721,204</u>

(Concluded)

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

To the West Virginia Higher Education  
Policy Commission:

We have audited the financial statements of the West Virginia Higher Education Fund (the "Fund") as of and for the year ended June 30, 2009, and have issued our report thereon dated January 8, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

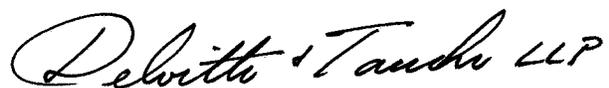
*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination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

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

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the West Virginia Higher Education Policy Commission, management of the Fund, federal and state awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

January 8, 2010