

# West Virginia State University

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

# WEST VIRGINIA STATE UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

To the Governing Board of  
West Virginia State University:

We have audited the accompanying combined statement of net assets of West Virginia State University (the "University") as of June 30, 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the year then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the discretely presented financial statements of the West Virginia State University Foundation, Incorporated (the "Foundation") (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Foundation, is solely based on the report of such auditors.

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

In our opinion, based on our audit and the reports of the other auditors, such combined financial statements present fairly, in all material respects, the financial position of the University as of June 30, 2009, and the results of its operations and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 3 to 10 is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2009, on our consideration of the University's internal control over financial reporting and our tests of its

compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte  Touche LP

November 16, 2009

**West Virginia State University  
Management's Discussion and Analysis (Unaudited)**

**For the Year ended June 30, 2009**

**MISSION STATEMENT**

Founded in 1891, **West Virginia State University** is a public, land-grant, historically black university, which has evolved into a fully accessible, racially integrated, and multi-generational institution. The University, "a living laboratory of human relations," is a community of students, staff, and faculty committed to academic growth, service, and preservation of the racial and cultural diversity of the institution. Our mission is to meet higher education and economic development needs of the state and region through innovative teaching and applied research.

The undergraduate education at the University offers comprehensive and distinguished baccalaureate and associate degree programs in business, liberal arts, professional studies, sciences, and social sciences. In addition, the University provides opportunities for graduate education.

West Virginia State University offers encouragement and education through flexible course offerings in traditional classrooms, in non-traditional education settings, and through distance learning technologies. With the goal of improving the quality of our students' lives, as well as the quality of life for West Virginia's citizens, the University forges mutually beneficial relationships with other educational institutions, businesses, cultural organizations, governmental agencies, and agricultural and extension partners.

The following values guide our decisions and behavior:

- academic excellence;
- academic freedom;
- advancement of knowledge through teaching, research, scholarship, creative endeavor, and community service;
- a core of student learning that includes effective communication, understanding and analysis of the interconnections of knowledge, and responsibility for one's own learning;
- lifelong growth, development, and achievement of our students;
- development of human capacities for integrity, compassion, and citizenship;
- our rich and diverse heritage;
- personal and professional development of our faculty and staff; and
- accountability through shared responsibility and continuous improvement.

West Virginia State University is a vibrant community in which those who work, teach, live, and learn do so in an environment that reflects the diversity of America. Our comprehensive campus, which includes the Kanawha Community and Technical College ("College"), provides numerous educational opportunities for our students. We take great pride in our accomplishments and envision building upon associate degree programs, baccalaureate education, graduate offerings, and excellence in teaching, research, and service.

## **OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

West Virginia State University (the “University”) is pleased to present the combined Financial Statements for the year ended June 2009. The combined information also includes the West Virginia State University Research and Development Corporation (the “Corporation”). The West Virginia State University Foundation is included as a discretely presented component unit.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2009.

The Governmental Accounting Standards Board (“GASB”) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University. The University has adopted the new standards as of July 1, 2001.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independent accredited community and technical concerns. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Board of Governors and the Board of Governors of the University jointly agreed on a division of assets and liabilities of the University. The division of all assets and liabilities was effective retroactively to July 1, 2008. The amount of net assets transferred out from the University to the separately established community and technical college was \$786,903 during 2009. Due to the materiality of the change, the remaining operations of the University will be treated as a new accounting entity. Due to the change in accounting entity, no comparable information was presented.

### **STATEMENT OF NET ASSETS**

The purpose of the University’s Combined Statement of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net assets of the University as of June 30, 2009.

The year-end data regarding assets (current and noncurrent), liabilities (current and noncurrent) and net assets (assets minus liabilities) is also presented in the financial statements. The difference between current and noncurrent assets and liabilities are discussed in the note section of the combined financial statements.

By reviewing the Combined Statement of Net Assets, the reader is able to ascertain the assets available to continue the operations of the University. Also, readers can see data presented in a way to discern how much the institution owes vendors, employees and lending institutions. In addition, the Combined Statement of Net Assets offers an overview picture of the net assets (assets minus liabilities) and the University’s availability of the assets to utilize for future expenditure by the University.

Net assets are divided into three major types:

- Invested in Capital Assets, Net of Debt: net book value of the University’s capital assets less any related debt

- Restricted Net Assets: restricted assets categorized as:
  - a. Nonexpendable – Nonexpendable Restricted Net Assets are permanently restricted and only the income from such net assets can be used. The University does not have such net assets as of June 30, 2009.
  - b. Expendable - Expendable Restricted Net Assets are net assets which are available for expenditure as determined by donors and/or external entities in regard to time or purpose.
- Unrestricted Net Assets: assets available to the institution to utilize for any lawful purpose.

### Condensed Statement of Net Assets

	2009
Current Assets:	
Total current assets	\$7,780,425
Total noncurrent assets	<u>27,305,435</u>
Total Assets	<u>\$35,085,860</u>
Current Liabilities:	
Total current liabilities	\$4,895,903
Total noncurrent liabilities	<u>9,218,596</u>
Total Liabilities	<u>14,114,499</u>
Net Assets	
Invested in capital assets, net of related debt	18,910,163
Restricted expendable	715,396
Unrestricted	<u>1,345,802</u>
Total Net Assets Sub-Total	<u>20,971,361</u>
Total Liabilities and Net Assets	<u>\$35,085,860</u>

**Major items of Note in the Condensed Statement of Net Assets include:**

- Total current assets of \$7.8 million exceeded total current liabilities of \$4.9 million for a net working capital of \$2.9 million. Total cash included in current assets is \$6.1 million.
- During the year the cash and cash equivalents increased by \$1.7 million due to operations.
- Total noncurrent asset of \$27.3 million compared to total noncurrent liabilities of \$9.2 million, which shows the University is reasonably leveraged.
- Net assets consisted of invested in capital assets, net of related debt, balance is \$18.9 million, restricted expendable net assets of \$715 thousand and unrestricted net assets of \$1.3 million.
- The University has a decrease in net assets for the current year, but has sufficient assets to meet its total liabilities.

## STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The purpose of the University Combined Statement of Revenues, Expenses and Changes in Net Assets is to present the operating and nonoperating revenues earned and expenses incurred by the University, and any other revenues, expenses, gains and losses of the University.

Operating revenues are earned for providing goods and services to the various customers and constituencies of the University. Operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the University. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

### Condensed Statement of Revenues, Expenses and Changes in Net Assets

	<b>2009</b>
Total operating revenues	\$33,385,122
Total operating expenses	<u>49,984,795</u>
Operating loss	(16,599,673)
Net nonoperating revenues	<u>17,177,546</u>
Gain before other revenues, expenses, gains, or losses	577,873
Capital projects and bond proceeds from the Commission	247,616
Capital grants and gifts	<u>70,993</u>
Increase in net assets	896,482
Net assets, beginning of year	<u>20,074,879</u>
Net assets, end of year	<u>\$20,971,361</u>

#### Major Items of Note in the Condensed Statement of Revenue, Expenses, and Changes in Net Assets include:

- The total operating and nonoperating revenues of the College amount to \$50.6 million. The most significant revenue sources are student tuition and fees of \$8.8 million, State appropriations of \$12.6 million, Pell Grant revenue of \$4.6 million and contracts and grants revenue of \$14.2 million.
- Significant operating expenses include salaries, wages and benefits of \$29.3 million, supplies and other services of \$13.5 million, student financial aid expense of \$3.7 million and utilities of \$2.0 million.
- Operating revenues of \$33.4 million compared to the operating expenses of \$50.0 million resulted in an operating loss of \$16.6 million.
- Nonoperating revenues of \$17.1 million were used to fund the operating expenses. These revenues primarily consist of State appropriations of \$12.6 million and federal Pell grants of \$4.6 million.
- The increase in net assets is principally attributable to an operating loss of \$16.6 million and nonoperating revenues of \$17.2 million.

## STATEMENT OF CASH FLOWS

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

### Condensed Statement of Cash Flows

	<b>2009</b>
Cash Flows from Operating Activities	
Net cash used in operating activities	\$(13,787,693)
Cash Flows from Noncapital Financing Activities	
Net cash provided by noncapital financing activities	17,214,655
Cash Flows from Capital Financing Activities	
Net cash used in capital financing activities	(1,742,002)
Cash Flows from Investing Activities	
Interest on investments	<u>52,572</u>
Decrease in Cash and Cash Equivalents	1,737,532
Cash and Cash Equivalents - beginning of year	<u>4,411,948</u>
Cash and Cash Equivalents - end of year	<u>\$ 6,149,480</u>

#### Major Items of Note in the Condensed Statement of Cash Flow include:

- The cash flows used in operating activities was principally due to student tuition and fees of \$8.9 million and contract and grants revenue of \$14.6 million less payments to employees of \$28.3 million, payments to suppliers of \$13.6 million, and payments for scholarships and fellowships of \$3.7 million.
- The cash flows provided by noncapital financing activities was principally caused by state appropriations of \$12.6 million and Pell Grant revenue of \$4.7 million.
- Cash flow used in capital financing transactions principally represents the purchase of capital assets of \$1.1 million and payments on debt.

## CAPITAL ASSET AND DEBT ADMINISTRATION

The University had notable capital and renovation activity during the fiscal year of 2009. The purchase of capital assets such as land and/or buildings, educational and scientific equipment, renovation of research facilities, and addition of motor vehicles is important in improvement of the University. Funding opportunities such as grants, contracts, and sponsored agreements held within the University and its Corporation, normally provides funding for the purchase of the capital assets. During FY 2008-09, the projects included:

**Building Improvements:** New furnishings were added to the College of Business and Economics in Hill Hall. Additionally, physical improvements were made to several classrooms, a computer laboratory, and some offices in Wallace Hall. Two learning areas were improved in the Davis Fine Arts building and one on the third floor of Ferrell Hall. Hamblin Hall had some laboratory improvements, and a large area of the WVSU Wilson Union was upgraded and updated for food preparation and dining areas.

**Renovation and Property Improvements:** Property improvements were also accomplished with the historic renovation of the Austin Curtis Home on Barron Drive near the historic East Hall. This building will provide meeting spaces and offices for the University. Initial work was also started on a newly purchased house on Route 25 which will be utilized for outreach and office space.

**Infrastructure:** Investments in infrastructure occurred through a major roofing project at the Drain Jordan Library and the addition of the sprinkler system in Sullivan Hall. In addition, there was an electrical system upgrade in the Gus R. Douglas Administration Building and the major campus electrical system. Lighting upgrades continued to the external areas adjacent to Davis Fine Arts building for safety and a chiller had to be replaced. Other projects included a transformer replacement at the Drain Jordan Library and addressing some of the campus boiler system. Some additional security systems were purchased for student residential spaces.

Various cyber infrastructure projects were completed and there were several computers added on campus. There are further plans to implement more technology upgrades over the next three years.

The Commission assesses each public higher education institution for funds for the payment of debt service on revenue bonds that were issued for financing of academic and other facilities of the State's universities and colleges. Though the bonds remain a capital obligation of the Commission, a significant amount is listed on all the institutional reports as debt service, including the University. The total obligation of the Commission is \$26.7 million.

The University and the Corporation's other debt activity during FY 2008-2009 was from the repayment of bonds, leases, and notes payable according to such agreements.

The University continues to add and protect assets with long-term improvements and development of facilities to provide good living and learning accommodations for students on a well-maintained campus.

## ECONOMIC OUTLOOK

Though these are challenging economic times for the nation and state, the importance of higher education to the economy is undisputable. The educational opportunities provided by the University for work and career preparation are numerous and varied. In fact, the University's students and graduates are instrumental in attracting new businesses to the Greater Charleston and Greater Kanawha Valley area, thus building a stronger economy in the region.

The University's financial position is closely correlated to that of the State of West Virginia. For the FY 2009-2010 State Appropriations funding have been maintained at the FY 2008-2009 level. The University has been advised that all the institutions should begin preparing for the possibility of a reduction in State appropriations for FY 2010-2011 of possibly 5%.

West Virginia State University is continuing to lessen its dependence on State appropriations through initiatives for self-reliance and sustainability for the future. This is being done by seeking external funding for new initiatives. In addition, there are energy efficiencies being planned such as lighting changes across the University for future savings on utilities

**Research:** Major research efforts and program development are being planned utilizing consistent funding sources of Land-Grant and other funders. Similarly, community outreach programming, part of the institutional mission, is mainly funded via Land-Grant and other federal and state funding sources. Research and public service and related graduate level offerings are being noted as significant grant funding areas for the University.

The University is one of West Virginia's three research institutions. This status, plus the Land-Grant designation, positions the University for continued growth. These factors generate new opportunities for additional and continued funding to the institution to do further research and extension, which helps solidify the institution as a major economic force in the area. Similarly, useful information is developed for improving of the knowledge base in many areas such as biotechnology and agricultural research.

**Enrollment Growth Plan:** Enrollment will continue to grow as a result of enrollment management planning. The current FY 2009-2010 statistics indicate that there was a 15% increase in full time equivalent enrollment this year. A series of initiatives have been launched to incrementally increase the size of the entering classes as well as the number of graduate students. There will also continue to be more web-based courses or e-learning, which will contribute to enrollment growth. In addition, the University plans to increase advertizing for undergraduate and graduate programs.

Enrollment management strategies are being implemented to help maximize additional revenue from returning veterans and non-traditional displaced workers in addition to traditional student enrollments. Planning and implementation of more web courses and graduate opportunities will spur enrollment growth. The University is preparing for masters degrees in two additional colleges. When approved and implemented, the undergraduate programs at the University should act as natural enrollment feeders for the graduate programs at the University. Proximity of Kanawha Valley Community and Technical College will continue to provide students too.

**Versatility of Funding:** A variety of permanent funding streams are available only to 1890 Land-Grant schools which helps ensure WVSU's financial position, even in the difficult economic climate. The important entitlements include facilities, capacity building, research, and outreach funding streams. It is expected that expansion in these revenue funds will continue steadily as the University gradually increases the participation of its faculty, students, and staff in instruction, research, and public service. Other grant streams are possible due to the basic programming supported by the University's Land-Grant status. As mentioned, the University is already a recipient of other grant funding due to the types of activities and staffing Land-Grant provides.

However, there are challenges as a result of the University and the College funding separation. With the legal separation, more emphasis will be directed toward the University's development rather than having to assist in the development of the College. This should obviously result in a stronger West Virginia State University poised for serving students.

It is anticipated that lower funding levels for higher education in West Virginia will continue, and the University was not fully reimbursed for services for the FY 2008-2009 years by the College. There are continuing negotiations to set more realistic fees for services provided to the College. As the College is now a separate entity, they will be responsible for developing and paying for more services that the University had been financially supporting as a result of state legislation.

The University will continue to provide many primary services for both institutions for the foreseen future. There are continuing efforts to work cooperatively for the good of the students enrolled at both institutions. The University still is underfunded in regard to the equalizing of appropriations that were given to schools who supported community and technical college components.

**Academic Planning:** The academic programs for the University are targeted toward ever improved, marketable, and quality educational offerings that will result in more growth in the student body.

As previously mentioned in the enrollment section, there are plans to offer more e-learning and add new graduate programs. There are also plans for academic classroom upgrades and additions in various colleges. Also, there has been continued interest to design/build student housing to increase housing available for resident students.

The University is continuing to pursue the academic programming and facility development, in concert with campus master planning efforts, which will result in the increased capacity to grow a larger student body on campus.

**Facilities Development:** The main campus of the University is attractive and well-maintained. Situated between two major cities in the state, the University campus attracts and is accessible to traditional and non-traditional students. Research indicates that a college campus is a major factor in recruitment and retention efforts and is a factor in revenue production. Several funding streams of the University have a great impact on the potential expansion of educational facilities of the University.

To meet anticipated capacity needs from enrollment growth and to serve current students, there is a concerted effort to improve Fleming Hall. Each of the colleges of the University will have classrooms in this focal point building. The Commission and the Legislature endorsed an addition to Fleming Hall with potentially \$11.25 million dedicated from Lottery Bond funding for this project. In addition, funding was recommended for improvements to Wallace Hall and Davis Fine Arts.

With the return of many veterans from the war and a renewed emphasis on GI Bill funding, the University is expected to be a logical educational choice for many of them. Though there is an economic recession, history shows that this is a time when many non-traditional students look for educational opportunities to either start or complete educational programming. In fact, retraining in the current economy has become not only an alternative, but essential. Therefore, the need for increasing the classroom and residential building capacity is important, especially spaces for small families.

**Technology:** The e-learning expansion is a platform for revenue generation while also expanding technology services for students, faculty, and staff of West Virginia State University. The ever-present need to provide more technology options related to educational opportunities, management of information, securing of data, communications, and offering services to students is expected to continue.

Therefore, we are committed to following the University's existing plans over a multi-year period in this regard. Additional funding sources available for infrastructure and staffing is being pursued to help enhance the technology efforts.

An external factor impacting the University situation, was the beginning of additional construction at a major recreational facility (the Nitro Gaming Center) within three miles of the University. It is reasonable to anticipate that there will be added enrollments as a result. In fact, it may already have had an impact.

While charting through these challenging economic times in the nation and state, the University is committed to providing quality undergraduate and graduate students for the workforce of the state. Also, the University is positioned to attract new traditional and non-traditional students to the attractive campus in Institute and via e-learning experiences. Certainly, the Land-Grant status will continue to enhance opportunities for new funding sources to further develop the University and its programming. These factors, coupled with other programming opportunities to include increased graduate offerings, will ensure the health and vitality of the 108 year-old University well into the future.

# WEST VIRGINIA STATE UNIVERSITY

## COMBINED STATEMENT OF NET ASSETS AS OF JUNE 30, 2009

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	2009
<b>ASSETS</b>	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 6,149,480
Accounts receivable — net	844,134
Loans to students — current portion	104,958
Inventories	511,766
Prepaid expenses	<u>170,087</u>
Total current assets	<u>7,780,425</u>
NONCURRENT ASSETS:	
Restricted cash and cash equivalents	629,099
Loans to students — net of allowance of \$236,275	432,053
Deferred finance costs — net	32,429
Capital assets — net	<u>26,211,854</u>
Total noncurrent assets	<u>27,305,435</u>
TOTAL	<u>\$ 35,085,860</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

## COMBINED STATEMENT OF NET ASSETS AS OF JUNE 30, 2009

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	2009
<b>LIABILITIES AND NET ASSETS</b>	
CURRENT LIABILITIES:	
Accounts payable	\$ 1,118,166
Due to Commission	4,698
Accrued liabilities	1,894,625
Compensated absences — current portion	863,997
Deferred revenue	434,388
Debt obligation to the Commission — current portion	234,925
Bonds payable — current portion	240,000
Notes payable — current portion	<u>105,104</u>
Total current liabilities	<u>4,895,903</u>
NONCURRENT LIABILITIES:	
Deposits	136,804
Compensated absences	500,888
Debt obligation to the Commission	355,331
Bonds payable	3,785,798
Notes payable	2,612,962
Advances from federal sponsors	579,122
Other post employment benefits liability	<u>1,247,691</u>
Total noncurrent liabilities	<u>9,218,596</u>
Total liabilities	<u>14,114,499</u>
NET ASSETS:	
Invested in capital assets — net of related debt	<u>18,910,163</u>
Restricted for — expendable:	
Loans	86,298
Debt service	<u>629,098</u>
Total restricted	<u>715,396</u>
Unrestricted net assets	<u>1,345,802</u>
Total net assets	<u>20,971,361</u>
TOTAL	<u>\$ 35,085,860</u>

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY  
FOUNDATION, INCORPORATED, A COMPONENT  
UNIT OF WEST VIRGINIA STATE UNIVERSITY  
STATEMENT OF NET ASSETS  
JUNE 30, 2009

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	<b>2009</b>
<b>ASSETS</b>	
CURRENT ASSETS:	
Cash	\$ <u>769,543</u>
Other receivables	<u>20,053</u>
Investments — fair value	<u>3,218,314</u>
Beneficial interest in trusts	<u>109,518</u>
Property and improvements:	
Land	166,000
Buildings and improvements	1,276,425
Furniture and equipment	<u>46,448</u>
Total property and improvements	1,488,873
Less accumulated depreciation	<u>524,042</u>
Property and improvements — net	<u>964,831</u>
OTHER ASSETS	<u>7,400</u>
TOTAL	<u>\$ 5,089,659</u>
<b>LIABILITIES AND NET ASSETS</b>	
CURRENT LIABILITIES — Accounts payable and accrued expenses	\$ <u>5,189</u>
NET ASSETS:	
Unrestricted	329,997
Temporarily restricted	1,018,701
Permanently restricted	<u>3,735,772</u>
Total net assets	<u>5,084,470</u>
TOTAL	<u>\$ 5,089,659</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

## COMBINED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2009

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	<b>2009</b>
OPERATING REVENUES:	
Student tuition and fees — net of scholarship allowance of \$2,927,624	\$ 8,779,903
Contracts and grants:	
Federal	10,144,675
State	2,788,063
Private	1,278,082
Sales and services of educational activities	158,253
Auxiliary enterprise revenue — net of scholarship allowance of \$2,066,883	6,198,554
Miscellaneous — net	12,619
Fees charge to the students of Kanawha Valley Community and Technical College	1,218,973
Charges to Kanawha Valley Community and Technical College	<u>2,806,000</u>
Total operating revenues	<u>33,385,122</u>
OPERATING EXPENSES:	
Salaries and wages	22,735,058
Benefits	6,549,454
Supplies and other services	13,490,624
Utilities	2,017,490
Student financial aid — scholarships and fellowships	3,679,944
Depreciation and amortization	1,342,079
Loan cancellations and write-offs	44,744
Fees assessed by the Commission for operations	<u>125,402</u>
Total operating expenses	<u>49,984,795</u>
OPERATING LOSS	<u>(16,599,673)</u>
NONOPERATING REVENUES (EXPENSES):	
State appropriations	12,642,590
Federal Pell grants	4,627,430
Payments on behalf of West Virginia State University	292,130
Investment income	52,572
Interest on indebtedness	(379,647)
Loss on capital asset disposals	(2,164)
Fees assessed by the Commission for debt service and reserves	<u>(55,365)</u>
Net nonoperating revenues	<u>17,177,546</u>
GAIN BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	577,873
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	247,616
CAPITAL GRANTS AND GIFTS	<u>70,993</u>
INCREASE IN NET ASSETS	896,482
NET ASSETS — Beginning of year	<u>20,074,879</u>
NET ASSETS — End of year	<u>\$ 20,971,361</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

## THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2009

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE:				
Contributions and gifts	\$341,151	\$ 347,233	\$ 354,281	\$ 1,042,665
Administrative fees (expenses)	75,002	(75,002)		-
Rental income	12,601			12,601
Investment income	1,289	22,090		23,379
Net assets released from restrictions	<u>318,867</u>	<u>(318,867)</u>		-
Total revenue	<u>748,910</u>	<u>(24,546)</u>	<u>354,281</u>	<u>1,078,645</u>
EXPENSES:				
Salaries and wages	109,304			109,304
Taxes and licenses	27,231			27,231
Professional fees	36,597			36,597
Supplies	14,696			14,696
Maintenance	1,577			1,577
Travel	10,345			10,345
Telephone and utilities	3,382			3,382
Office expense	3,865			3,865
Printing	12,167			12,167
Meeting expense	42,643			42,643
Conference/seminar fees	1,185			1,185
Scholarships and grants	8,435			8,435
Depreciation	1,522	34,187		35,709
Miscellaneous	3,027			3,027
Program expenses	<u>305,760</u>			<u>305,760</u>
Total expenses	<u>581,736</u>	<u>34,187</u>	<u>-</u>	<u>615,923</u>
NET INCREASE (DECREASE)	167,174	(58,733)	354,281	462,722
CHANGE IN VALUE OF PERPETUAL TRUSTS			(27,178)	(27,178)
UNREALIZED LOSS ON INVESTMENTS	(552,296)			(552,296)
RECLASSIFICATIONS	<u>162,170</u>	<u>112,505</u>	<u>(274,675)</u>	-
INCREASE (DECREASE) IN NET ASSETS	(222,952)	53,772	52,428	(116,752)
NET ASSETS — Beginning of year	<u>552,949</u>	<u>964,929</u>	<u>3,683,344</u>	<u>5,201,222</u>
NET ASSETS — End of year	<u>\$329,997</u>	<u>\$ 1,018,701</u>	<u>\$ 3,735,772</u>	<u>\$ 5,084,470</u>

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

## COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

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	<b>2009</b>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	\$ 8,869,914
Contracts and grants	14,594,168
Payments to and on behalf of employees	(28,313,501)
Payments to suppliers	(13,563,575)
Payments to utilities	(2,017,490)
Payments for scholarships and fellowships	(3,679,944)
Loans issued to students	(35,935)
Collection of loans to students	67,259
Sales and service of educational activities	158,253
Auxiliary enterprise charges	6,216,829
Fees retained by the Commission	(125,402)
Other receipts — net	<u>4,041,731</u>
Net cash used in operating activities	<u>(13,787,693)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	12,569,270
FFELP lending receipts	11,570,806
FFELP lending payments	(11,497,486)
Federal Pell grants	4,627,430
Fees assessed by the Commission for debt service and reserves	<u>(55,365)</u>
Net cash provided by noncapital financing activities	<u>17,214,655</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital grants and gifts received	70,993
Capital projects proceeds from the Commission	247,616
Purchases of capital assets	(1,129,125)
Principal paid on payable to the Commission	(226,778)
Principal paid on notes and bonds	(314,408)
Interest paid on notes, bonds, and leases	(379,647)
Withdrawals from non-current cash and cash equivalents	<u>(10,653)</u>
Net cash used in capital financing activities	<u>(1,742,002)</u>
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	<u>52,572</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,737,532
CASH AND CASH EQUIVALENTS — Beginning of year	<u>4,411,948</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 6,149,480</u>

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

## COMBINED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2009

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	2009
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	\$ (16,599,673)
Adjustments to reconcile net operating loss to net cash used in operating activities:	
Depreciation and amortization expense	1,342,079
Expenses paid on behalf of West Virginia State University	292,130
Loss on disposal of assets	2,164
Changes in assets and liabilities:	
Receivables — net	237,133
Loans to students — net	80,207
Prepaid expenses	(57,093)
Inventories	(29,445)
Accounts payable and accrued liabilities	826,641
Compensated absences	(136,337)
Deferred revenue	236,226
Deposits held in custody for others	<u>18,275</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (13,787,693)</u>
See notes to combined financial statements.	(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

## NOTES TO COMBINED FINANCIAL STATEMENTS AS OF AND FOR THE YEAR ENDED JUNE 30, 2009

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### 1. ORGANIZATION

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

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

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

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independent accredited community and technical colleges. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Kanawha Valley Community and Technical College Board of Governors and the Board of Governors of the University jointly agreed on a division of assets and liabilities of the University. The division of all assets and liabilities was effective retroactively to July 1, 2008. This change resulted in a change in reporting entity for the University and accordingly only single year financial statements are provided herein as follows:

Net assets as previously presented	<u>\$ 20,861,782</u>
Transfer of net assets to Kanawha Valley Community and Technical College:	
Cash and cash equivalents	\$ (2,261,721)
Accounts receivable	(235,917)
Capital assets - net	(38,087)
Compensated absences	126,887
Debt obligation to Commission	358,221
Deferred revenue	691,401
Other liabilities	<u>572,313</u>
	<u>\$ 20,074,879</u>

The University and the separately established community and technical college 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 University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB), including 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 University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

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

**Reporting Entity** — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council of Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation (the “Research and Development Corporation”), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University’s ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation. Their related organizations, West Virginia State University Foundation and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements, as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units — an amendment of GASB Statement No. 14*. As a result, the audited financial statements of The West Virginia State University Foundation, Incorporated (the “Foundation”) are discretely presented here with the University’s combined financial statements. The Foundation is a private nonprofit organization that reports 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. No modifications have been made to the Foundation’s audited financial information, as it is presented herein (see also Note 20).

**Financial Statement Presentation** — GASB Statements No. 35 and No. 38 establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Net assets are classified into four categories

according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's net assets are classified as follows:

- *Invested in Capital Assets — Net of Related Debt* — This represents the University's total investment in capital assets, net of 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 University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State 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. The University does not have any nonexpendable funds or net assets of this type as of June 30, 2009.
- *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 University, and may be used at the discretion of the Board to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

**Cash and Cash Equivalents** — For purposes of the statements of net assets, the Commission 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, provisions of bond indentures, and the 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 for External Investment Pools*. The BTI was established by the State Legislature and is subject to oversight by the

State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

**Allowance for Doubtful Accounts** — It is the University'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 University on such balances, and such other factors which, in the University'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 and cash equivalents, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets, are 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. 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 and library books, and 3 to 10 years for furniture and equipment. The University's threshold for capitalizing capital assets is \$5,000. The financial statements reflect all adjustments required by GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*.

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

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

Effective July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement provided standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund,

sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire. This liability is now provided for under the multiple employer cost-sharing plan sponsor 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. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire.

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

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

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

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

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

- *Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of 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. Nonoperating revenues also exclude student fees which were billed for capital improvements.
- *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

**Use of Restricted Net Assets** — The University 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 University attempts to utilize restricted net assets first when practical.

**Federal Financial Assistance Programs** — The University makes loans to students under the Federal Family Education Loan Program (FFELP). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University's combined statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In the year ended June 30, 2009, the University received and disbursed approximately \$11.6 million on behalf of the U.S. Department of Education, which is not included as revenue and expense in the combined statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the 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 the year ended June 30, 2009, the University received and disbursed approximately \$5.1 million 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 statement of revenues, expenses, and changes in net assets. Scholarship allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the 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. Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending are 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 combined financial statements as operating expenses or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of

aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

**Income Taxes** — The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

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

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

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

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

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

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

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

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

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2009, was held as follows:

	<b>2009</b>		
	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer	\$5,351,559	\$ -	\$5,351,559
In escrow		629,099	629,099
In bank	<u>797,921</u>	<u>          </u>	<u>797,921</u>
	<u>\$6,149,480</u>	<u>\$ 629,099</u>	<u>\$6,778,579</u>

Cash shown above as cash in escrow is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 9 is paid in full.

The combined carrying amounts of cash in the bank at June 30, 2009, were \$797,921, compared with the combined bank balance of \$1,283,295. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2009, \$525,836 was covered by Federal Depository Insurance Corporation or collateralized by securities held by the State's agent.

Amounts with the State Treasurer as of June 30, 2009, 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 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 West Virginia State University may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield 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 year ended June 30, 2009, 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, the WV Money Market Pool investments had a total carrying value of \$2,570,261,000, of which the University's ownership represents .14%.

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

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

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2009, the WV Government Money Market Pool investments had a total carrying value of \$283,826,000, of which the University's ownership represents .01%.

## 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) at June 30, 2009:

Security Type	Credit Rating*		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate asset backed securities				
	Aaa	AAA	\$ 16,402	5.21 %
	Aaa	NR	5,136	1.63
	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	0.02
			<u>29,372</u>	<u>9.33</u>
Corporate bonds and notes				
	Aaa	AAA	47,204	14.99
	Aa1	AA	4,445	1.41
	Aa1	A	2,052	0.65
	Aa2	AAA	3,040	0.96
	Aa2	AA	9,066	2.88
	Aa3	A	7,831	2.49
	A1	AA	4,813	1.53
	A1	A	5,522	1.75
	A2	A	32,040	10.17
	A3	A	7,024	2.23
	Baa3	A	2,067	0.66
			<u>125,104</u>	<u>39.72</u>
U.S. Agency bonds	Aaa	AAA	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	88,805	28.20
U.S. Agency mortgage backed securities****	Aaa	AAA	4,975	1.58
Money market funds	Aaa	AAA	6,426	2.04
			<u>\$ 314,932</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, the University's ownership represents .02% 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 at June 30, 2009:

<b>Security Type</b>	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>
Repurchase agreements	\$ 212,010	1
U.S. Treasury bills	483,714	69
Commercial paper	592,479	32
Certificates of deposit	128,402	56
U.S. Agency discount notes	635,602	57
Corporate bonds and notes	73,812	38
U.S. Agency bonds/notes	294,019	70
Money market funds	<u>150,223</u>	1
	<u>\$2,570,261</u>	47

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 at June 30, 2009:

<b>Security Type</b>	<b>Carrying Value (In thousands)</b>	<b>WAM (Days)</b>
Repurchase agreements	\$ 53,000	1
U.S. Treasury bills	74,424	94
U.S. Agency discount notes	87,662	55
U.S. Agency bonds/notes	68,608	37
Money market funds	<u>132</u>	1
	<u>\$283,826</u>	51

The overall effective duration 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

*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.

#### 4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2009, are as follows:

	<b>2009</b>
Student tuition and fees — net of allowance for doubtful accounts of \$570,444	\$ 218,622
Grants and contracts receivable	576,111
Due from the Commission	11,091
Due from other State agencies	2,260
Other accounts receivable	<u>36,050</u>
	<u>\$ 844,134</u>

#### 5. DEFERRED FINANCE COSTS

A summation of deferred finance costs transactions for the year ended June 30, 2009, is as follows:

<b>2009</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Deferred finance costs	\$ 49,894	\$ -	\$ -	\$ 49,894
Less accumulated amortization	<u>14,970</u>	<u>2,495</u>	<u>          </u>	<u>17,465</u>
Deferred finance costs — net	<u>\$ 34,924</u>	<u>\$ (2,495)</u>	<u>\$ -</u>	<u>\$ 32,429</u>

## 6. CAPITAL ASSETS

Summary of capital asset transactions for the University for the year ended June 30, 2009, are as follows:

	2009			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,538,075	\$ -	\$ -	\$ 1,538,075
Construction in progress	<u>499,221</u>	<u>687,910</u>	<u>(499,221)</u>	<u>687,910</u>
Total capital assets not being depreciated	<u>\$ 2,037,296</u>	<u>\$ 687,910</u>	<u>\$ (499,221)</u>	<u>\$ 2,225,985</u>
Other capital assets:				
Land improvements	\$ 1,526,510	\$ -	\$ -	\$ 1,526,510
Infrastructure	3,484,632	665,291		4,149,923
Buildings	38,174,000	75,442		38,249,442
Equipment	8,045,520	98,587	(472,522)	7,671,585
Motor vehicles	365,758			365,758
Software	358,819			358,819
Library books	<u>4,419,933</u>	<u>101,116</u>	<u>(82,432)</u>	<u>4,438,617</u>
Total other capital assets	<u>56,375,172</u>	<u>940,436</u>	<u>(554,954)</u>	<u>56,760,654</u>
Less accumulated depreciation for:				
Land improvements	638,544	36,381		674,925
Infrastructure	3,027,493	56,704		3,084,197
Buildings	17,211,081	721,080		17,932,161
Equipment	6,513,970	332,802	(470,358)	6,376,414
Motor vehicles	344,739	19,656		364,395
Software	349,444	9,375		358,819
Library books	<u>3,910,289</u>	<u>156,017</u>	<u>(82,432)</u>	<u>3,983,874</u>
Total accumulated depreciation	<u>31,995,560</u>	<u>1,332,015</u>	<u>(552,790)</u>	<u>32,774,785</u>
Other capital assets — net	<u>\$24,379,612</u>	<u>\$ (391,579)</u>	<u>\$ (2,164)</u>	<u>\$23,985,869</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 2,037,296	\$ 687,910	\$ (499,221)	\$ 2,225,985
Other capital assets	<u>56,375,172</u>	<u>940,436</u>	<u>(554,954)</u>	<u>56,760,654</u>
Total cost of capital assets	58,412,468	1,628,346	(1,054,175)	58,986,639
Less accumulated depreciation	<u>31,995,560</u>	<u>1,332,015</u>	<u>(552,790)</u>	<u>32,774,785</u>
Capital assets — net	<u>\$26,416,908</u>	<u>\$ 296,331</u>	<u>\$ (501,385)</u>	<u>\$26,211,854</u>

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

**7. NONCURRENT LIABILITIES**

Summary of noncurrent obligation transactions for the University for the year ended June 30, 2009, are as follows:

	2009				Current Portion
	Beginning Balance	Additions	Reductions	Ending Balance	
Note payable	\$ 2,810,043	\$ -	\$ 91,977	\$ 2,718,066	\$105,104
Bonds payable	4,248,229		222,431	4,025,798	240,000
Payable to the Commission	817,034		226,778	590,256	234,925
Other noncurrent liabilities:					
Accrued compensated absences	1,501,222		136,337	1,364,885	863,997
Advances from Federal Sponsors	579,122			579,122	
Other post employment benefits liability	511,938	735,753		1,247,691	
Deposits held in custody for others	118,529	18,275		136,804	
Total noncurrent liabilities	<u>\$10,586,117</u>	<u>\$754,028</u>	<u>\$ 677,523</u>	<u>\$10,662,622</u>	

Additional information regarding noncurrent debt is included in Notes 8 and 9.

**8. BONDS PAYABLE**

On August 1, 2002, the University issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds mature in intervals through June 1, 2022, and bear interest ranging from 3.8% to 5.125%. As of June 30, 2009, the University had outstanding \$4,025,798, net of an unamortized discount of \$94,202.

Principal maturities for the year ending after June 30, 2009, are as follows:

Years Ending June 30	
2010	\$ 240,000
2011	245,000
2012	255,000
2013	265,000
2014	280,000
2015–2019	1,635,000
2020–2022	<u>1,200,000</u>
Total	4,120,000
Less unamortized discount	<u>(94,202)</u>
Total	<u>\$4,025,798</u>

**9. NOTE PAYABLE**

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories. As of June 30, 2009, the University had outstanding \$2,718,066. At an interest of approximately 6.3%, current monthly principal and interest payments of \$21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the year ending after June 30, 2009, are as follows:

<b>Years Ending June 30</b>	
2010	\$ 105,104
2011	103,055
2012	107,499
2013	115,796
2014	122,491
2015–2019	726,381
2020–2024	966,663
2025	<u>471,077</u>
 Total	 <u>\$2,718,066</u>

#### **10. 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, the noncurrent liability related to OPEB costs was \$1,247,691. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$1,848,172 and \$662,115, respectively, during 2009. As of the year ended June 20, 2009, there were 26 retirees receiving these benefits.

#### **11. OPERATING LEASES**

Future scheduled annual lease payments for year subsequent to June 30, 2009, are as follows:

<b>Years Ending June 30</b>	
2010	\$ 210,735
2011	48,461
2012	18,768
2013	<u>14,076</u>
Total	<u>\$292,040</u>

Total rental expense for the year ended June 30, 2009, was \$487,908. The University does not have any noncancelable leases.

#### **12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS**

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

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the University and College Systems (the "Boards").

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees, which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2009, the University paid \$226,778, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2009, is \$590,256.

During the year ended June 30, 2005, the Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive \$1,350,000 of these funds. The University has drawn approximately \$1,350,000 through June 30, 2009. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

### **13. UNRESTRICTED NET ASSETS**

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

### **14. RETIREMENT PLANS**

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2009, four employees were enrolled in the Educator's Money 401(a) basic retirement plan.

Total contributions to the Educators Money 401(a) for the year ended June 30, 2009, was \$10,949 which consisted of \$5,475 from the University and \$5,475 from the covered employees.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15%

of each enrolled employee's total annual salary for the year ended June 30, 2009. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2009. 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' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the year ended June 30, 2009, was \$319,337, which consisted of \$228,098 from the University and \$91,239 from the covered employees.

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

The TIAA-CREF is a defined-contribution benefit 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 University 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 University.

Total contributions to the TIAA-CREF for the year ended June 30, 2009, was \$2,564,219, which consisted of contributions of \$1,113,688 from the University and \$1,450,532 from the covered employees in 2009.

The University's total payroll for the year ended June 30, 2009, was \$22,683,339; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were \$1,520,652, \$91,243, and \$18,561,475, respectively.

## **15. COOPERATIVE AGREEMENT**

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal year 2009 were \$60,835 and \$53,836, respectively. RCPI is not entirely or almost entirely for the benefit of the University and is therefore not a GASB Statement No. 39 component unit.

## **16. FOUNDATION**

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "...to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employ management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by

the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's combined financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2009, the Foundation's net assets (including unrealized gains) totaled \$5,084,470 on the accrual basis of accounting.

During the year ended June 30, 2009, the Foundation contributed \$8,435 to the University for scholarships.

## **17. AFFILIATED ORGANIZATION**

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University's accompanying combined financial statements under GASB Statement No. 14. They are not included in the University's accompanying combined financial statements under GASB Statement No. 39 because they are not significant to the University.

## **18. CONTINGENCIES**

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

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The University's management believes disallowances, if any, will not have a significant financial impact on the University'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 financial statements as of June 30, 2009.

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

## **19. SEGMENT INFORMATION**

The University issues 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.

**State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds, 2002 Series A** — On August 1, 2002, the University issued \$5,500,000 of College Facilities Revenue Bonds, 2002 Series A (the “2002 Bonds”). The 2002 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2002 Bonds will be secured pursuant to the Indenture and Security Agreement (the “Indenture”) dated as of August 1, 2002, by and between the Board and Huntington National Bank (the “Trustee”). The 2002 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2002 Bonds are being used to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the University Union, (2) establishing a debt service reserve fund, and (3) paying the costs of issuance of the 2002 Bonds and related costs.

Condensed financial information for the University’s segment as of June 30, 2009, is as follows:

	<b>State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds as of June 30,</b>
	<u>2009</u>
<b>Condensed Statements of Net Assets</b>	
Assets:	
Current assets	\$ 94,872
Noncurrent assets	<u>5,648,808</u>
Total	<u>\$ 5,743,680</u>
Liabilities:	
Current liabilities	\$ 263,441
Noncurrent liabilities	<u>3,794,598</u>
Total liabilities	<u>4,058,039</u>
Net Assets:	
Invested in capital assets	1,112,461
Restricted — debt service	510,549
Unrestricted	<u>62,631</u>
Total net assets	<u>1,685,641</u>
Total	<u>\$ 5,743,680</u>

**West Virginia State University,  
Student Union  
Revenue Bonds  
as of June 30,  
2009**

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

Operating:	
Operating revenues	\$ 841,571
Operating expenses	<u>(721,853)</u>
Net operating income	119,718
Nonoperating:	
Nonoperating revenues	1,800
Nonoperating expenses	<u>(210,855)</u>
Decrease in net assets	(89,337)
Net assets — beginning of year	<u>1,774,978</u>
Net assets — end of year	<u><u>\$1,685,641</u></u>

**Condensed Statements of Cash Flows**

Net cash provided by operating activities	\$ 278,149
Net cash used in capital and related financing	<u>(438,282)</u>
Decrease in cash and cash equivalents	(160,133)
Cash and cash equivalents — beginning of year	<u>255,005</u>
Cash and cash equivalents — end of year	<u><u>\$ 94,872</u></u>

**20. COMPONENT UNIT DISCLOSURES**

The following are the notes taken directly from the Foundation's financial statements as follows:

**21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS**

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

	<b>2009</b>								
	<b>Salaries and Wages</b>	<b>Benefits</b>	<b>Supplies and Other Services</b>	<b>Utilities</b>	<b>Scholarships and Fellowships</b>	<b>Amortization and Depreciation</b>	<b>Loan Cancellations and Write-Off</b>	<b>Fees Assessed by the Commission</b>	<b>Total</b>
Instruction	\$ 8,490,615	\$2,248,028	\$ 901,716	\$ 10,115	\$ 207,201	\$ -	\$ -	\$ -	\$11,857,675
Research	1,679,091	341,835	1,957,357	14,785	23,000				4,016,068
Public service	767,440	172,499	2,023,554	16,336					2,979,829
Academic support	818,816	250,154	451,186	(7,125)	9,190				1,522,221
Student services	1,575,141	495,796	609,618	4,727	7,379				2,692,661
General institutional support	5,621,812	1,642,245	3,774,570	21,057	356,521				11,416,205
Operations and maintenance of plant	1,531,782	923,249	643,478	1,341,763	7,000				4,447,272
Scholarship and fellowship					3,069,653				3,069,653
Auxiliary enterprises	2,250,361	475,648	3,129,145	615,832					6,470,986
Loan cancellations and write-off							44,744		44,744
Depreciation and amortization expense						1,342,079			1,342,079
Fees assessed by the Commission								125,402	125,402
<b>Total</b>	<b><u>\$22,735,058</u></b>	<b><u>\$6,549,454</u></b>	<b><u>\$13,490,624</u></b>	<b><u>\$2,017,490</u></b>	<b><u>\$3,679,944</u></b>	<b><u>\$1,342,079</u></b>	<b><u>\$44,744</u></b>	<b><u>\$125,402</u></b>	<b><u>\$49,984,795</u></b>

\* \* \* \* \*

## **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 State University Governing Board:

We have audited the combined financial statements of West Virginia State University (the "University") as of and for the year ended June 30, 2009, and have issued our report thereon dated November 16, 2009, which states reliance on other auditors for the discretely presented component unit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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

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

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

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

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University's combined 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 combined 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 State University Governing Board, managements of West Virginia State University and the West Virginia Higher Education Policy Commission, federal and state awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than these specified parties.

*Deloitte & Touche LLP*

November 16, 2009