

West Virginia Higher Education Fund

(A Component Unit of the State of West Virginia)

Combined Financial Statements as of and
for the Years Ended June 30, 2010 and 2009,
Additional Information as of and for the
Year Ended June 30, 2010, and
Independent Auditors' Reports

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

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INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education
Policy Commission:

We have audited the accompanying combined statements of net assets of the West Virginia Higher Education Fund (the "Fund") as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. These combined financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Concord University, Glenville State College, New River Community and Technical College, Southern West Virginia Community and Technical College, West Virginia Northern Community and Technical College, and West Virginia School of Osteopathic Medicine (collectively, "Other Institutions") for the years ended June 30, 2010 and 2009, which statements reflect total assets, total net assets, and total revenues constituting approximately 11%, 16%, and 12%, respectively, of the Fund in 2010, and 11%, 15%, and 12%, respectively, of the Fund in 2009. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fund for the years ended June 30, 2010 and 2009, is based solely on the reports of such other auditors. We also did not audit the discretely presented component units' financial statements. The component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors.

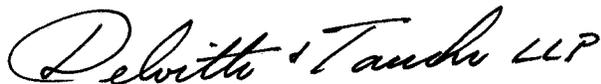
We, and the auditors for the Other Institutions and Marshall University Foundation, Inc., conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued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

In our opinion, based on our audits and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the financial position of the Fund as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 16 is not a required part of the combined financial statements but is supplementary information required by the GASB. This supplementary information is the responsibility of the Fund's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated December 2, 2010, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing on internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

December 2, 2010

West Virginia Higher Education Fund

Management's Discussion and Analysis

Fiscal Year 2010 (Unaudited)

Overview of the Combined Financial Statements and Financial Analysis

The West Virginia Higher Education Fund (the "Fund") is comprised of twenty public colleges and universities and two administrative units. The Fund is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the West Virginia Higher Education Policy Commission (the "Commission") and the West Virginia Council for Community and Technical College Education (the "Council") are responsible for the development and implementation of a higher education policy agenda.

GASB standards require the audited financial statements of certain institutions' component units to be separately presented as a discrete component unit in the Fund's financial statements for the fiscal years ended June 30, 2010 and 2009. These component units are private nonprofit organizations that report under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2010 and 2009 and is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. There are three financial statements presented: the Combined Statement of Net Assets; the Combined Statement of Revenues, Expenses, and Changes in Net Assets; and the Combined Statement of Cash Flows.

Combined Statement of Net Assets

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

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

Net assets are divided into three major categories as follows:

(1) Invested in Capital Assets, Net of Related Debt, which provides the Fund's equity in property, plant and equipment owned by the Fund.

(2) Restricted Net Assets, which is divided into two categories, nonexpendable and expendable. Nonexpendable restricted net assets are not available for expenditure by the Fund. These funds are invested and generate earnings that are available for certain types of expenditures. Expendable restricted net assets are available for expenditure by the Fund but have a specific purpose.

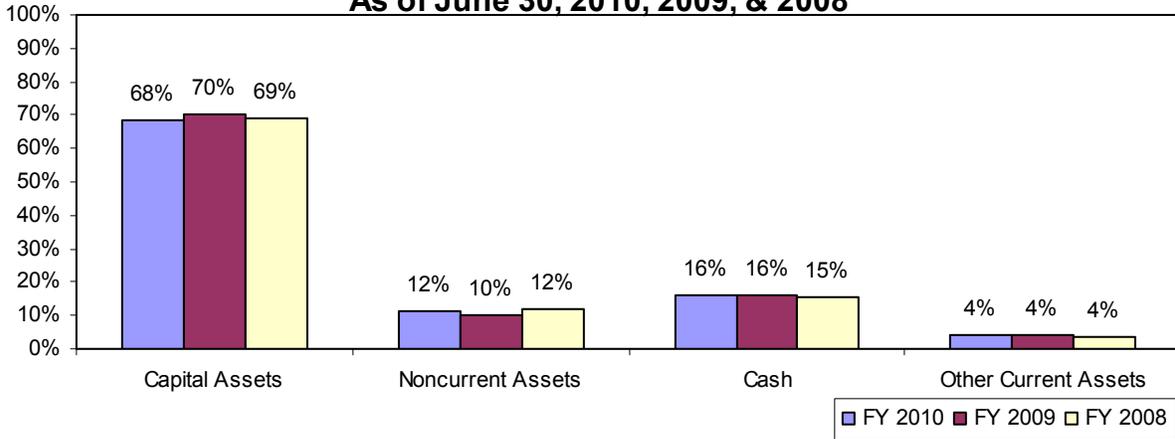
(3) Unrestricted net assets are available for expenditure and can be used for any lawful purpose of the Fund.

Condensed Statements of Net Assets
(In thousands of dollars)

	June 30 2010	June 30 2009	June 30 2008	Change From 2009 to 2010
Assets				
Current Assets	\$ 568,479	\$ 542,442	\$ 491,652	\$ 26,037
Capital Assets, net	1,941,703	1,862,554	1,767,642	79,149
Other Noncurrent Assets	<u>327,283</u>	<u>240,584</u>	<u>303,961</u>	<u>86,699</u>
Total Assets	<u>\$ 2,837,465</u>	<u>\$ 2,645,580</u>	<u>\$ 2,563,255</u>	<u>\$ 191,885</u>
Liabilities				
Current Liabilities	\$ 280,034	\$ 259,359	\$ 236,858	\$ 20,675
Noncurrent Liabilities	<u>1,036,010</u>	<u>851,481</u>	<u>846,481</u>	<u>184,529</u>
Total Liabilities	<u>1,316,044</u>	<u>1,110,840</u>	<u>1,083,339</u>	<u>205,204</u>
Net Assets				
Invested in Capital Assets, net	1,141,427	1,095,650	1,044,109	45,777
Restricted-expendable	196,161	230,330	227,311	(34,169)
Restricted-nonexpendable	5,946	5,354	5,454	592
Unrestricted	<u>177,887</u>	<u>203,406</u>	<u>203,042</u>	<u>(25,519)</u>
Total Net Assets	<u>1,521,421</u>	<u>1,534,740</u>	<u>1,479,916</u>	<u>(13,319)</u>
Total Liabilities and Net Assets	<u>\$ 2,837,465</u>	<u>\$ 2,645,580</u>	<u>\$ 2,563,255</u>	<u>\$ 191,885</u>

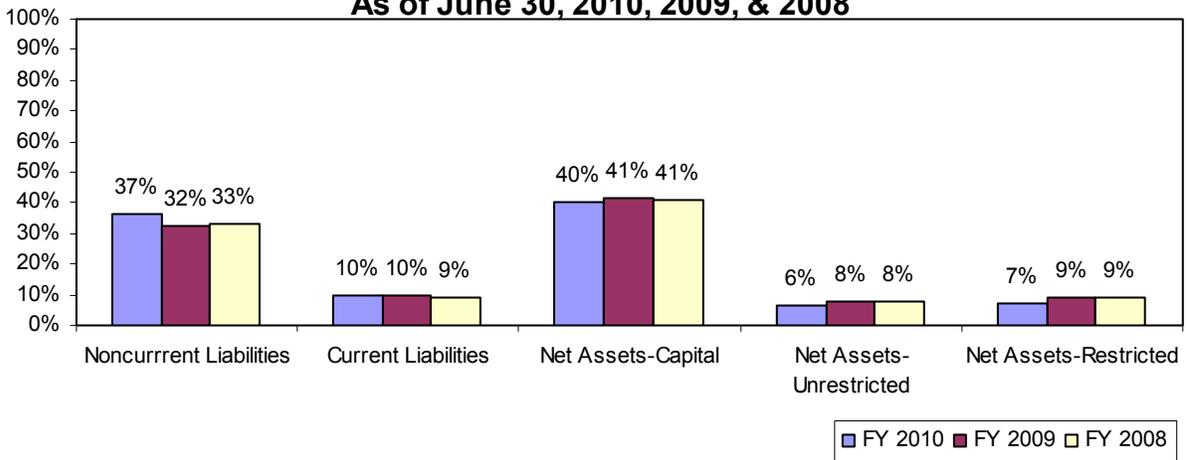
Asset Composition

As of June 30, 2010, 2009, & 2008



Liabilities & Net Assets

As of June 30, 2010, 2009, & 2008



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

- Total current assets of \$568.5 million exceeded total current liabilities of \$280.0 million as of June 30, 2010 for net working capital of \$288.5 million as compared to net working capital of \$283.0 million as of June 30, 2009. Current assets increased by \$26.0 million over the prior year, while current liabilities increased by \$20.7 million.
- The major components of current assets include cash and cash equivalents of \$454.5 million and \$431.9 million and net accounts receivable of \$82.2 million and \$71.8 million as of June 30, 2010 and 2009, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer which invested with Board of Treasury Investments at both June 30, 2010 and 2009.
- The major components of current liabilities include \$85.5 million and \$82.6 million of deferred revenue, \$56.2 million and \$58.4 million in accounts payable, \$44.0 million and \$40.2 million of accrued liabilities, \$39.7 million and \$40.1 million in accrued compensated absences, and \$26.9 million and \$24.4 million in bonds payable, as of June 30, 2010 and 2009, respectively.
- The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations, anticipation of upcoming projects including current construction projects, increases in grant activities, and the general growth of the higher education institutions.
- Noncurrent assets total \$2,269.0 million and \$2,103.1 million and noncurrent liabilities total \$1,036.0 million and \$851.5 million as of June 30, 2010 and 2009, respectively. Noncurrent assets increased by \$165.8 million over the prior year while noncurrent liabilities increased by \$184.5 million.
- The primary noncurrent asset is \$1,941.7 million and \$1,862.6 million of net capital assets as of June 30, 2010 and 2009, respectively. Also included as noncurrent assets are cash and cash equivalents primarily for capital purposes of \$103.7 million and \$79.2 million and investments for capital purposes totaling \$151.2 million and \$86.6 million as of June 30, 2010 and 2009, respectively. Net loans to students total \$51.2 million and \$53.5 million as of June 30, 2010 and 2009, respectively.
- Major components of noncurrent liabilities include long-term bonds payable totaling \$722.0 million and \$655.0 million, capital leases of \$67.2 million and \$44.2 million, advances from federal sponsors of \$41.4 million and \$41.5 million, notes payable of \$30.3 million and \$31.2 million, and accruals for other post employment benefit liability of \$113.5 million and \$24.0 million as of June 30, 2010 and 2009, respectively.
- The increase in post employment benefit liability of \$89.5 million is partially attributed to decreases in payments on behalf of West Virginia Higher Education Fund and decreases in investment returns by the State's Multiple-Employer Trust Fund resulting in an increase of the Annual Required Contribution (ARC).
- Other changes from the prior year in noncurrent assets and liabilities primarily reflect new capital projects financed by prior year revenue bonds at Fairmont State University, Glenville State College, Marshall University, Shepherd University, West Virginia University, and a system bond issue by the Commission as discussed in more detail in a later section.

- The net assets of the Fund total \$1,521.4 million and \$1,534.7 million as of June 30, 2010 and 2009, respectively, a decrease of \$13.3 million and increase of \$54.8 million from each previous year end.
- Net assets invested in capital assets total \$1,141.4 million and \$1,095.6 million as of June 30, 2010 and 2009 respectively.
- Restricted expendable net assets total \$196.2 million and \$230.3 million and include \$78.6 million and \$96.4 million for sponsored projects, \$66.9 million and \$70.8 million for capital projects, and \$25.7 million and \$27.9 million for loan programs as of June 30, 2010 and 2009, respectively.
- Unrestricted net assets total \$177.9 million and \$203.4 million as of June 30, 2010 and 2009, respectively, and represent net assets available to the Fund for any lawful purpose of the Fund.
- The increase in Net Assets is more fully explained in the following section.

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

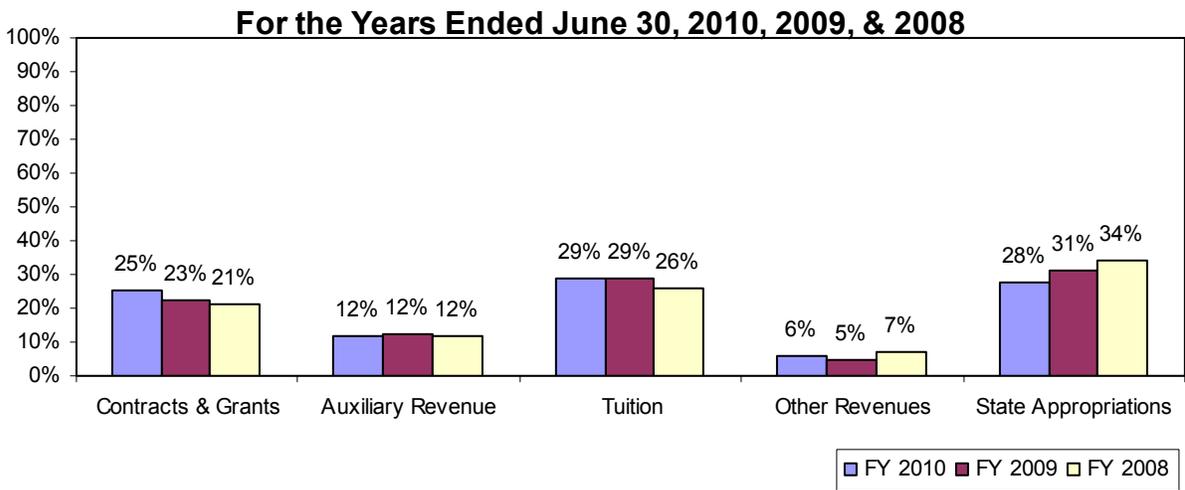
Changes in total net assets as presented on the Combined Statement of Net Assets are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the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

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

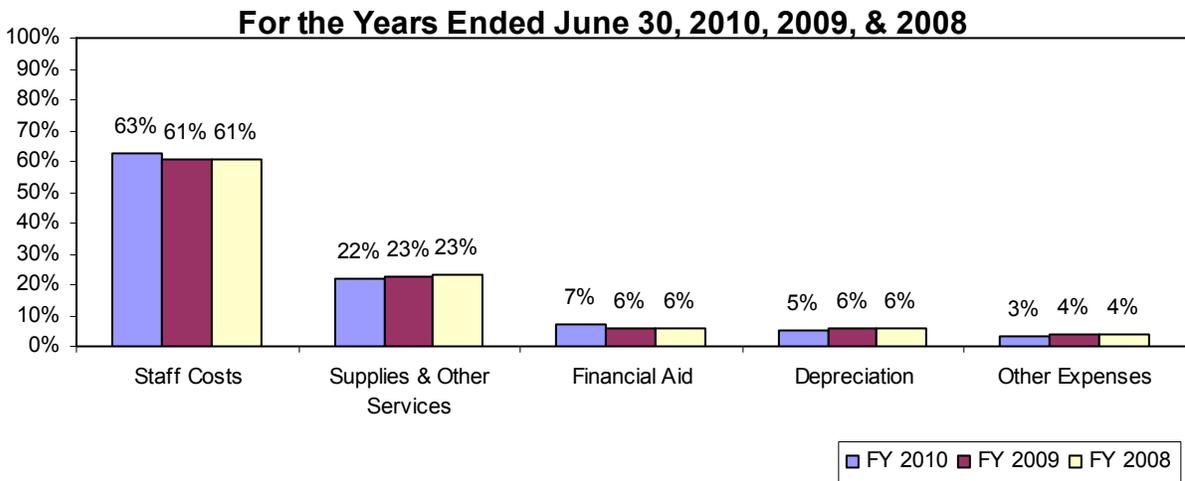
**Condensed Statements of Revenues, Expenses, and Changes in Net Assets
(In thousands of dollars)**

	FY 2010	FY 2009	FY 2008	Change From 2009 to 2010
Operating Revenues	\$ 996,747	\$ 963,888	\$ 900,435	\$ 32,859
Operating Expenses	<u>1,637,521</u>	<u>1,491,160</u>	<u>1,396,116</u>	<u>146,361</u>
Operating Loss	(640,774)	(527,272)	(495,681)	(113,502)
Net Nonoperating Revenues	<u>580,087</u>	<u>537,986</u>	<u>606,764</u>	<u>42,101</u>
(Loss) Income Before Other Revenues, Expenses, Gains or Losses	(60,687)	10,714	111,083	(71,401)
Capital Grants and Gifts-Net	43,126	43,633	78,174	(507)
State Capital Grants (Federal)	<u>4,242</u>	<u>-</u>	<u>-</u>	<u>-</u>
(Decrease) Increase in Net Assets Before Cumulative Effect	(13,319)	54,347	189,257	(67,666)
Net Assets-Beginning of Year	<u>1,534,740</u>	<u>1,479,916</u>	<u>1,228,801</u>	<u>54,824</u>
Cumulative Effect Of Adoption Of Accounting Principle	<u>-</u>	<u>477</u>	<u>61,858</u>	<u>(477)</u>
Net Assets-End of Year	<u>\$ 1,521,421</u>	<u>\$ 1,534,740</u>	<u>\$ 1,479,916</u>	<u>\$ (13,319)</u>

Total Revenues



Total Expenses



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

- Operating Revenues of the Fund totaled \$996.7 million and \$963.9 million, for the years ended June 30, 2010 and 2009, respectively, an increase of \$32.8 million compared to the prior year increase of \$63.2 million.
 - Student tuition and fees revenues totaled \$467.9 million in FY 2010, an increase of \$20.9 million or 4.7% in FY 2010 compared to a 9.9% increase in FY 2009. Tuition is reported net of scholarship allowances totaling \$134.8 million and \$106.5 million for the years ended June 30, 2010 and 2009, respectively. This increase is a combination of increases in tuition and number of students.
 - Federal grant and contracts totaled \$149.7 million and \$135.8 million for the years ended June 30, 2010 and 2009, respectively. The increase of \$13.9 million represents normal fluctuations in grant activities. Federal grants include funding for sponsored research, and other miscellaneous federal programs.
 - Auxiliary enterprises generated revenues of \$195.4 million and \$190.5 million, net of \$18.7 million and \$16.1 million of scholarship allowances for the years ended June 30, 2010 and 2009, respectively. FY 2010 net auxiliary revenues increased by \$5.0 million or 2.6% compared to a 3.4% increase in FY 2009, reflecting primarily increases in rates as there were no new significant additions to level of service in 2010.
 - State grants and contracts totaled \$58.5 million and \$64.6 million for the years ended June 30, 2010 and 2009, respectively, a decrease of \$6.1 million from FY 2009 compared to a decrease of \$0.4 million from FY 2008. Private grants and contracts totaled \$66.3 million and \$70.2 million for the years ended June 30, 2010 and 2009 respectively, a decrease of \$3.9 million from FY 2009, compared to an increase of \$10.5 million from FY 2008. These changes represent normal fluctuations in grant activities.
- Operating expenses totaled \$1,637.5 million and \$1,491.2 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$146.4 million and \$94.5 million from each previous year.
 - Staff salary costs totaled \$733.5 million and \$698.7 million, an increase of \$34.8 million and \$52.9 million for the years ended June 30, 2010 and 2009, respectively, or 5.0% from FY 2009. This increase is attributed to salary increases and an additional year of service of annual increment. Benefit costs increased by \$73.2 million in FY 2010, or 33.0% from FY 2009 and is due to the increase of the OPEB liability.
 - Supplies and other services totaled \$346.9 million and \$340.1 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$6.8 million from FY 2009, compared to an increase \$14.5 million from FY 2008. The largest increases in the functional areas are related to research and public service of \$5.2 million and \$3.7 million, respectively.
 - Scholarships and fellowships totaled \$117.4 million and \$89.7 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$27.7 million or 30.9% from FY 2009 compared to an increase of \$10.4 million or 13.1% from FY 2008.

- Depreciation on capital assets totaled \$89.8 million and \$82.1 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$7.7 million from FY 2009 compared to a \$3.5 million increase from FY 2008.
- The result from operations was a net operating loss of \$640.8 million and \$527.3 million for the years ended June 30, 2010 and 2009, respectively, which excludes State appropriations of \$449.3 million (which does not include another \$21.9 million of State fiscal stabilization funds), and \$483.5 million and Federal Pell grants of \$133.2 million and \$80.7 million for the years ended June 30, 2010 and 2009, respectively, which are recorded as non-operating revenue. The net operating loss increased by \$113.5 million in FY 2010, from the increase in operating expenses of \$146.4 million, in excess of increases in revenue of \$32.9 million. The increase in net operating loss of \$113.5 million is more than the FY 2009 increase of \$31.3 million as discussed above.
- Net non-operating revenue totaled \$580.1 million and \$538.0 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$42.1 million.
 - State general revenue and lottery appropriations totaled \$449.3 million and \$483.5 million for the years ended June 30, 2010 and 2009, respectively, a decrease of \$34.2 million, primarily attributed to a decrease in State appropriations from FY 2009 as State budget reductions mandated by the Governor were imposed for FY 2010. This decrease was backfilled with State fiscal stabilization funds of \$21.9 million.
 - Interest incurred on indebtedness totaled \$40.3 million and \$36.5 million, an increase of \$3.8 million from FY 2009, compared to \$0.3 million from FY 2008.
 - Interest income (loss) on investments totaled \$10.9 million and \$(1.0) million for the years ended June 30, 2010 and 2009, respectively, a positive change of \$11.9 million from the prior year. This positive change is due to improving investment returns by the Board of Treasury Investments (BTI) and gains in market value of investments by West Virginia University and Marshall University.
 - Payments on behalf of West Virginia Higher Education Fund totaled \$10.9 million for the year ended June 30, 2009 and is attributed to OPEB credits from the State of West Virginia for retiree insurance premiums. For FY 2010, the State did not make payments to the Trust.
 - Student financial aid payments to other institutions totaled \$14.9 million and \$20.5 million for the years ended June 30, 2010 and 2009, respectively, a decrease of \$5.6 million from FY 2009, compared to an increase of \$2.3 million from FY 2008.
- Other revenues consist of capital grants and gifts totaling \$43.1 million and \$43.6 million for the years ended June 30, 2010 and 2009, respectively, a decrease of \$0.5 million from FY 2009, compared to a decrease of \$34.6 million from FY 2008. The decrease from FY 2008 is primarily attributed to a one time \$30.0 million capital appropriation in FY 2008 for the construction of two advanced technology centers within the Community and Technical College System.
- The activity for FY 2010 resulted in a decrease of net assets totaling \$13.3 million, as compared to the \$54.3 million increase in net assets during FY 2009. The decrease in net assets at June 30, 2010 is primarily attributed to the additional OPEB liability.

- As reported below on a functional expenditure basis, expenditures for Educational and General Expenses were \$1,252.7 million and \$1,149.7 million for the years ended June 30, 2010 and 2009, respectively, an increase of \$103.0 million or 8.2% from FY 2009. Cost of instruction constitutes 39.8% of total educational and general expenses. Student Services grew by 11.3%, Academic Support increased by 10.3% and costs of Instruction increased by 9.6% over FY 2009.

Functional Expenditure Comparisons
(in thousands of dollars)

	FY10	% of	FY09	% of	FY08	% of
	Total	E&G Total	Total	E&G Total	Total	E&G Total
Instruction	\$ 498,765	39.8%	\$ 450,986	39.2%	\$ 419,054	39.2%
Research	161,548	12.9%	152,535	13.3%	152,181	14.2%
Public Service	96,345	7.7%	87,671	7.6%	81,935	7.7%
Academic Support	87,605	7.0%	78,557	6.8%	76,288	7.1%
Student Services	81,483	6.5%	72,302	6.3%	69,441	6.5%
Plant Operations	133,450	10.7%	125,891	10.9%	108,970	10.2%
Institutional Support	<u>193,454</u>	<u>15.4%</u>	<u>181,804</u>	<u>15.8%</u>	<u>161,837</u>	<u>15.1%</u>
Total E & G Expenses	1,252,650	<u>100.0%</u>	1,149,746	<u>100.0%</u>	1,069,706	<u>100.0%</u>
Financial Aid	115,175		88,232		77,858	
Auxiliary Enterprises	175,874		168,821		168,064	
Depreciation	89,780		82,113		78,642	
Other	<u>4,042</u>		<u>2,248</u>		<u>1,846</u>	
Total Operating Expenses	<u>\$ 1,637,521</u>		<u>\$1,491,160</u>		<u>\$ 1,396,116</u>	

Combined Statement of Cash Flows

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

Condensed Statements of Cash Flows
(In thousands of dollars)

	FY 2010	FY 2009	FY 2008	Change From 2009 to 2010
Cash Provided (Used) By:				
Operating Activities	\$ (456,304)	\$ (400,958)	\$ (366,983)	\$ (55,346)
Noncapital Financing Activities	616,726	565,023	628,834	51,703
Capital and Related Financing Activities	(83,460)	(158,366)	(240,599)	74,906
Investing Activities	<u>(54,397)</u>	<u>32,056</u>	<u>47,988</u>	<u>(86,453)</u>
Increase in Cash and Cash Equivalents	22,565	37,755	69,240	(15,190)
Cash and Cash Equivalents, beginning of year	<u>431,890</u>	<u>394,135</u>	<u>324,895</u>	<u>37,755</u>
Cash and Cash Equivalents, end of year	<u>\$ 454,455</u>	<u>\$ 431,890</u>	<u>\$ 394,135</u>	<u>\$ 22,565</u>

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

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$456.3 million and \$401.0 million for the years ended June 30, 2010 and 2009, respectively, primarily due to the reporting of State appropriations and Federal Pell grants as noncapital financing activities. Primary sources of cash from Operating Activities during FY 2010 and 2009, respectively, were Student tuition and fees of \$487.4 million and \$443.1 million; Contracts and grants of \$270.8 million and \$274.7 million; and Auxiliary enterprise charges of \$185.1 million and \$199.9 million. Primary uses of cash for FY 2010 and 2009, respectively, included payments to and on behalf of employees of \$936.7 million and \$888.9 million and payments to suppliers of \$347.3 million and \$337.3 million.
- Net cash provided from noncapital financing activities for FY 2010 and 2009, respectively, totaled \$616.7 million and \$565.0 million, of which \$456.2 million and \$480.0 million was from State General Revenue and Lottery appropriations and \$133.2 million and \$80.7 million was from Federal Pell Grants. In FY 2010, the fund received \$20.8 million in State fiscal stabilization funds from the Federal Government American Recovery and Reinvestment Act (ARRA).
- Net cash used in capital and related financing activities for FY 2010 totaled \$83.5 million primarily for purchases of capital assets of \$160.2 million, offset by proceeds from bond issuances and borrowings totaling \$96.0 million as compared to net cash used of \$158.4 million in FY 2009 primarily for purchases of capital assets of \$171.8 million offset by proceeds from bond issuances and borrowings of \$10.0 million.
- Net cash used in investing activities for FY 2010 totaled \$54.4 million compared to net cash provided by investing activities of \$32.1 million for FY 2009. This represents the net purchases of investments for funding capital projects primarily from the investment of the 2009 Series A bond proceeds.
- Net cash for FY 2010 increased by \$22.6 million compared to increase in net cash for FY 2009 of \$37.8 million. This increase is the net result of all the previous activity discussed.

Capital Asset and Long-Term Debt Activity

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Expenditures for capital assets totaled \$160.2 million in FY 2010, as compared to \$171.8 million in FY 2009. Institutional projects at all the institutions are under way due to institutional bond issues in FY 2003, 2004, 2005, 2006 and 2008 and system bond issues in FY 2005 and FY 2010. For FY 2010, expenditures at West Virginia University, Glenville State College, Marshall University, Concord University, Mountwest Community and Technical College and Shepherd University accounted for \$137.6 million of the \$160.2 million total. Major projects at West Virginia University included in these expenditures include a new student recreation center, an addition to the Wise Library, a new Life Sciences Building, continuation of an asbestos abatement program, and various projects focused on infrastructure improvements. Major projects at Glenville State College include a new housing complex. Major projects at Marshall University include a new housing complex, a new parking garage, and planning for a new biotechnology science center. Major projects at Concord University include ADA upgrades and the University Point project. Major projects for Mountwest Community and Technical College include the acquisition of land and a building for the future site of the Mountwest campus. Major projects at Shepherd University include a new housing complex, infrastructure upgrades, improvements to the Arts Center and construction of the Ken Boone Field House at Ram Stadium. The remaining expenditures reflect on-going capital projects at the other state colleges, universities and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of \$123.7 million as of June 30, 2010. This includes the State College and University System Bonds prior to the Facilities 2004 System Bonds and the 2007 Refunding Bonds, which are funded from tuition collections at the institutions. The Facilities 2004 System Bonds of \$144.0 million are funded from excess lottery revenue. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

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

Lastly, the Commission entered into an agreement on February 25, 2010 with the Union Carbide Corporation (UCC) a wholly-owned subsidiary of The Dow Chemical Company (Dow) for the donation of property known as Union Carbide Corporation's Technology Park in the City of South Charleston, County of Kanawha, and State of West Virginia. This property consists of 258 acres, several major buildings and infrastructure. Dow has opened the Tech Park to other business to enhance economic development opportunities. Kanawha Valley Community and Technical College will relocate their campus to the site with the renovation of one of the existing buildings and there will be the construction of an Advanced Technology Center for community college technical training and education. The deed to the property is expected to transfer to the Commission on or before December 15, 2010, at which time a donation would be recognized.

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

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

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

The second section, Achieving the Goals – What We Need to Do, will provide findings, outlines goals, and suggests strategies for West Virginia’s public colleges and universities to address in each of the five areas of the public agenda. The findings, goals, and strategies constitute the plan for addressing needs in higher education in West Virginia from 2007 to 2012 and are the basis for developing new elements in the establishment of new institutional compacts for the state’s four-year public colleges and universities.

The achievement of the goals for the higher education system as described in the Master Plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net asset position of the Fund is \$1,521.4 million, including \$177.9 million in unrestricted net assets. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 28% of operating and nonoperating revenues of the Fund in FY 2010 are from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State appropriations decreased approximately 7% in FY 2010 from FY 2009 and are attributable to State budget reductions mandated by the Governor in FY 2010. Unlike the majority of the nation, West Virginia was not impacted as quickly by the downturn in the economy and budget reductions did not occur until fiscal year 2010. For fiscal year 2011, as the West Virginia economy worsened, State appropriations for operations have been reduced by approximately 5% and the potential for mid year budget reductions does not seem likely. Due to the American Recover and Reinvestment Act (ARRA), State higher education institutions had their FY 2010 budget reductions backfilled by the State Fiscal Stabilization Fund Program in the amount of \$21.9 million. For fiscal year 2012 the Governor’s Office instructed that budget requests are to be at the current FY 2011 level plus the anticipated ARRA funds for FY 2011.

The GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. The adoption of GASB Statement No. 45 by the Fund resulted in a cumulative effect adjustment of approximately \$61.9 million which increased net assets as the existing liability of the Fund was transferred to the State’s Multiple-Employer Trust Fund. The Trust Fund for OPEB invoiced the Fund \$13.7 million in fiscal year 2009 in excess of current amounts paid and for fiscal year 2010 the Trust Fund invoiced the Fund \$89.6 million in excess of current amounts paid. The liability as of June 30, 2010 is \$113.5 million. In the past,

the State made certain payments on behalf of the Fund. However, no such payments were made in fiscal year 2010 and there is no commitment of any payments made on behalf of the Fund from the State for years after fiscal year 2010, at this time. Accordingly, as of June 30, 2010, the GASB Statement No. 45 liability exceeded the amount that was recognized as a positive cumulative effect in FY 2008 by over \$50 million.

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

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

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

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009
(Dollars in thousands)

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	\$ 454,455	\$ 431,890
Appropriations due from Primary Government Due from State	15,867	23,741
Accounts receivable — net	82,241	71,807
Loans receivable — current portion	6,670	6,589
Other current assets	3,254	2,581
Inventories	<u>5,992</u>	<u>5,834</u>
Total current assets	<u>568,479</u>	<u>542,442</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	103,701	79,188
Investments	151,222	86,580
Appropriations due from Primary Government	2,959	2,979
Loans receivable — net of allowance of \$10,454 and \$8,855 in 2010 and 2009, respectively	51,245	53,524
Other assets	18,156	18,313
Capital assets — net	<u>1,941,703</u>	<u>1,862,554</u>
Total noncurrent assets	<u>2,268,986</u>	<u>2,103,138</u>
TOTAL	<u>\$2,837,465</u>	<u>\$2,645,580</u>

(Continued)

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

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2010 AND 2009
(Dollars in thousands)

	2010	2009
LIABILITIES		
CURRENT LIABILITIES:		
Accounts payable	\$ 56,223	\$ 58,420
Due to State of West Virginia	112	223
Accrued liabilities	43,980	40,204
Deferred revenue	85,530	82,615
Deposits	5,687	6,267
Other liabilities — current portion	162	287
Compensated absences — current portion	39,707	40,141
Notes payable — current portion	2,815	885
Capital lease obligations — current portion	13,925	2,536
Interest payable	4,997	3,385
Bonds payable — current portion	<u>26,896</u>	<u>24,396</u>
Total current liabilities	<u>280,034</u>	<u>259,359</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	41,355	41,542
Compensated absences	3,142	3,213
Notes payable	30,302	31,208
Capital lease obligations	67,152	44,226
Deferred interest payable	29,917	26,060
Bonds payable	721,991	655,028
Other post employment benefit liability	113,543	23,990
Other noncurrent liabilities	<u>28,608</u>	<u>26,214</u>
Total noncurrent liabilities	<u>1,036,010</u>	<u>851,481</u>
Total liabilities	<u>1,316,044</u>	<u>1,110,840</u>
NET ASSETS:		
Invested in capital assets — net of related debt	<u>1,141,427</u>	<u>1,095,650</u>
Restricted for:		
Expendable:		
Scholarships	12,775	20,732
Sponsored projects	78,599	96,416
Loans	25,720	27,877
Capital projects	66,869	70,764
Debt service	8,317	7,527
Other	<u>3,881</u>	<u>7,014</u>
Total restricted expendable	<u>196,161</u>	<u>230,330</u>
Nonexpendable	<u>5,946</u>	<u>5,354</u>
Unrestricted	<u>177,887</u>	<u>203,406</u>
Total net assets	<u>1,521,421</u>	<u>1,534,740</u>
TOTAL	<u>\$2,837,465</u>	<u>\$2,645,580</u>

See notes to combined financial statements.

(Concluded)

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

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
ASSETS															
CASH AND CASH EQUIVALENTS	\$ 1,106,536	\$ 41,814	\$ 649,205	\$ 34,868	\$ 139,926	\$ 323,841	\$ 7,308,174	\$ 1,102,676	\$ 2,150,994	\$ 576,680	\$ 481,145	\$ 70,403	\$ 514,269	\$ 879,686	\$ 262,035
INVESTMENTS	6,503,811		21,374,062	11,540,030	11,275,599		76,060,291	6,743,702	21,490,881	1,775,050	8,886,776	1,834,516	23,311	3,649,657	6,212,671
NET INVESTMENT IN DIRECT FINANCING LEASES							3,587,018								
PLEDGES AND CONTRIBUTIONS RECEIVABLE	3,581		450,555	1,020,585	692,731	2,000	5,598,598		1,069,093	437,414	184,744	62,598			
OTHER ASSETS	17,685	176,765	41,094	14,028	9,006	2,300	992,075	2,579,583	68,698	33,742	57,933	61,912	24,259	11,843	24,650
BENEFICIAL INTERESTS				2,191,650		720,318	6,415,960				1,888,100		231,423	115,685	
PROPERTY, PLANT, AND EQUIPMENT — Net		4,698,965	1,534		32,578		13,298,035	79,540,771	4,398	645			1,593,821	929,768	
TOTAL	<u>\$ 7,631,613</u>	<u>\$ 4,917,544</u>	<u>\$ 22,516,450</u>	<u>\$ 14,801,161</u>	<u>\$ 12,149,840</u>	<u>\$ 1,048,459</u>	<u>\$ 113,260,151</u>	<u>\$ 89,966,732</u>	<u>\$ 24,784,064</u>	<u>\$ 2,823,531</u>	<u>\$ 11,498,698</u>	<u>\$ 2,029,429</u>	<u>\$ 2,387,083</u>	<u>\$ 5,586,639</u>	<u>\$ 6,499,356</u>

* December 31 year-end.

(Continued)

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

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
LIABILITIES AND NET ASSETS															
LIABILITIES:															
Accounts payable	\$ -	\$ 103,912	\$ -	\$ -	\$ 30,232	\$ -	\$ 439,532	\$ 767,186	\$ 1,115	\$ 25,425	\$ -	\$ 3,020	\$ 8,339	\$ 7,434	\$ 2,116
Other accrued liabilities		580		5,000		60,180	398,328	1,754,356	3,005	125,324			9,000		
Amounts held on behalf of others	2,184	85,950	780,894						3,338,541			123,156			
Annuity obligations			320,335	75,529			690,241								
Bonds and notes payable		3,672,157			17,345		12,342,210	90,065,000	195,026		63,884				
Swap liability								13,277,767							
Total liabilities	2,184	3,862,599	1,101,229	80,529	47,577	60,180	13,870,311	105,864,309	3,537,687	150,749	63,884	3,020	140,495	7,434	2,116
NET ASSETS (DEFICIT):															
Unrestricted	1,272,841	1,054,945	453,148	957,675	546,894	(142,853)	10,357,717	(15,897,577)	(3,226,912)	144,572	1,310,972	379,056	1,833,059	399,693	192,556
Temporarily restricted	5,286,058		3,934,813	2,933,065	25,698	115,422	20,696,013		4,399,595	2,513,210	1,248,873	1,150,533	69,185	1,364,132	4,653,943
Permanently restricted	1,070,530		17,027,260	10,829,892	11,529,721	1,015,710	68,336,110		20,073,694	15,000	8,874,969	496,820	344,344	3,815,380	1,650,741
Total net assets (deficit)	7,629,429	1,054,945	21,415,221	14,720,632	12,102,313	988,279	99,389,840	(15,897,577)	21,246,377	2,672,782	11,434,814	2,026,409	2,246,588	5,579,205	6,497,240
TOTAL	\$ 7,631,613	\$ 4,917,544	\$ 22,516,450	\$ 14,801,161	\$ 12,149,890	\$ 1,048,459	\$ 113,260,151	\$ 89,966,732	\$ 24,784,064	\$ 2,823,531	\$ 11,498,698	\$ 2,029,429	\$ 2,387,083	\$ 5,586,639	\$ 6,499,356

* December 31 year-end.

See notes to combined financial statements.

(Concluded)

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

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

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
ASSETS															
CASH AND CASH EQUIVALENTS	\$ 1,143,172	\$ 49,880	\$ 1,216,309	\$ 105,009	\$ 65,925	\$ 256,566	\$ 617,817	\$ 1,286,567	\$ 1,194,217	\$ 484,880	\$ 680,899	\$ 7,048	\$ 325,329	\$ 769,543	\$ 391,214
INVESTMENTS	5,977,683		18,367,739	9,554,979	9,874,365		77,073,781	7,884,235	19,844,150	1,748,498	7,822,069	1,653,171	18,800	3,218,314	5,396,287
NET INVESTMENT IN DIRECT FINANCING LEASES							4,052,229								
PLEDGES AND CONTRIBUTIONS RECEIVABLE	4,563		825,406	1,610,839	713,231		6,287,280		1,557,592	782,851	275,251	84,520			99,047
OTHER ASSETS	19,721	149,954	67,121	23,921	13,898	6,407	978,527	2,704,010	81,079	14,674	61,850	84,693	212,097	27,453	45,436
BENEFICIAL INTERESTS				1,659,430		631,591	6,018,545				1,744,618			109,518	
PROPERTY, PLANT, AND EQUIPMENT — Net		4,929,286	15,823		143,666		7,918,330	81,811,611	4,164	4,697			1,648,523	964,831	
TOTAL	<u>\$ 7,145,139</u>	<u>\$ 5,129,120</u>	<u>\$ 20,492,398</u>	<u>\$ 12,954,178</u>	<u>\$ 10,811,085</u>	<u>\$ 894,564</u>	<u>\$ 102,946,509</u>	<u>\$ 93,686,423</u>	<u>\$ 22,681,202</u>	<u>\$ 3,035,600</u>	<u>\$ 10,584,687</u>	<u>\$ 1,829,432</u>	<u>\$ 2,204,749</u>	<u>\$ 5,089,659</u>	<u>\$ 5,931,984</u>

* December 31 year-end.

(Continued)

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

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

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. **	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
LIABILITIES AND NET ASSETS															
LIABILITIES:															
Accounts payable	\$ -	\$ 70,223	\$ 7,700	\$ 40	\$ 25,295	\$ 8,663	\$ 639,094	\$ 1,194,482	\$ 250	\$ 21,000	\$ 88,457	\$ 706	\$ 281	\$ 5,189	\$ 9,359
Other accrued liabilities		354				42,530	780,191	1,203,620	1,562	305,507		4,900	9,000		
Amounts held on behalf of others	3,737	65,869	878,555						3,230,255				128,619		
Annuity obligations			188,950	68,795			727,458		167,649		71,401				
Bonds and notes payable		3,727,121			24,897		6,306,563	90,065,000							
Swap liability								8,879,900							
Total liabilities	<u>3,737</u>	<u>3,863,567</u>	<u>1,075,205</u>	<u>68,835</u>	<u>50,192</u>	<u>51,193</u>	<u>8,453,306</u>	<u>101,343,002</u>	<u>3,399,716</u>	<u>326,507</u>	<u>159,858</u>	<u>5,606</u>	<u>137,900</u>	<u>5,189</u>	<u>9,359</u>
NET ASSETS (DEFICIT):															
Unrestricted	1,010,404	1,265,553	104,120	477,400	848,054	(153,906)	14,904,732	(7,656,579)	(3,195,799)	27,859	1,203,957	292,744	1,767,519	329,997	200,498
Temporarily restricted	5,113,808		3,797,857	4,569,930	(805,673)	52,267	12,036,205		4,056,902	2,666,234	595,871	1,072,256	10,746	1,018,701	4,191,348
Permanently restricted	<u>1,017,190</u>		<u>15,515,216</u>	<u>7,838,013</u>	<u>10,718,512</u>	<u>945,010</u>	<u>67,552,266</u>		<u>18,420,383</u>	<u>15,000</u>	<u>8,625,001</u>	<u>458,826</u>	<u>288,584</u>	<u>3,735,772</u>	<u>1,530,779</u>
Total net assets (deficit)	<u>7,141,402</u>	<u>1,265,553</u>	<u>19,417,193</u>	<u>12,885,343</u>	<u>10,760,893</u>	<u>843,371</u>	<u>94,493,203</u>	<u>(7,656,579)</u>	<u>19,281,486</u>	<u>2,709,093</u>	<u>10,424,829</u>	<u>1,823,826</u>	<u>2,066,849</u>	<u>5,084,470</u>	<u>5,922,625</u>
TOTAL	<u>\$ 7,145,139</u>	<u>\$ 5,129,120</u>	<u>\$ 20,492,398</u>	<u>\$ 12,954,178</u>	<u>\$ 10,811,085</u>	<u>\$ 894,564</u>	<u>\$ 102,946,509</u>	<u>\$ 93,686,423</u>	<u>\$ 22,681,202</u>	<u>\$ 3,035,600</u>	<u>\$ 10,584,687</u>	<u>\$ 1,829,432</u>	<u>\$ 2,204,749</u>	<u>\$ 5,089,659</u>	<u>\$ 5,931,984</u>

* December 31 year-end.

See notes to combined financial statements.

(Concluded)

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

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in thousands)

	2010	2009
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of \$134,763 in 2010 and \$106,499 in 2009	\$ 467,933	\$ 447,080
Federal and local land grants	9,760	9,853
Contracts and grants:		
Federal	149,728	135,781
State	58,500	64,583
Local	1,455	1,425
Private	66,316	70,172
Interest on student loans receivable	1,154	896
Sales and services of educational activities	23,471	20,183
Auxiliary enterprise revenue — net of scholarship allowance of \$18,657 in 2010 and \$16,099 in 2009	195,447	190,468
Other operating revenues	<u>22,983</u>	<u>23,447</u>
Total operating revenues	<u>996,747</u>	<u>963,888</u>
OPERATING EXPENSES:		
Salaries and wages	733,485	698,667
Benefits	294,569	221,412
Supplies and other services	346,927	340,115
Utilities	49,335	47,865
Student financial aid — scholarships and fellowships	117,365	89,674
Depreciation	89,780	82,113
Other operating expenses	<u>6,060</u>	<u>11,314</u>
Total operating expenses	<u>1,637,521</u>	<u>1,491,160</u>
OPERATING LOSS	<u>(640,774)</u>	<u>(527,272)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	449,305	483,534
State fiscal stabilization funds (federal)	21,944	
Federal Pell grants	133,211	80,668
Payments on behalf of West Virginia Higher Education Fund		10,864
Gifts	21,548	21,092
Investment income (loss) (including unrealized gain (loss) of \$6,759 in 2010 and \$(9,356) in 2009)	10,947	(961)
Interest on indebtedness	(40,328)	(36,504)
Payments to other institutions	(14,915)	(20,492)
Other nonoperating expenses — net	<u>(1,625)</u>	<u>(215)</u>
Net nonoperating revenues	<u>580,087</u>	<u>537,986</u>
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(60,687)	10,714
CAPITAL GRANTS AND GIFTS	43,126	43,633
STATE CAPITAL GRANTS (FEDERAL)	<u>4,242</u>	
(DECREASE) INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	(13,319)	54,347
NET ASSETS — Beginning of year	1,534,740	1,479,916
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE		<u>477</u>
NET ASSETS — End of year	<u>\$1,521,421</u>	<u>\$1,534,740</u>

See notes to combined financial statements.

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

COMPONENT UNITS — STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.*	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:															
Unrestricted:															
Gifts, contributions, and other	\$ 66,837	\$ 813,234	\$ 162,117	\$ 101,000	\$ 218,477	\$ 251,149	\$ 799,564	\$ 7,493,498	\$ 28,196	\$ 12,140	\$ 127,044	\$ 35,371	\$ 713,442	\$ 331,084	\$ 5,245
Investment income (loss)	19,512		389,982	767,464	253,074	13,219	5,185,598	(3,591,498)	571,085	5,137	286,020	37,466	1,865	405,846	27,741
Reclassifications					(243,959)	5,000	(7,797,263)							(388,725)	
Temporarily restricted:															
Gifts, contributions, and other	93,381	348,872	207,146	1,039,005	490,647	29,604	5,551,578		853,131	238,298	833,903	300,579	72,796	156,203	249,202
Investment income	525,506		859,661	341,861	990,915	87,551	1,020,226		551,619	163,512	739,663	59,214	23,578	197	471,591
Reclassifications				(1,659,430)	227,331	(3,000)	8,895,006							391,225	
Permanently restricted:															
Gifts, contributions, and other	50,149		1,113,487	1,117,725	793,550	72,700	1,184,928		1,642,449		29,704	37,994	55,315	75,941	
Investment income			565,073	214,724	1,449		696,659		18,400		223,562		445	6,167	176,400
Reclassifications				1,659,430	16,628	(2,000)	(1,097,743)							(2,500)	176,400
Total revenues, gains, and other support	<u>755,385</u>	<u>1,162,106</u>	<u>3,297,466</u>	<u>3,581,779</u>	<u>2,748,112</u>	<u>454,223</u>	<u>14,438,553</u>	<u>3,902,000</u>	<u>3,664,880</u>	<u>419,087</u>	<u>2,239,896</u>	<u>470,624</u>	<u>867,441</u>	<u>975,438</u>	<u>1,106,579</u>
EXPENSES:															
Scholarships, awards, and grants	186,121	1,175,225	334,918	878,943	354,086	51,000	1,740,952		968,023	246,030	549,740	18,836		220	85,595
College support	45,568		674,748	632,068	525,661		5,164,396		166,283	128,957	638,178	203,124		168,007	145,525
Management and general	35,669	197,489	289,772	235,479	526,945	258,315	2,636,568	12,142,998	565,683	80,411	41,993	46,081	687,702	312,476	124,444
Total expenses	<u>267,358</u>	<u>1,372,714</u>	<u>1,299,438</u>	<u>1,746,490</u>	<u>1,406,692</u>	<u>309,315</u>	<u>9,541,916</u>	<u>12,142,998</u>	<u>1,699,989</u>	<u>455,398</u>	<u>1,229,911</u>	<u>268,041</u>	<u>687,702</u>	<u>480,703</u>	<u>355,564</u>
CHANGE IN NET ASSETS	488,027	(210,608)	1,998,028	1,835,289	1,341,420	144,908	4,896,637	(8,240,998)	1,964,891	(36,311)	1,009,985	202,583	179,739	494,735	751,015
NET ASSETS — Beginning of year	<u>7,141,402</u>	<u>1,265,553</u>	<u>19,417,193</u>	<u>12,885,343</u>	<u>10,760,893</u>	<u>843,371</u>	<u>94,493,203</u>	<u>(7,656,579)</u>	<u>19,281,486</u>	<u>2,709,093</u>	<u>10,424,829</u>	<u>1,823,826</u>	<u>2,066,849</u>	<u>5,084,470</u>	<u>5,922,625</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 7,629,429</u>	<u>\$ 1,054,945</u>	<u>\$ 21,415,221</u>	<u>\$ 14,720,632</u>	<u>\$ 12,102,313</u>	<u>\$ 988,279</u>	<u>\$ 99,389,840</u>	<u>\$ (15,897,577)</u>	<u>\$ 21,246,377</u>	<u>\$ 2,672,782</u>	<u>\$ 11,434,814</u>	<u>\$ 2,026,409</u>	<u>\$ 2,246,588</u>	<u>\$ 5,579,205</u>	<u>\$ 6,673,640</u>

* December 31 year-end.

See notes to combined financial statements.

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

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

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.*	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:															
Unrestricted:															
Gifts, contributions, and other	\$ 39,617	\$ 858,704	\$ 395,233	\$ 1,209,618	\$ 531,464	\$ 232,279	\$ 797,494	\$ 5,206,116	\$ 28,149	\$ -	\$ 157,310	\$ 15,822	\$ 711,047	\$ 428,754	\$ 2,607
Investment (loss) income	(114,872)		(499,288)	(1,744,367)	82,804	(20,723)	(23,379,223)	(5,277,556)	(2,608,036)	(4,424)	16,591	(64,560)	409	(551,007)	(56,227)
Temporarily restricted:															
Gifts, contributions, and other	92,851	146,515	350,595	2,600,109	621,965	26,000	6,408,172		1,952,570	416,253	704,446	173,609	5,536	272,231	340,748
Investment (loss) income	(956,457)		(1,436,929)	9,641	(520,157)	(150,160)	3,325,876		537,730	(62,505)	(1,979,850)	(108,963)	(47,536)	22,090	(776,556)
Permanently restricted:															
Gifts, contributions, and other	37,902		499,674	1,515,518	3,541,621	66,200	2,476,989		223,777		(196,774)	45,533	22,212	327,103	
Investment (loss) income			(1,336,328)	20,224	(60,671)		(721,725)		18,131		84,596		473		(349,463)
Total revenues, gains, and other support	<u>(900,959)</u>	<u>1,005,219</u>	<u>(2,027,043)</u>	<u>3,610,743</u>	<u>4,197,026</u>	<u>153,596</u>	<u>(11,092,417)</u>	<u>(71,440)</u>	<u>152,321</u>	<u>349,324</u>	<u>(1,213,681)</u>	<u>61,441</u>	<u>692,141</u>	<u>499,171</u>	<u>(838,891)</u>
EXPENSES:															
Scholarships, awards, and grants	103,076	1,081,648	469,316	1,012,959		54,430	2,420,726		1,314,424	189,943	498,891	24,343		8,435	107,337
College support	103,478		2,368,037	1,600,311	1,188,449		7,064,577		157,596	237,775	990,812	58,092		305,760	137,182
Management and general	39,643	206,791	447,745	230,789	521,615	222,551	3,524,713	7,585,139	558,283	208,929	152,269	54,055	687,890	301,728	133,270
Total expenses	<u>246,197</u>	<u>1,288,439</u>	<u>3,285,098</u>	<u>2,844,059</u>	<u>1,710,064</u>	<u>276,981</u>	<u>13,010,016</u>	<u>7,585,139</u>	<u>2,030,303</u>	<u>636,647</u>	<u>1,641,972</u>	<u>136,490</u>	<u>687,890</u>	<u>615,923</u>	<u>377,789</u>
CHANGE IN NET ASSETS	(1,147,156)	(283,220)	(5,312,141)	766,684	2,486,962	(123,385)	(24,102,433)	(7,656,579)	(1,877,982)	(287,323)	(2,855,653)	(75,049)	4,251	(116,752)	(1,216,680)
NET ASSETS — Beginning of year	<u>8,288,558</u>	<u>1,548,773</u>	<u>24,729,334</u>	<u>12,118,659</u>	<u>8,273,931</u>	<u>966,756</u>	<u>118,595,636</u>		<u>21,159,468</u>	<u>2,996,416</u>	<u>13,280,482</u>	<u>1,898,875</u>	<u>2,062,598</u>	<u>5,201,222</u>	<u>7,139,305</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 7,141,402</u>	<u>\$ 1,265,553</u>	<u>\$ 19,417,193</u>	<u>\$ 12,885,343</u>	<u>\$ 10,760,893</u>	<u>\$ 843,371</u>	<u>\$ 94,493,203</u>	<u>\$ (7,656,579)</u>	<u>\$ 19,281,486</u>	<u>\$ 2,709,093</u>	<u>\$ 10,424,829</u>	<u>\$ 1,823,826</u>	<u>\$ 2,066,849</u>	<u>\$ 5,084,470</u>	<u>\$ 5,922,625</u>

* December 31 year-end.

See notes to combined financial statements.

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 487,377	\$ 443,082
Federal and local land grants	9,760	9,853
Contracts and grants	270,797	274,669
Payments to and on behalf of employees	(936,690)	(888,860)
Payments to suppliers	(347,285)	(337,332)
Payments to utilities	(48,202)	(49,072)
Payments for scholarships and fellowships	(125,850)	(92,768)
Loans issued to students	(3,175)	(9,526)
Collection of loans to students	2,428	6,233
Sales and service of educational activities	21,088	22,396
Interest earned on loans to students	720	664
Auxiliary enterprise charges	185,067	199,852
Other receipts — net	<u>27,661</u>	<u>19,851</u>
Net cash used in operating activities	<u>(456,304)</u>	<u>(400,958)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	456,195	480,009
State fiscal stabilization funds (federal)	20,841	
Federal Pell grants	133,211	80,668
Payments to other institutions	(14,634)	(15,128)
Gift receipts	21,306	21,067
Direct and Stafford lending receipts	411,735	351,725
Direct and Stafford lending payments	(411,736)	(351,272)
Other nonoperating disbursements — net	<u>(192)</u>	<u>(2,046)</u>
Net cash provided by noncapital financing activities	<u>616,726</u>	<u>565,023</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from bond issuances and borrowings	95,965	10,049
Proceeds from capital asset disposals	739	3,368
Payment of bond issuance costs	(178)	
Withdrawals from noncurrent cash and cash equivalents	50,133	28,106
Deposits to noncurrent cash and cash equivalents	(38,175)	(7,993)
Capital grants and gifts received	27,119	37,961
State capital grants (federal) received	3,506	
Purchases of capital assets	(160,217)	(171,828)
Principal paid on notes, bonds, and leases	(28,100)	(24,390)
Interest paid on notes, bonds, and leases	(34,119)	(33,595)
Bond proceeds to outside entities	<u>(133)</u>	<u>(44)</u>
Net cash used in capital financing activities	<u>(83,460)</u>	<u>(158,366)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from sales of investments	11,914	31,527
Purchase of investments	(71,536)	(8,711)
Investment income	<u>5,225</u>	<u>9,240</u>
Net cash (used in) provided by investing activities	<u>(54,397)</u>	<u>32,056</u>
INCREASE IN CASH AND CASH EQUIVALENTS	22,565	37,755
CASH AND CASH EQUIVALENTS — Beginning of year	<u>431,890</u>	<u>394,135</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 454,455</u>	<u>\$ 431,890</u>

(Continued)

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

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2010 AND 2009
(Dollars in thousands)

	2010	2009
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (640,774)	\$ (527,272)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	92,219	93,784
Expenses paid on behalf of the Fund	145	10,864
Changes in assets and liabilities:		
Receivables — net	(9,999)	(14,460)
Loans receivable — net	2,146	(2,328)
Prepaid expenses	(1,055)	102
Inventories	(157)	(20)
Accounts payable	1,808	6,254
Accrued liabilities	6,299	3,182
Compensated absences	(505)	2,916
Deferred revenue	3,573	12,424
Deposits	368	101
Other post employment benefit liability	89,148	13,702
Advances from federal sponsors	(179)	(122)
Other	<u>659</u>	<u>(85)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (456,304)</u>	<u>\$ (400,958)</u>
SIGNIFICANT NONCASH TRANSACTIONS:		
Cumulative effect of adoption of accounting principle	<u>\$ -</u>	<u>\$ 477</u>
Construction in progress and capital asset additions included in accounts payable and accrued liabilities	<u>\$ 9,317</u>	<u>\$ 8,225</u>
Donated capital assets	<u>\$ 12,813</u>	<u>\$ 10,595</u>
Loss on disposals	<u>\$ 1,014</u>	<u>\$ 2,887</u>
See notes to combined financial statements.		(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

NOTES TO COMBINED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

1. ORGANIZATION

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

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

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

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

community and technical college education. The Council is comprised of 12 persons appointed by the Governor with the advice and consent of the Senate.

During fiscal year 2008, House Bill No. 3215 was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of Fairmont State University, Marshall University, West Virginia State University, and West Virginia University (the “Universities”) established their own Boards of Governors. Except for Fairmont State University and Pierpont Community and Technical College which were granted an extension to be effective January 1, 2010, the newly established Boards of Governors and the Boards of Governors of the Universities jointly agreed on a division of assets and liabilities of the Universities as required. The division of all assets and liabilities was effective retroactively to July 1, 2008. The amount of net assets transferred out from the Universities to the separately established community and technical colleges was \$21,778,265 and \$26,111,703 during 2010 and 2009, respectively. These were transfers within the Fund and have no impact on the Fund’s financial statements. The Universities and the separately established community and technical colleges developed a plan that ensures the financial stability of auxiliary enterprises, including, but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Fund have been prepared in accordance with accounting principles generally accepted in the United States of America (“generally accepted accounting principles”) as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the Fund’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

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

Reporting Entity — The accompanying combined financial statements present all entities under the authority of the Fund under GASB, including:

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

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

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund’s ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund

are not part of the Fund's reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the foundations and other affiliates under GASB blended component unit requirements.

The Fund applies GASB discretely presented component unit requirements and, as a result, certain component units' financial statements are discretely presented here with the Fund's financial statements. The component units are the separate private nonprofit organization of each applicable institution that are required to be reported under GASB. These discretely presented component unit organizations report under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The component units consist of foundations and other entities which meet the criteria for inclusion under GASB discretely presented component unit requirements.

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

Invested in Capital Assets — Net of Related Debt — This represents the Fund's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets — net of related debt.

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

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, Fees and Other Money Collected at State Institutions of Higher Education of the West Virginia State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

Restricted Net Assets — Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

Unrestricted Net Assets — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of eight investment pools and participant-directed accounts, three of which the state and local governmental agencies 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>.

Investments — GASB requires the Fund to record certain investment balances at fair value. As provided in the statement, the Fund's investments maintained by the BTI and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Other investments, other than alternative investments, are presented at fair value, based upon quoted market prices.

The alternative investments are also carried at fair value as of June 30, 2010 and 2009. These valuations include assumptions and methods that were reviewed by Fund management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The majority of the alternative investments have a readily determinable market value. The Fund believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2010 and 2009. Because a portion of alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

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

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

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

Noncurrent Cash, Cash Equivalents, and Investments — Cash and investments that are (1) externally restricted to make debt service payments, long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, or (3) held for permanently restricted net assets, are classified as noncurrent assets in the combined statements of net assets.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was approximately \$0.7 million and \$1.8 million for the years ended June 30, 2010 and 2009, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 to 20 years for library assets, and 3 to 10 years for furniture and equipment. The combined financial statements reflect all adjustments required by GASB.

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

Compensated Absences and Other Post Employment Benefits — The Fund accounts for compensated absences in accordance with the provisions of GASB.

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

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

The Fund's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is then provided for under the multiple employer cost-sharing plan sponsored by the State.

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

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

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

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

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

Under the program, the SOMs entered into an agreement with BRIM whereby the SOMs have on deposit \$4.5 million and \$4.6 million as of June 30, 2010 and 2009, respectively, in escrow accounts created in the State Treasurer from which BRIM may withdraw amounts to pay indemnity costs and

allocated expenses in connection with medical malpractice claims against the SOMs. Additionally, the WVU Health Sciences Center also has on deposit \$16.7 million and \$14.0 million as of June 30, 2010 and 2009, respectively, in an investment earnings account with the West Virginia Foundation to cover the liabilities under this program. Marshall has a receivable from the University Physicians & Surgeons, Inc. for the funding it has agreed to provide for the self-insurance liability of \$6,041,843 and \$4,673,642 as of June 30, 2010 and 2009, respectively. Based on actuarial valuations of this self-insurance program, the Fund has recorded a liability of \$26.2 million and \$24.8 million to reflect projected claim payments at June 30, 2010 and 2009, respectively, for both WVU's and Marshall's SOMs.

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

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

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

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell grants, and investment income.

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

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

Federal Financial Assistance Programs — The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through the institutions within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and Stafford student loan receivables are not included in the Fund's combined statements of net assets. In 2010 and 2009, the Fund received and disbursed, or awarded, approximately \$435 million and \$377 million, respectively, under both Student Loan Programs, which is not included as revenue and expense in the combined statements of revenues, expenses, and changes in net assets.

The Fund also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2010 and 2009, the Fund received and disbursed approximately \$136 million and \$94 million, respectively, under these federal student aid programs.

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

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

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

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

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

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

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

Reclassification — Certain reclassifications have been made to the 2009 financial statements to conform to the 2010 presentation for the adoption of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. With such adoption, \$4,628,000 of other assets was reclassified into capital assets.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2010, the Fund adopted GASB Statement No. 51. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. See “Reclassification” note above for further disclosure.

The Fund also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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 adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued GASB Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The Fund has not yet determined the effect that the adoption of GASB Statement No. 59 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2010 and 2009, was held as follows (dollars in thousands):

	2010		
	Current	Noncurrent	Total
State Treasurer:			
Fund	\$ 403,861	\$ 50,816	\$ 454,677
Municipal Bond Commission	1,270		1,270
Trustee	83	47,039	47,122
Bank	35,931	705	36,636
Cash equivalents	13,139	5,141	18,280
On hand	171		171
	<u>\$ 454,455</u>	<u>\$ 103,701</u>	<u>\$ 558,156</u>
	2009		
	Current	Noncurrent	Total
State Treasurer:			
Fund	\$ 364,194	\$ 47,428	\$ 411,622
Municipal Bond Commission	5,526		5,526
Trustee	96	25,907	26,003
Bank	41,887	667	42,554
Cash equivalents	20,085	5,186	25,271
On hand	102		102
	<u>\$ 431,890</u>	<u>\$ 79,188</u>	<u>\$ 511,078</u>

Amounts held by the Municipal Bond Commission or trustee represent various project revenue, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other amounts held by the State Treasurer include \$17.1 million and \$30.1 million of restricted cash at June 30, 2010 and 2009, respectively.

The combined carrying amounts of cash in the bank at June 30, 2010 and 2009, were \$36.6 million and \$42.6 million, as compared with the combined bank balance of \$33.5 million and \$38.1 million, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2010 and 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 is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the Commission invest, all are subject to credit risk.

WV Money Market — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2010 and 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, 2010 and 2009, the WV Money Market Pool investments had a total carrying value of \$2,876,711,000 and \$2,570,261,000, respectively, of which the Fund's ownership represents 13.27% and 10.24%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2010 and 2009, the WV Government Money Market Pool has been rated AAAM by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by

U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Government Money Market Pool investments had a total carrying value of \$221,183,000 and \$283,826,000, of which the Fund's ownership represents 0.98% and 0.77% respectively.

WV Short Term Bond Pool:

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

Security Type	Credit Rating*		2010		2009	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	\$ 24,330	5.37 %	\$ 16,402	5.21 %
	Aaa	NR *	10,353	2.28	5,136	1.63
	Aa3	AAA	1,000	0.22	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
	Ba1	CC**	45	0.01		
	Ba2	BB**	219	0.05		
	Ba3	AAA			645	0.20
	B1	AAA			779	0.25
	B1	BBB**	605	0.13		
	B1	CCC**	857	0.19		
	B2	B**			493	0.16
	B2	CCC**	366	0.08	539	0.17
	B3	AAA			949	0.30
	B3	B**	442	0.10		
	B3	BBB**	247	0.05		
	B3	CCC**	554	0.12		
	Caal	BB**			254	0.08
	Caal	CCC**	230	0.05		
	Caa2	CCC**	779	0.17		
	NR *	AAA	3,538	0.78	679	0.22
			<u>43,565</u>	<u>9.60</u>	<u>29,372</u>	<u>9.33</u>
Corporate bonds and notes	Aaa	AAA	72,549	16.00	47,204	14.99
	Aaa	AA	2,060	0.46		
	Aa1	AA	5,430	1.20	4,445	1.41
	Aa1	A			2,052	0.65
	Aa2	AAA			3,040	0.96
	Aa2	AA	6,650	1.47	9,066	2.88
	Aa3	AA	6,722	1.48		
	Aa3	A	13,850	3.05	7,831	2.49
	A1	AA	15,485	3.41	4,813	1.53
	A1	A	21,098	4.65	5,522	1.75
	A2	A	41,093	9.06	32,040	10.17
	A3	A	4,158	0.92	7,024	2.23
	Baa3	A			2,067	0.66
			<u>189,095</u>	<u>41.70</u>	<u>125,104</u>	<u>39.72</u>
U.S. agency bonds	Aaa	AAA	40,180	8.86	60,250	19.13
U.S. Treasury notes***	Aaa	AAA	158,423	34.93	88,805	28.20
U.S. agency mortgage backed securities****	Aaa	AAA	4,540	1.00	4,975	1.58
Money market funds	Aaa	AAA	17,715	3.91	6,426	2.04
			<u>\$ 453,518</u>	<u>100 %</u>	<u>\$ 314,932</u>	<u>100 %</u>

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2010 and/or 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, 2010 and 2009, the Fund's ownership represents 8.70% and 1.57%, respectively, of these amounts held by the BTI.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

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

Security Type	2010		2009	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 174,980	1	\$ 212,010	1
U.S. Treasury notes	65,153	140		
U.S. Treasury bills	476,670	35	483,714	69
Commercial paper	855,844	18	592,479	32
Certificates of deposit	281,000	45	128,402	56
U.S. agency discount notes	606,048	52	635,602	57
Corporate bonds and notes	20,000	19	73,812	38
U.S. agency bonds/notes	246,990	55	294,019	70
Money market funds	150,026	1	150,223	1
	<u>\$2,876,711</u>	33	<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:

Security Type	2010		2009	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 66,600	1	\$ 53,000	1
U.S. Treasury notes	8,526	114		
U.S. Treasury bills	29,982	72	74,424	94
U.S. agency discount notes	36,465	115	87,662	55
U.S. agency bonds/notes	79,532	30	68,608	37
Money market funds	78	1	132	1
	<u>\$ 221,183</u>	44	<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, 2010 and 2009:

Security Type	2010		2009	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
U. S. Treasury bonds/notes	\$ 158,423	583	\$ 88,805	917
Corporate notes	189,095	560	125,104	559
Corporate asset backed securities	43,565	679	29,372	622
U.S. agency bonds/notes	40,180	288	60,250	752
U.S. agency mortgage backed securities	4,540	360	4,975	540
Money market funds	17,715	1	6,426	1
	<u>\$ 453,518</u>	530	<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.

Amounts with Trustee as of June 30, 2010 and 2009, are comprised of the following (dollars in thousands):

Investment Type	Moody's Rating	Standard and Poor's Rating	2010	2009
			Carrying Value	Carrying Value
U.S. Treasury money market fund	Aaa	AAAm	\$43,847	\$17,110
Commercial paper	Aaa	AAAm		153
Money market fund (Credit Enhancers/ Collateral 1.000 Financial Guaranty Insurance Co. Municipal Bond Insurance Policy)	Aaa	N/A	83	83
Money market fund	AAA	N/A		364
Guaranteed Investment Contract (GIC)	N/A	N/A	<u>3,192</u>	<u>3,192</u>
			<u>\$47,122</u>	<u>\$20,902</u>

N/A = Not available

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

At both June 30, 2010 and 2009, the GIC investments of approximately \$3,192,000, have a fixed rate of interest of 5.18%.

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

4. INVESTMENTS

Investments at June 30, 2010, were as follows (dollars in thousands):

Investment Type	Level 1	Level 2	Level 3	Total
U.S. government investments:				
Federal Home Loan Mortgage Corporation bonds	\$ 50,821	\$ -	\$ -	\$ 50,821
Federal National Mortgage Association bonds	9,304			9,304
Federal National Mortgage Association securities		3,043		3,043
Mutual Bond Funds:				
BTI Short-Term Bond Pool	13,065			13,065
Dodge & Cox Income Fund		8,783		8,783
Harbor Bond Fund		2,492		2,492
Vanguard Bond Index Fund		1,876		1,876
Other	1,105	180		1,285
State and Local Government Securities — Auction Rate Certificates				
Fixed Income Fund — Income Research and Management		7,475		7,475
Mutual Money Market Funds — State Street Cash — SSGA Money Market		5,765		5,765
Mutual Stock Funds:		2,400		2,400
MFS	2,580			2,580
Dodge & Cox Stock Fund	2,321			2,321
Other	1,063	1,000		2,063
Other investments	3,909	477		4,386
Other alternative investments:				
CF Multi Strategy Equity Fund		7,244		7,244
CF Multi-Strategy Bond Fund		5,593		5,593
CF Core Equity Fund	4,946			4,946
CF Multi-Strategy Bond Investors Fund		4,516		4,516
CFI Multi-Strategy Equity Fund		4,317		4,317
Robeco-Sage Capital International		3,622		3,622
CF Intermediate Fund		2,067		2,067
Other			1,258	1,258
	<u>\$ 89,114</u>	<u>\$ 60,850</u>	<u>\$ 1,258</u>	<u>\$ 151,222</u>

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

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

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

Historically, the Fund was unable to invest excess operating funds outside of the Treasurer. In 2005, the West Virginia State Legislature passed Senate Bill No. 603 (S.B. 603). S.B. 203 granted WVU and Marshall the ability to invest a limited amount of funds with their foundations. The amounts invested with the two foundations at June 30, 2010 and 2009, were approximately \$61,000,000 and \$57,000,000, respectively.

In 2010, the U.S. Government investments have the following rates and maturity dates:

	Rates	Maturity Dates
Federal Home Loan Mortgage Corporation bonds	1.75%–6.00%	June 15, 2011–January 15, 2013
Federal National Mortgage Association bonds	1.75–4.875	May 18, 2012–April 19, 2013
Federal National Mortgage Association securities	4.285–4.50	July 20, 2039–July 1, 2040

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

this portfolio is higher than the WV Money Market Pool. See additional disclosures in Note 3. As of June 30, 2010 and 2009, the investment was \$13.1 million and \$12.7 million, respectively.

WVU, through its board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Based on guidance from bond counsel, the WVU Research and Development Corporation began to submit bids to purchase the ARCs in the April 23, 2008 auction. At June 30, 2010 and 2009, the carrying value of these investments was approximately \$7.8 million and \$10.95 million, respectively. These ARCs mature in October 2012. These investments have been rated A+ by Standard & Poor's for both years.

At June 30, 2010 and 2009, certain other investments had the following Standard and Poor's (S&P) ratings:

Investment Type	Standard & Poor's Rating	
	2010	2009
Income Research & Management (IRM)	AA+	AA
State Street Cash — SSGA Money Market	Am	Am
CF Multi-Strategy Bond Fund	AA	AA
CF Multi-Strategy Bond Investors Fund	AA	AA
CF Intermediate Fund	AA	AA
Harbor Bond Fund	A	

Remaining investments have not been rated.

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

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2010 and 2009, were as follows (dollars in thousands):

	2010	2009
Students — net of allowance of \$12,472 and \$11,502 in 2010 and 2009, respectively	\$ 12,304	\$ 10,810
Grants and contracts — net of allowance of \$1,960 and \$1,101 in 2010 and 2009, respectively	52,522	42,708
Auxiliary services — net of allowance of \$795 and \$713 in 2010 and 2009, respectively	2,430	1,945
Due from State and State agencies	4,176	3,948
Other — net of allowance of \$15 and \$14 in 2010 and 2009, respectively	<u>10,809</u>	<u>12,396</u>
	<u>\$ 82,241</u>	<u>\$ 71,807</u>

6. CAPITAL ASSETS

The following, for the years ended June 30, 2010 and 2009, is a summary of capital assets transactions for the Fund (dollars in thousands):

	2010			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 73,721	\$ 3,268	\$ 711	\$ 76,278
Construction in progress	134,983	117,672	140,424	112,231
Other	<u>132</u>	<u> </u>	<u> </u>	<u>132</u>
Total capital assets not being depreciated	<u>\$ 208,836</u>	<u>\$ 120,940</u>	<u>\$ 141,135</u>	<u>\$ 188,641</u>
Other capital assets:				
Land improvements	\$ 51,743	\$ 7,186	\$ 2	\$ 58,927
Infrastructure	312,939	4,517	47	317,409
Buildings	1,913,329	136,132	2,515	2,046,946
Equipment	293,754	39,911	36,065	297,600
Software	46,992	4,672	1,087	50,577
Library books	143,456	8,994	573	151,877
Intangibles	<u>20,542</u>	<u>8,928</u>	<u> </u>	<u>29,470</u>
Total other capital assets	<u>2,782,755</u>	<u>210,340</u>	<u>40,289</u>	<u>2,952,806</u>
Less accumulated depreciation for:				
Land improvements	17,632	3,410	1	21,041
Infrastructure	228,865	8,042	(63)	236,970
Buildings	516,636	39,932	1,186	555,382
Equipment	191,200	23,964	16,908	198,256
Software	44,177	1,619	501	45,295
Library books	115,250	7,128	539	121,839
Intangibles	<u>15,277</u>	<u>5,685</u>	<u>1</u>	<u>20,961</u>
Total accumulated depreciation	<u>1,129,037</u>	<u>89,780</u>	<u>19,073</u>	<u>1,199,744</u>
Other capital assets — net	<u>\$ 1,653,718</u>	<u>\$ 120,560</u>	<u>\$ 21,216</u>	<u>\$ 1,753,062</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 208,836	\$ 120,940	\$ 141,135	\$ 188,641
Other capital assets	<u>2,782,755</u>	<u>210,340</u>	<u>40,289</u>	<u>2,952,806</u>
Total cost of capital assets	2,991,591	331,280	181,424	3,141,447
Less accumulated depreciation	<u>1,129,037</u>	<u>89,780</u>	<u>19,073</u>	<u>1,199,744</u>
Capital assets — net	<u>\$ 1,862,554</u>	<u>\$ 241,500</u>	<u>\$ 162,351</u>	<u>\$ 1,941,703</u>

	2009			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 73,325	\$ 1,361	\$ 965	\$ 73,721
Construction in progress	142,108	132,903	140,028	134,983
Other	<u>132</u>	<u> </u>	<u> </u>	<u>132</u>
Total capital assets not being depreciated	<u>\$ 215,565</u>	<u>\$ 134,264</u>	<u>\$ 140,993</u>	<u>\$ 208,836</u>
Other capital assets:				
Land improvements	\$ 49,126	\$ 2,694	\$ 77	\$ 51,743
Infrastructure	289,578	24,046	685	312,939
Buildings	1,799,161	121,638	7,470	1,913,329
Equipment	290,624	26,543	23,413	293,754
Software	45,646	1,571	225	46,992
Library books	135,703	8,477	724	143,456
Intangibles	<u>19,686</u>	<u>856</u>	<u> </u>	<u>20,542</u>
Total other capital assets	<u>2,629,524</u>	<u>185,825</u>	<u>32,594</u>	<u>2,782,755</u>
Less accumulated depreciation for:				
Land improvements	14,509	3,153	30	17,632
Infrastructure	219,176	9,906	217	228,865
Buildings	482,749	37,661	3,774	516,636
Equipment	189,529	22,876	21,205	191,200
Software	43,004	1,339	166	44,177
Library books	108,794	7,145	689	115,250
Intangibles	<u>8,533</u>	<u>6,744</u>	<u> </u>	<u>15,277</u>
Total accumulated depreciation	<u>1,066,294</u>	<u>88,824</u>	<u>26,081</u>	<u>1,129,037</u>
Other capital assets — net	<u>\$ 1,563,230</u>	<u>\$ 97,001</u>	<u>\$ 6,513</u>	<u>\$ 1,653,718</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 215,565	\$ 134,264	\$ 140,993	\$ 208,836
Other capital assets	<u>2,629,524</u>	<u>185,825</u>	<u>32,594</u>	<u>2,782,755</u>
Total cost of capital assets	2,845,089	320,089	173,587	2,991,591
Less accumulated depreciation	<u>1,066,294</u>	<u>88,824</u>	<u>26,081</u>	<u>1,129,037</u>
Capital assets — net	<u>\$ 1,778,795</u>	<u>\$ 231,265</u>	<u>\$ 147,506</u>	<u>\$ 1,862,554</u>

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

The Fund has construction commitments at June 30, 2010, of approximately the following (dollars in thousands):

Bluefield State College	\$ 366
Concord University	1,000
Fairmont State University	201
Marshall University	800
Pierpont Community and Technical College	105
West Liberty State College	48
West Virginia Northern Community College	100
West Virginia School of Osteopathic Medicine	205
West Virginia University	<u>53,600</u>
	<u>\$ 56,425</u>

7. LONG-TERM LIABILITIES

The following, for the years ended June 30, 2010 and 2009, is a summary of long-term obligation transactions for the Fund (dollars in thousands):

	2010				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	\$ 32,093	\$ 1,907	\$ (883)	\$ 33,117	\$ 2,815
Capital leases payable	46,762	37,564	(3,249)	81,077	13,925
Revenue bonds payable	<u>679,424</u>	<u>94,647</u>	<u>(25,184)</u>	<u>748,887</u>	26,896
Total bonds, capital leases, and notes payable	758,279	134,118	(29,316)	863,081	
Advances from federal sponsors	41,542	84	(271)	41,355	
Accrued compensated absences	43,354	2,925	(3,430)	42,849	39,707
Deferred interest payable	26,060	3,857		29,917	
OPEB liability	23,990	89,553		113,543	
Other noncurrent liabilities	<u>26,502</u>	<u>7,245</u>	<u>(4,977)</u>	<u>28,770</u>	162
Total long-term liabilities	<u>\$919,727</u>	<u>\$237,782</u>	<u>\$(37,994)</u>	<u>\$ 1,119,515</u>	
	2009				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	\$ 20,949	\$ 11,534	\$ (390)	\$ 32,093	\$ 885
Capital leases payable	46,827	4,539	(4,604)	46,762	2,536
Revenue bonds payable	<u>703,593</u>	<u> </u>	<u>(24,169)</u>	<u>679,424</u>	24,396
Total bonds, capital leases, and notes payable	771,369	16,073	(29,163)	758,279	
Advances from federal sponsors	41,667	75	(200)	41,542	
Accrued compensated absences	41,020	4,022	(1,688)	43,354	40,141
Deferred interest payable	22,426	3,634		26,060	
OPEB liability	10,288	13,702		23,990	
Other noncurrent liabilities	<u>23,511</u>	<u>6,711</u>	<u>(3,720)</u>	<u>26,502</u>	287
Total long-term liabilities	<u>\$910,281</u>	<u>\$44,217</u>	<u>\$(34,771)</u>	<u>\$919,727</u>	

8. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2010 and 2009, the noncurrent liability related to OPEB costs was \$113,543,283 and \$24,192,135, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$108,087,365 and \$17,895,752, respectively, during 2010, and \$44,835,894 and \$20,856,773, respectively, during 2009. As of June 30, 2010 and 2009, there were approximately 1,194 and 1,160 retirees receiving these benefits, respectively.

9. LEASE OBLIGATIONS

Capital — The Fund leases certain property, plant, and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2010 (dollars in thousands):

Years Ending June 30	Total
2011	\$ 16,885
2012	14,957
2013	5,801
2014	5,877
2015	5,911
2016–2020	28,751
2021–2025	20,393
2026	<u>8,055</u>
Future minimum lease payments	106,630
Less interest	<u>25,553</u>
Total	<u>\$ 81,077</u>

During fiscal year 2010, WVU entered into three lease purchase agreements to finance capital projects, including construction of the Intermodal Transportation Center and the Childcare Center and capital improvements to the Engineering Sciences Building, for total lease payments of \$47.9 million. As of June 30, 2010, there was \$10.9 million held by the lease trustee for expenditures for completion of the leased projects.

The lease purchase for construction of the Intermodal Transportation Center, totaling \$10.9 million, was subject to federal approval and, as such, the proceeds were placed in escrow. Subsequent to year-end, the University was informed that the federal government would not approve the funding. As such, the University repaid the \$10.9 million in full from the funds in escrow during fiscal year 2011.

The following is a related-party capital lease:

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

Operating — The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2010, are as follows (dollars in thousands):

Years Ending June 30	
2011	\$ 8,979
2012	7,164
2013	5,840
2014	4,999
2015	4,105
2016–2020	12,895
2021–2025	9,880
2026–2030	9,880
2031–2035	<u>1,980</u>
 Total	 <u>\$ 65,722</u>

Total rent expense for these operating leases for the years ended June 30, 2010 and 2009, was approximately \$10.5 million and \$10.6 million, respectively.

The following is a related-party operating lease:

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

10. NOTES PAYABLE

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation (Eddie Mac) to have available a line of credit of \$3.5 million to be used to renovate dormitories. As of June 30, 2010 and 2009, West Virginia State University had \$2,612,963 and \$2,718,067 outstanding, respectively. At an interest rate of approximately 6.3%, current monthly principal and interest payments of approximately \$21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from West Virginia State University's dormitories and receives a monthly service fee. West Virginia State University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

During fiscal year 2008, West Virginia University Research Corporation drew their final approximately \$2.1 million on their \$6 million construction and term loan with West Virginia Housing Development Fund (WVHDF). The proceeds of the WVHDF loan were disbursed on a draw basis as construction progressed. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The note is due 240 months from the closing date of October 24, 2005. A note modification agreement dated April 26, 2007, allowed the West Virginia University Research Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009, and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest is amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2010 and 2009, was approximately \$6.1 million and \$6.4 million, respectively.

During fiscal year 2008, West Virginia University Research Corporation drew the entire amount of their \$9 million construction and term loan with West Virginia Economic Development Authority (WVEDA). The proceeds of the WVEDA loan were disbursed on a draw basis as construction progressed. The principal balance of the WVEDA loan bears interest at a fixed rate of 5.51% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest on the loan will accrue but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2010 and 2009, was approximately \$9.7 million and \$10 million, respectively.

During fiscal year 2009, West Virginia University Research Corporation drew the entire amount of their \$9.4 million loan with West Virginia Infrastructure and Jobs Development Council (WVIJDC). The proceeds of the WVIJDC were disbursed on a draw basis as construction progressed. The principal balance of the WVIJDC loan bears interest at a fixed rate of 3% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest on the loan will accrue but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, such accrued interest will be amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2010 and 2009, was approximately \$9.8 million and \$9.4 million, respectively. After the expiration of the five-year period, the interest rate applicable to \$3 million in principal for the balance of the term of the loan will be based on the satisfaction of certain employment criteria.

During fiscal year 2008, MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments commencing on October 10, 2008, for the interest due on the loan semiannually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. Any remaining principal balance shall be payable in full on April 10, 2028. The interest rate on the bonds is 3.2% at April 10, 2008, and continuing to and including year five, and will change for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date plus 1.67% per annum. The principal balance at June 30, 2010 and 2009, is \$2,776,173 and \$2,890,606, respectively.

During fiscal year 2010, Glenville State College entered into a \$1.5 million note collateralized by the Glenville State College Foundation, Inc. securities, for construction purposes. Interest is 4.0% with principal due in fiscal year 2011.

During fiscal 2009, Glenville State College entered into a \$635,000 promissory note collateralized by a first lien on various parcels of real estate and a motel building. Interest is 6.56% with monthly principal payments of \$4,793. The note matures in May 2030.

Annual minimum payments for the years ending after June 30, 2010, are as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2011	\$ 2,815	\$ 1,287	\$ 4,102
2012	1,499	1,348	2,847
2013	1,567	1,277	2,844
2014	1,639	1,212	2,851
2015	1,705	1,140	2,845
2016–2020	9,754	4,367	14,121
2021–2025	12,230	1,984	14,214
2026–2030	<u>1,908</u>	<u>133</u>	<u>2,041</u>
Total	<u>\$33,117</u>	<u>\$12,748</u>	<u>\$45,865</u>

11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund, at June 30, 2010 and 2009, have the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Annual Installments	Principal Outstanding	
			2010	2009
West Virginia University — Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement Bonds 2004, Series A, due through 2035	Variable	\$975–\$4,200	\$ 7,600	\$ 11,625
West Virginia University — Revenue Refunding Bonds 2004, Series B, due through 2021	5.00 %	0–6,685	55,430	55,430
West Virginia University — Revenue Improvement Bonds 2004, Series C, due through 2035	5.00	0–12,780	138,710	138,710
Marshall University — University Facilities Revenue Bonds 2001, due through 2031	5.30	1,135–3,035	40,690	41,775
Glenville State University — Student Housing Bonds, Series 2000A, due 2030	6.20	90–1,280	4,310	4,410
Glenville State University — Campus Community Center Bonds, Series 2006, due 2026	4.30 (10-year reset)	50–456	1,320	1,375
Glenville State University — Science Building Bonds, Series 2007, due in 2037	4.68 (10-year reset)	127	3,917	3,985
Glenville State University — Goodwin Hall Bonds, Series 2009, due in 2040	Variable	0–131	16,603	
Fairmont State University — College Facilities Revenue Bonds 2002, Series A, due through 2032	5.38	390–1,145	15,595	15,995
Fairmont State University — Infrastructure Revenue Bonds 2002, Series B, due through 2032	5.00	205–565	7,860	8,070
Fairmont State University — College Facilities Revenue Bonds 2003, Series A, due through 2032	5.25	300–860	11,850	12,160
Fairmont State University — Student Activity Revenue Bonds 2003, Series B, due through 2032	5.25	520–1,475	20,385	20,920
Fairmont State University — Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18 (10-year reset)	303–611	7,306	7,622
Shepherd University — Student Fee Revenue Bonds, due through 2033	5.13	105–370	5,320	5,440
Shepherd University — Infrastructure Revenue Bonds, Series 2004B, due through 2024	4.50	125–240	2,590	2,730
Shepherd University — Residence Facilities Revenue Bonds, due through 2035	5.00	435–1,450	21,580	22,040
Shepherd University — Wellness Center Facilities Revenue Bonds, Series 2007, due through 2037	4.77	435–1,170	18,700	19,055
WV State University — Student Union Revenue Bonds 2002, Series A, due through 2022	6.20	215–420	3,880	4,120
West Liberty State University — Dormitory Revenue Bonds 2003, Series A, due through 2028	6.13	225–650	7,415	7,650
West Liberty State University — University Union Revenue Bonds 2003, Series B, due through 2018	5.63	75–120	785	865
West Liberty State University — Capital Improvement Revenue Bonds 2003, Series C, due through 2028	6.00	100–285	<u>3,240</u>	<u>3,345</u>
			395,086	387,322
Less unamortized bond discount			(472)	(575)
Loss on bond defeasance			(2,476)	(3,235)
Add unamortized bond premium			<u>5,008</u>	<u>5,378</u>
			<u>\$397,146</u>	<u>\$388,890</u>

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

A summary of the annual aggregate principal payments for years subsequent to June 30, 2010, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2011	\$ 9,202	\$ 18,834	\$ 28,036
2012	9,960	18,410	28,370
2013	10,283	18,085	28,368
2014	10,567	17,684	28,251
2015	11,038	17,236	28,274
2016–2020	64,035	77,821	141,856
2021–2025	78,664	60,624	139,288
2026–2030	93,799	39,172	132,971
2031–2035	86,634	15,415	102,049
2036–2040	20,587	874	21,461
2041	<u>317</u>	<u>3</u>	<u>320</u>
Total	<u>\$ 395,086</u>	<u>\$ 284,158</u>	<u>\$ 679,244</u>

12. SYSTEM BONDS PAYABLE

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

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

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

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

The Commission, at June 30, 2010 and 2009, has the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Original Range of Annual Installments	Principal Outstanding	
			2010	2009
Series 1998 — University System Bonds, due through 2028	5.25	\$1,065–\$3,625	\$ 43,525	\$ 44,930
Series 2000A — University System Bonds, due through 2031	6.26	0–3,264	36,591	36,591
Series 2000B — University System Bonds, due through 2010	5.96	210–625		285
Series 2003A — University Facilities Bonds, due through 2012	5.00	5,740–7,875	15,380	22,520
Series 2003A — College Facilities Bonds, due through 2012	5.00	2,325–2,690	3,925	6,520
Series 2004B — Higher Education Facilities Bonds, due through 2034	6.00	2,680–9,520	144,025	147,925
Series 2007A — Revenue Refunding Bonds, due through 2027	5.00	185–1,880	24,265	25,010
Series 2009A — Community and Technical College Improvement Revenue Bonds, due through 2039	5.25	1,425–4,760	78,295	
			346,006	283,781
Add bond premium and deferred gain			5,994	6,753
Less bond discount			(259)	
			<u>\$351,741</u>	<u>\$290,534</u>

A summary of the annual aggregate principal payments for years subsequent to June 30, 2010, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2011	\$ 18,205	\$ 13,527	\$ 31,732
2012	17,345	14,321	31,666
2013	11,874	17,032	28,906
2014	12,067	16,840	28,907
2015	12,290	16,619	28,909
2016–2020	61,151	78,629	139,780
2021–2025	69,747	68,846	138,593
2026–2030	68,193	55,108	123,301
2031–2035	53,499	18,278	71,777
2036–2040	21,635	3,351	24,986
Total	<u>\$ 346,006</u>	<u>\$ 302,551</u>	<u>\$ 648,557</u>

13. UNRESTRICTED NET ASSETS

The Fund's unrestricted net assets at June 30, 2010 and 2009, include certain designated net assets as follows:

	2010	2009
Designated for auxiliaries	\$ 9,136	\$ 2,598
Designated for repair and replacement of property	8,297	1,195
Designated for affiliate organizations		103
Undesignated	<u>273,997</u>	<u>223,500</u>
Total unrestricted net assets before OPEB liability	291,430	227,396
Less OPEB liability	<u>113,543</u>	<u>23,990</u>
Total unrestricted net assets	<u>\$ 177,887</u>	<u>\$ 203,406</u>

14. RETIREMENT PLANS

Substantially all full-time employees of the Fund participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

Total contributions to Educators Money for the years ended June 30, 2010, 2009, and 2008, were \$1,657,300, \$730,900, and \$669,000, respectively, which consisted of approximately \$525,500, \$362,300, and \$331,400, from the Fund in 2010, 2009, and 2008, respectively, and approximately \$531,800, \$368,600, and \$337,700, from the covered employees in 2010, 2009, and 2008, respectively.

The STRS is a cost-sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Fund accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2010 and 2009. Required employee contributions are at the rate of 6% of total annual salary for both years ended June 30, 2010 and 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 salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2010, 2009, and 2008, were approximately \$6,794,200, \$6,993,700, and \$6,893,000, respectively, which consisted of approximately \$4,701,500, \$4,884,200, and \$4,779,200, from the Fund in 2010, 2009, and 2008, respectively, and approximately \$2,092,700, \$2,149,500, and \$2,113,800, from the covered employees in 2010, 2009, and 2008, respectively.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2010, 2009, and 2008, were approximately \$73.4 million, \$69.8 million, and \$65.8 million, respectively, which consisted of approximately \$36.6 million, \$34.9 million, and \$32.9 million, from the Fund and from the covered employees in 2010, 2009, and 2008, respectively.

The Fund's total payroll for the years ended June 30, 2010 and 2009, was approximately \$727.6 million and \$694.8 million, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$36.4 million, \$600.4 million, and \$8.6 million, for the year ended June 30, 2009, and \$39.1 million, \$587.5 million, and \$6.8 million, for the year ended June 30, 2009.

15. FOUNDATIONS

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose "... to aid, strengthen, and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations ...". Oversight of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the combined financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are therefore discretely presented with the Fund's combined financial statements in accordance with GASB discretely presented component unit requirements.

The West Virginia University Foundation, Inc. is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled \$491.6 million and \$433.7 million at June 30, 2010 and 2009, respectively. The Eastern West Virginia Community and Technical College Foundation Inc. and MCTC Foundation, Inc. are not included for the years ended June 30, 2010 and 2009, because they were not significant to their institutions. The Higher Education Foundation is not included for the years ended June 30, 2010 and 2009, because it does not entirely or almost entirely benefit any one institution and because it was not significant to the Fund. Blue Ridge Community and Technical College and Kanawha Valley Community and Technical College do not have related foundations. Currently, Bridgemont Community and Technical College Foundation, Inc. has been registered with the Secretary of State, secured a separate federal identification number, and is in the

process of securing the 501(c)(3) status with the IRS. Tech Foundation, Inc. is not included for the years ended June 30, 2010 and 2009, because it is not significant to the Fund.

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

16. OTHER DISCRETE COMPONENT UNITS

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

17. AFFILIATED ORGANIZATIONS

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under the blended component unit requirements. They are not included in the Fund's accompanying financial statements as discretely presented component unit requirements as they are (1) not significant or (2) have dual purpose (i.e., not entirely or almost entirely for the benefit of the Fund).

18. CONTINGENCIES AND COMMITMENTS

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the combined financial statements at June 30, 2010 or 2009.

The Fund and Institutions within the Fund own various buildings that are known to contain asbestos. The Fund is not required by federal, state, or local law to remove the asbestos from the buildings. The Fund is required by federal environmental, health, and safety regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

Commitments — West Virginia University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, West Virginia University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. West Virginia University's total payments for steam purchased under the agreement were approximately \$7.8 million and \$9.1 million in 2010 and 2009, respectively. West Virginia University anticipates substantially meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

19. COMPONENT UNITS' DISCLOSURES

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

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

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

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and

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

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

Investments — The component units account for their investments in accordance with generally accepted accounting principles. Under generally accepted accounting principles, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. See separately issued component units financial statements for fair value disclosures. At June 30, 2010 and 2009, there were not material items classified as Level 3 in the fair value hierarchy.

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

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

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

Endowments — See separately issued component unit financial statements for endowment related disclosures. For the years ended June 30, 2010 and 2009, there were no material reclasses among net asset classes nor were there material changes in the endowments.

Newly Adopted Statements Issued by the FASB — In December 2008, FASB issued FASB Staff Position (FSP) 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, which amends FASB Statement No. 132, *Employers' Disclosures about Pensions and Other Postretirement Benefits — an amendment of FASB Statements No. 87, 88, and 106*, to provide guidance on an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures primarily focus on the valuation of plan assets by category, including valuation techniques and significant concentrations of risk within plan assets. FSP FAS 132(R)-1 was effective for the fiscal year ended June 30, 2010. See separately issued component unit financial statements for pension related disclosures. Adoption of this statement did not have a material impact on the separately issued component unit financial statements.

In June 2009, FASB Statement No. 168, *The FASB Standards CodificationTM and the Hierarchy of Generally Accepted Accounting Principles — a replacement of FASB Statement No. 162*, was issued. The objective of this pronouncement is to integrate and topically organize all relevant accounting pronouncements comprising generally accepted accounting principles into a single codified database. FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, identified the

sources of accounting principles and the framework for selecting the principles used in preparing financial statements in accordance with generally accepted accounting principles. Adoption of this statement did not have an impact on the separately issued component unit financial statements.

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

PLEDGES RECEIVABLE

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

INVESTMENTS

The component units' investment securities at June 30, 2010 and 2009, are composed of the following:

	2010												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
Cash and temporary investments	\$ 95,000	\$ 1,388,660	\$ 343,977	\$ -	\$ -	\$ 346,589	\$ 1,187,174	\$ -	\$ -	\$ 400,044	\$ -	\$ 470,753	\$ 243,568
U.S. government securities	1,114,163	2,742,647				6,397,113	9,363,193	622,188	341,881	529,970		454,391	
Corporate and municipal bonds and notes	230,986	722,406	1,418,431		22,803,440		1,061,208		716,167	52,458		369,923	535,194
Mutual funds	269,490	9,316,341	3,034,688	10,356,416					6,813,142	123,225		2,044,171	4,828,809
Equity investments	4,403,887	5,752,610	6,742,934	214,269	46,419,884		9,738,512	1,005,629	659,308	670,072		310,419	605,100
Other	390,285	1,451,398		704,914	6,836,967		140,794	147,233	356,278	58,747	23,311		
	<u>\$6,503,811</u>	<u>\$21,374,062</u>	<u>\$11,540,030</u>	<u>\$11,275,599</u>	<u>\$76,060,291</u>	<u>\$6,743,702</u>	<u>\$21,490,881</u>	<u>\$1,775,050</u>	<u>\$8,886,776</u>	<u>\$1,834,516</u>	<u>\$23,311</u>	<u>\$3,649,657</u>	<u>\$6,212,671</u>
	2009												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH-Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Liberty State College Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
Cash and temporary investments	\$ 45,000	\$ 1,276,062	\$ 635,714	\$ -	\$ -	\$1,716,153	\$ 1,458,306	\$ -	\$ -	\$ 570,042	\$ -	\$ 370,882	\$1,264,514
U.S. government securities	1,147,251	2,903,962				1,216,103	9,148,140	848,002	244,456	251,695		353,627	
Corporate and municipal bonds and notes	241,985	1,102,284	1,114,034		25,593,324	4,951,979	161,358		728,433	47,604		541,543	1,034,277
Mutual funds	119,847	7,746,851	4,005,274	8,959,759					4,914,866	115,429		1,570,266	2,630,674
Equity investments	4,038,530	4,998,775	3,697,823	209,692	38,729,426		8,931,547	863,890	1,578,036	612,804		381,996	466,822
Other	385,070	339,805	102,134	704,914	12,751,031		144,799	36,606	356,278	55,597	18,800		
	<u>\$5,977,683</u>	<u>\$18,367,739</u>	<u>\$9,554,979</u>	<u>\$9,874,365</u>	<u>\$77,073,781</u>	<u>\$7,884,235</u>	<u>\$19,844,150</u>	<u>\$1,748,498</u>	<u>\$7,822,069</u>	<u>\$1,653,171</u>	<u>\$18,800</u>	<u>\$3,218,314</u>	<u>\$5,396,287</u>

The component units' property, plant, and equipment at June 30, 2010 and 2009, consists of the following:

	2010								
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land and land improvements	\$ 499,365	\$ -	\$ -	\$ 1,642,000	\$ 1,734,683	\$ -	\$ -	\$ -	\$ 166,000
Buildings	4,714,694			10,820,563	76,700,360			2,285,211	1,276,425
Equipment	152,292	64,579	99,338	1,138,977	6,565,622	18,028	50,350	32,322	46,448
Accumulated depreciation	<u>(667,386)</u>	<u>(63,045)</u>	<u>(66,760)</u>	<u>(303,505)</u>	<u>(5,459,894)</u>	<u>(13,630)</u>	<u>(49,705)</u>	<u>(723,712)</u>	<u>(559,105)</u>
Net book value	<u>\$4,698,965</u>	<u>\$ 1,534</u>	<u>\$ 32,578</u>	<u>\$13,298,035</u>	<u>\$79,540,771</u>	<u>\$ 4,398</u>	<u>\$ 645</u>	<u>\$1,593,821</u>	<u>\$ 929,768</u>
	2009								
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	MSH- Marshall, L.L.C.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land and land improvements	\$ 499,365	\$ -	\$ 15,000	\$1,357,000	\$ 1,245,194	\$ -	\$ -	\$ -	\$ 166,000
Buildings	4,714,694		86,000	285,000	75,965,559			2,285,211	1,276,425
Equipment	145,941	64,579	97,701	218,204	6,730,833	16,019	50,350	28,088	46,448
Construction in progress				6,385,426					
Accumulated depreciation	<u>(430,714)</u>	<u>(48,756)</u>	<u>(55,035)</u>	<u>(327,300)</u>	<u>(2,129,975)</u>	<u>(11,855)</u>	<u>(45,653)</u>	<u>(664,776)</u>	<u>(524,042)</u>
Net book value	<u>\$4,929,286</u>	<u>\$ 15,823</u>	<u>\$143,666</u>	<u>\$7,918,330</u>	<u>\$81,811,611</u>	<u>\$ 4,164</u>	<u>\$ 4,697</u>	<u>\$1,648,523</u>	<u>\$ 964,831</u>

20. SUBSEQUENT EVENT

During August 2010, the West Virginia Development Office issued approximately \$162 million of Education, Arts, Science, and Tourism bonds. The Commission, as provided in the State Code, received 60%, or \$97.2 million, of the proceeds to help fund various building and campus renewal projects. The West Virginia Development Office is responsible for repayment of the debt.

Also during August 2010, the Marshall University Board of Governors approved a resolution authorizing the refunding of all or a portion of the \$40,690,000 outstanding principal amount of the State of West Virginia, Higher Education Interim Governing Board, Marshall University Facilities Revenue Bonds 2001 Series A and the possible financing of certain capital projects through the issuance of one or more series of bonds in a principal amount not to exceed \$45,000,000.

21. SEGMENT INFORMATION

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

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

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

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

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

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

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

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

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

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

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

The County Commission of Gilmer Count, West Virginia, Commercial Development Revenue Bonds, Glenville State College Housing Corporation Project, Series 2009A — In December 2009, Glenville State College sold \$255,000 of Commercial Development Revenue Bonds, Housing Facilities Series 2009 Bonds. The bonds are secured by and payable from the revenues of Glenville State College's student housing facilities and certain funds held under the Indenture. The proceeds of the bonds are being used (1) to pay all or part of the cost of constructing a 484-bed student residence hall and (2) to pay a portion of the cost of issuing the bonds.

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

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

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

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

Fairmont State Facilities Improvement Revenue Bonds, 2006 Series — On May 9, 2006, Fairmont State issued Facilities Improvement Revenue Bonds (the “2006 Bonds”) amounting to \$8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus of Fairmont State University, including but not limited to a technology wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Board and (2) pay the costs of issuance of the 2006 Bonds and related costs.

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

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

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

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

State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002

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

Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B and C — On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to \$8,870,000. The bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College's (the "College") existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture, and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

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

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

Condensed financial information for the Fund's segments as of June 30, 2010 and 2009, is as follows (dollars in thousands):

	2010															
	WVU 2004 Auxiliaries	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Glenville 2006 Facilities	Glenville 2007 Student Fees	Glenville 2009 Revenue	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A, B & C
CONDENSED STATEMENT OF NET ASSETS:																
Assets:																
Current assets	\$ 31,203	\$ 8,391	\$ -	\$ 547	\$ 648	\$ -	\$ 3,343	\$ 1,082	\$ 2,791	\$ -	\$ 1,102	\$ 389	\$ 6,566	\$ 672	\$ 154	\$ 2,809
Noncurrent assets	437,318	44,733		9,190	9,633	16,604	30,966	8,630	23,331	8,641	4,404	2,626	21,751	19,782	5,876	12,887
Total assets	\$ 468,521	\$ 53,124	\$ -	\$ 9,737	\$ 10,281	\$ 16,604	\$ 34,309	\$ 9,712	\$ 26,122	\$ 8,641	\$ 5,506	\$ 3,015	\$ 28,317	\$ 20,454	\$ 6,030	\$ 15,696
Liabilities:																
Current liabilities	\$ 39,336	\$ 3,351	\$ -	\$ 62	\$ 72	\$ -	\$ 891	\$ 262	\$ 709	\$ 381	\$ 147	\$ 154	\$ 1,635	\$ 516	\$ 257	\$ 489
Noncurrent liabilities	200,780	40,304		1,264	3,845	16,604	26,946	7,567	20,170	6,977	5,161	2,444	22,103	18,221	3,549	10,880
Total liabilities	240,116	43,655	-	1,326	3,917	16,604	27,837	7,829	20,879	7,358	5,308	2,598	23,738	18,737	3,806	11,369
Net assets (deficit):																
Invested in capital assets — net of related debt	234,125	4,043		7,870	5,306	(1,222)	623	687	2,292	1,283	(1,435)	(39)	(1,280)	832	1,604	462
Restricted	8	82			410	1,299	5,849	1,196	2,951		531	66	284	288	479	1,109
Unrestricted	(5,728)	5,344		541	648	(77)				-	1,102	390	5,575	597	141	2,756
Total net assets	228,405	9,469	-	8,411	6,364	-	6,472	1,883	5,243	1,283	198	417	4,579	1,717	2,224	4,327
TOTAL	\$ 468,521	\$ 53,124	\$ -	\$ 9,737	\$ 10,281	\$ 16,604	\$ 34,309	\$ 9,712	\$ 26,122	\$ 8,641	\$ 5,506	\$ 3,015	\$ 28,317	\$ 20,454	\$ 6,030	\$ 15,696
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:																
Operating:																
Operating revenues	\$ 125,188	\$ 14,991	\$ -	\$ 276	\$ 403	\$ -	\$ 5,388	\$ 2,067	\$ 5,999	\$ 631	\$ 458	\$ 329	\$ 14,608	\$ 2,367	\$ 933	\$ 9,431
Operating expenses	(111,076)	(12,965)		(501)	(200)		(2,697)	(1,104)	(3,767)		(173)	(235)	(13,240)	(1,812)	(193)	(5,562)
Other																
Net operating income (loss)	14,112	2,026	-	(225)	203	-	2,691	963	2,232	631	285	94	1,368	555	740	3,869
Nonoperating:																
Transfers (to) from Institution	(7,257)	14														
Nonoperating revenues	13,435	179					53	20	5		12	16				10
Nonoperating expenses	(13,701)	(2,159)		(58)	(186)		(1,994)	(1,050)	(1,643)	(617)	(266)	(110)	(1,045)	(880)	(202)	(3,114)
INCREASE (DECREASE) IN NET ASSETS	6,589	60	-	(283)	17	-	750	(67)	594	14	31	(16)	339	(325)	538	765
NET ASSETS — Beginning of year	221,816	9,409	1,474	8,694	6,347		5,722	1,950	4,649	1,269	167	433	4,240	2,042	1,686	3,562
NET ASSETS — End of year	\$ 228,405	\$ 9,469	\$ 1,474	\$ 8,411	\$ 6,364	\$ -	\$ 6,472	\$ 1,883	\$ 5,243	\$ 1,283	\$ 198	\$ 417	\$ 4,579	\$ 1,717	\$ 2,224	\$ 4,327
CONDENSED STATEMENT OF CASH FLOWS:																
Net cash provided by operating activities	\$ 20,797	\$ 3,948	\$ -	\$ 104	\$ 403	\$ -	\$ 2,569	\$ 1,034	\$ 2,030	\$ -	\$ 458	\$ 329	\$ 2,011	\$ 1,242	\$ 874	\$ 3,868
Net cash (used in) provided by capital financing activities	(23,342)	(3,187)		(113)	(255)	1,299	(2,169)	(906)	(1,550)	(154)	(608)	(241)	(3,494)	(2,106)	(816)	(3,261)
Net cash provided by investing activities	118						9		5		266		1,079	865		
(DECREASE) INCREASE IN CASH	(2,427)	761		(9)	148	1,299	409	128	485	(154)	116	88	(404)	1	58	607
CASH — Beginning of year	33,288	* 10,660	* 231	* 546	* 500	*	4,765	* 1,074	* 2,065	* 154	* 982	296	5,768	654	95	2,202
CASH — End of year	\$ 30,861	* \$ 11,421	* \$ 231	* \$ 537	* \$ 648	* \$ 1,299	\$ 5,174	* \$ 1,202	* \$ 2,550	* \$ -	* \$ 1,098	\$ 384	\$ 5,364	\$ 655	\$ 153	\$ 2,809

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

	2009														
	WVU 2004 Auxiliaries	Marshall 2001 Facilities Series A	Glenville 2000 Housing Series A	Glenville 2006 Facilities	Glenville 2007 Student Fees	Fairmont Facilities 2002 and 2003 Series A	Fairmont Infrastructure 2002 Series B	Fairmont Student Activity 2003 Series B	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State 2002 Student Union Series A	West Liberty Capital Improvements 2003 Series A, B & C
CONDENSED STATEMENT OF NET ASSETS:															
Assets:															
Current assets	\$ 27,050	\$ 7,605	\$ 35	\$ 672	\$ 500	\$ 2,862	\$ 1,095	\$ 2,250	\$ 14	\$ 986	\$ 301	\$ 6,414	\$ 673	\$ 95	\$ 2,203
Noncurrent assets	427,607	45,805	6,855	9,400	9,833	31,499	8,875	23,878	8,943	4,607	2,870	21,986	21,052	5,649	13,144
Total assets	<u>\$ 454,657</u>	<u>\$ 53,410</u>	<u>\$6,890</u>	<u>\$10,072</u>	<u>\$10,333</u>	<u>\$34,361</u>	<u>\$ 9,970</u>	<u>\$26,128</u>	<u>\$ 8,957</u>	<u>\$ 5,593</u>	<u>\$3,171</u>	<u>\$ 28,400</u>	<u>\$ 21,725</u>	<u>\$5,744</u>	<u>\$15,347</u>
Liabilities:															
Current liabilities	\$ 28,354	\$ 3,088	\$ 507	\$ 57	\$ 69	\$ 947	\$ 242	\$ 711	\$ 382	\$ 142	\$ 149	\$ 1,472	\$ 1,097	\$ 263	\$ 477
Noncurrent liabilities	204,487	40,913	4,909	1,321	3,917	27,692	7,778	20,768	7,306	5,284	2,589	22,688	18,586	3,795	11,308
Total liabilities	<u>232,841</u>	<u>44,001</u>	<u>5,416</u>	<u>1,378</u>	<u>3,986</u>	<u>28,639</u>	<u>8,020</u>	<u>21,479</u>	<u>7,688</u>	<u>5,426</u>	<u>2,738</u>	<u>24,160</u>	<u>19,683</u>	<u>4,058</u>	<u>11,785</u>
Net assets (deficit):															
Invested in capital assets — net of related debt	220,851	4,030	1,637	8,025	5,437	394	734	2,243		(1,386)	51	(1,623)	293	1,112	351
Restricted	1	82	202		410	5,328	1,216	2,406	1,146	566	81	298	1,224	511	1,109
Unrestricted	964	5,297	(365)	669	500				123	987	301	5,565	525	63	2,102
Total net assets	<u>221,816</u>	<u>9,409</u>	<u>1,474</u>	<u>8,694</u>	<u>6,347</u>	<u>5,722</u>	<u>1,950</u>	<u>4,649</u>	<u>1,269</u>	<u>167</u>	<u>433</u>	<u>4,240</u>	<u>2,042</u>	<u>1,686</u>	<u>3,562</u>
TOTAL	<u>\$ 454,657</u>	<u>\$ 53,410</u>	<u>\$6,890</u>	<u>\$10,072</u>	<u>\$10,333</u>	<u>\$34,361</u>	<u>\$ 9,970</u>	<u>\$26,128</u>	<u>\$ 8,957</u>	<u>\$ 5,593</u>	<u>\$3,171</u>	<u>\$ 28,400</u>	<u>\$ 21,725</u>	<u>\$5,744</u>	<u>\$15,347</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:															
Operating:															
Operating revenues	\$ 120,233	\$ 14,075	\$ 706	\$ 385	\$ 416	\$ 5,421	\$ 990	\$ 5,585	\$ 631	\$ 450	\$ 317	\$ 13,746	\$ 1,892	\$ 842	\$ 8,268
Operating expenses	(108,203)	(12,005)	(337)	(528)	(200)	(2,825)	(10)	(3,555)	(83)	(136)	(235)	(12,155)	(571)	(722)	(5,222)
Other						(64)	(383)	48	348						
Net operating income (loss)	<u>12,030</u>	<u>2,070</u>	<u>369</u>	<u>(143)</u>	<u>216</u>	<u>2,532</u>	<u>597</u>	<u>2,078</u>	<u>896</u>	<u>314</u>	<u>82</u>	<u>1,591</u>	<u>1,321</u>	<u>120</u>	<u>3,046</u>
Nonoperating:															
Transfers to Institution	(8,203)	(515)													
Nonoperating revenues	17,663	166	2	1	348	122	1	27	5	23		88	337	2	42
Nonoperating expenses	(12,930)	(2,206)	(315)	(61)	(189)	(2,592)	(1,146)	(1,659)	(639)	(270)	(113)	(1,062)	(896)	(211)	(2,489)
INCREASE (DECREASE) IN NET ASSETS	8,560	(485)	56	(203)	375	62	(548)	446	262	67	(31)	617	762	(89)	599
NET ASSETS — Beginning of year	<u>213,256</u>	<u>9,894</u>	<u>1,418</u>	<u>8,897</u>	<u>5,972</u>	<u>5,660</u>	<u>2,498</u>	<u>4,203</u>	<u>1,007</u>	<u>100</u>	<u>464</u>	<u>3,623</u>	<u>1,280</u>	<u>1,775</u>	<u>2,963</u>
NET ASSETS — End of year	<u>\$ 221,816</u>	<u>\$ 9,409</u>	<u>\$1,474</u>	<u>\$ 8,694</u>	<u>\$ 6,347</u>	<u>\$ 5,722</u>	<u>\$ 1,950</u>	<u>\$ 4,649</u>	<u>\$ 1,269</u>	<u>\$ 167</u>	<u>\$ 433</u>	<u>\$ 4,240</u>	<u>\$ 2,042</u>	<u>\$1,686</u>	<u>\$ 3,562</u>
CONDENSED STATEMENT OF CASH FLOWS:															
Net cash provided by operating activities	\$ 11,863	\$ 2,982	\$ 515	\$ 85	\$ 416	\$ 2,620	\$ 980	\$ 1,905	\$ -	\$ 448	\$ 316	\$ 2,246	\$ 1,534	\$ 278	\$ 3,046
Net cash (used in) provided by capital financing activities	(32,075)	(3,203)	(696)	(122)	(133)	(2,215)	(594)	(1,549)	(767)	(464)	(248)	(3,612)	(1,921)	(438)	(2,534)
Net cash provided by investing activities	478					39		26		270		1,172	876		
(DECREASE) INCREASE IN CASH	(19,734)	(221)	(181)	(37)	283	444	386	382	(767)	254	68	(194)	489	(160)	512
CASH — Beginning of year	<u>53,022</u>	* <u>10,881</u>	* <u>412</u>	* <u>583</u>	* <u>217</u>	* <u>4,321</u>	* <u>688</u>	* <u>1,683</u>	* <u>921</u>	* <u>728</u>	<u>228</u>	<u>5,962</u>	<u>165</u>	<u>255</u>	<u>1,690</u>
CASH — End of year	<u>\$ 33,288</u>	* <u>\$ 10,660</u>	* <u>\$ 231</u>	* <u>\$ 546</u>	* <u>\$ 500</u>	* <u>\$ 4,765</u>	* <u>\$ 1,074</u>	* <u>\$ 2,065</u>	* <u>\$ 154</u>	* <u>\$ 982</u>	<u>\$ 296</u>	<u>\$ 5,768</u>	<u>\$ 654</u>	<u>\$ 95</u>	<u>\$ 2,202</u>

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

22. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2010 and 2009, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2010							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Other	Total
Instruction	\$320,659	\$124,354	\$ 51,344	\$ 374	\$ 175	\$ -	\$ 1,859	\$ 498,765
Research	74,897	36,737	48,518	1,374	22			161,548
Public service	49,932	16,026	30,063	230	63		31	96,345
Academic support	48,918	18,882	19,491	178	1		135	87,605
Student services	42,941	17,183	20,309	33	1,011		6	81,483
Operations and maintenance of plant	38,927	21,154	39,537	33,759	7		66	133,450
General institutional support	<u>96,741</u>	<u>38,911</u>	<u>56,467</u>	<u>364</u>	<u>911</u>		<u>60</u>	<u>193,454</u>
Total education and general	673,015	273,247	265,729	36,312	2,190	-	2,157	1,252,650
Student financial aid					115,175			115,175
Auxiliary enterprises	60,470	21,322	80,995	13,023			64	175,874
Depreciation						89,780		89,780
Other			<u>203</u>				<u>3,839</u>	<u>4,042</u>
Total	<u>\$733,485</u>	<u>\$294,569</u>	<u>\$346,927</u>	<u>\$49,335</u>	<u>\$117,365</u>	<u>\$ 89,780</u>	<u>\$ 6,060</u>	<u>\$ 1,637,521</u>

2009

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

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ADDITIONAL INFORMATION

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

SCHEDULE OF COMBINING NET ASSETS INFORMATION
AS OF JUNE 30, 2010
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 454,455	\$ 11,066	\$ 465,521
Short-term investments		14,320	14,320
Appropriations due from Primary Government	15,867		15,867
Accounts receivable — net	82,241	4,437	86,678
Loans receivable — current portion	6,670	53	6,723
Other current assets	3,254	976	4,230
Inventories	<u>5,992</u>	<u>11</u>	<u>6,003</u>
Total current assets	<u>568,479</u>	<u>30,863</u>	<u>599,342</u>
NONCURRENT ASSETS:			
Cash and cash equivalents	103,701	340	104,041
Investments	151,222	163,012	314,234
Appropriations due from Primary Government	2,959		2,959
Loans receivable — net of allowance of \$10,454	51,245	32	51,277
Other assets	18,156	26,758	44,914
Capital assets — net	<u>1,941,703</u>	<u>100,895</u>	<u>2,042,598</u>
Total noncurrent assets	<u>2,268,986</u>	<u>291,037</u>	<u>2,560,023</u>
TOTAL	<u>\$2,837,465</u>	<u>\$321,900</u>	<u>\$3,159,365</u>

(Continued)

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

SCHEDULE OF COMBINING NET ASSETS INFORMATION
AS OF JUNE 30, 2010
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
LIABILITIES			
CURRENT LIABILITIES:			
Accounts payable	\$ 56,223	\$ 2,173	\$ 58,396
Due to State of West Virginia	112		112
Accrued liabilities	43,980	4,219	48,199
Deferred revenue	85,530		85,530
Deposits/custodial/annuity liabilities	5,687	1,327	7,014
Other liabilities — current portion	162		162
Compensated absences — current portion	39,707		39,707
Notes payable — current portion	2,815	8,743	11,558
Capital lease obligations — current portion	13,925		13,925
Interest payable	4,997	364	5,361
Bonds payable — current portion	26,896	485	27,381
	<u>280,034</u>	<u>17,311</u>	<u>297,345</u>
Total current liabilities			
NONCURRENT LIABILITIES:			
Advances from federal sponsors	41,355		41,355
Compensated absences	3,142		3,142
Notes payable	30,302	2,009	32,311
Capital lease obligations	67,152		67,152
Deferred interest payable	29,917	1,338	31,255
Bonds payable	721,991	94,859	816,850
Other post employment benefit liability	113,543		113,543
Other noncurrent liabilities	28,608	13,278	41,886
	<u>1,036,010</u>	<u>111,484</u>	<u>1,147,494</u>
Total noncurrent liabilities			
Total liabilities	<u>1,316,044</u>	<u>128,795</u>	<u>1,444,839</u>
NET ASSETS (DEFICIT):			
Invested in capital assets — net of related debt	<u>1,141,427</u>	<u>4,618</u>	<u>1,146,045</u>
Restricted for:			
Expendable:			
Scholarships	12,775	26,123	38,898
Sponsored projects	78,599	12,937	91,536
Loans	25,720	302	26,022
Capital projects	66,869	5,593	72,462
Debt service	8,317		8,317
Other	3,881	4,450	8,331
	<u>196,161</u>	<u>49,405</u>	<u>245,566</u>
Total restricted expendable			
Nonexpendable	5,946	144,065	150,011
Unrestricted	<u>177,887</u>	<u>(4,983)</u>	<u>172,904</u>
Total net assets	<u>1,521,421</u>	<u>193,105</u>	<u>1,714,526</u>
TOTAL	<u>\$2,837,465</u>	<u>\$321,900</u>	<u>\$3,159,365</u>

(Concluded)

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

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2010
 (Dollars in thousands)**

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
OPERATING REVENUES:			
Student tuition and fees — net of scholarship allowance of \$134,763	\$ 467,933	\$ -	\$ 467,933
Gift and contributions		13,334	13,334
Federal and local land grants	9,760		9,760
Contracts and grants:			
Federal	149,728	149	149,877
State	58,500	9	58,509
Local	1,455		1,455
Private	66,316	662	66,978
Interest on student loans receivable	1,154		1,154
Sales and services of educational activities	23,471		23,471
Auxiliary enterprise revenue — net of scholarship allowance of \$18,657	195,447		195,447
Other operating revenues	<u>22,983</u>	<u>11,077</u>	<u>34,060</u>
Total operating revenues	<u>996,747</u>	<u>25,231</u>	<u>1,021,978</u>
OPERATING EXPENSES:			
Salaries and wages	733,485	3,412	736,897
Benefits	294,569	669	295,238
Supplies and other services	346,927	2,128	349,055
Utilities	49,335	929	50,264
Student financial aid — scholarships and fellowships	117,365	6,043	123,408
Depreciation	89,780	3,876	93,656
Other operating expenses	<u>6,060</u>	<u>11,031</u>	<u>17,091</u>
Total operating expenses	<u>1,637,521</u>	<u>28,088</u>	<u>1,665,609</u>
OPERATING LOSS	<u>(640,774)</u>	<u>(2,857)</u>	<u>(643,631)</u>

(Continued)

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

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010**
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 449,305	\$ -	\$ 449,305
State fiscal stabilization funds (federal)	21,944		21,944
Federal Pell grants	133,211		133,211
Gifts	21,548		21,548
Investment income — net	10,947	12,129	23,076
Interest on indebtedness	(40,328)	(4,850)	(45,178)
Payments to other institutions	(14,915)		(14,915)
Other nonoperating expenses — net	<u>(1,625)</u>	<u>322</u>	<u>(1,303)</u>
Net nonoperating revenues	<u>580,087</u>	<u>7,601</u>	<u>587,688</u>
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(60,687)	4,744	(55,943)
CAPITAL GRANTS AND GIFTS	43,126	1,897	45,023
STATE CAPITAL GRANTS (FEDERAL)	<u>4,242</u>		<u>4,242</u>
(DECREASE) INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	(13,319)	6,641	(6,678)
NET ASSETS — Beginning of year	<u>1,534,740</u>	<u>186,464</u>	<u>1,721,204</u>
NET ASSETS — End of year	<u>\$ 1,521,421</u>	<u>\$ 193,105</u>	<u>\$ 1,714,526</u>

(Concluded)

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

To the West Virginia Higher Education
Policy Commission:

We have audited the financial statements of the West Virginia Higher Education Fund (the "Fund") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 2, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

December 2, 2010