

WEST VIRGINIA UNIVERSITY

*Combined Financial Statements
for the Years Ended June 30, 2010 and 2009
and Independent Auditors' Reports*

WEST VIRGINIA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

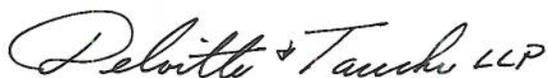
We have audited the accompanying combined statements of net assets of West Virginia University (the "University") as of June 30, 2010 and 2009 and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the University at June 30, 2010 and 2009, and the combined changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 17 is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2010, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



October 27, 2010

WEST VIRGINIA UNIVERSITY

Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2010

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB). This section of West Virginia University's (the "University" or "WVU") annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2010 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2009 compared to fiscal year 2008.

The University's annual report consists of three basic financial statements: the combined statement of net assets, the combined statement of revenues, expenses and changes in net assets, and the combined statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Financial Highlights

At June 30, 2010, the University's total net assets decreased from the previous year-end by \$9.9 million. This decrease is primarily attributable to a significant increase in the other post employment benefits (OPEB) liability resulting from a steep increase in the annual required contribution (ARC) allocated to the University by the West Virginia Retiree Health Benefit Trust Fund (the "Trust"). Additional increases in leases payable, deferred revenue and accrued payroll were partially offset by increases in capital assets, net of depreciation, cash and cash equivalents, investments and net accounts receivable.

Total revenues experienced an increase of 3.6% over the prior year. Investment income was higher compared to last year's primarily due to positive changes in the market value of investments. Federal Pell grants saw a significant increase and revenues from tuition and fees, grants and contracts (non-capital related) and auxiliary enterprises were also higher compared to prior year. These increases were offset by decreases in payments on behalf of the University, capital projects proceeds from the Higher Education Policy Commission ("HEPC"), service agreement revenue, and capital grants and gifts. Total expenses increased 7.8% from prior year mainly because of increased salaries and benefits, scholarship and fellowship expense, and interest on capital-related debt.

During fiscal year 2010, the University would have achieved income before other revenues, expenses, gains, or losses after adjusting for the effect of OPEB liability and unrealized gains on investments.

Total net assets had increased from fiscal year 2008 to fiscal year 2009 by \$9.4 million primarily due to increase in net capital assets and decreases in accounts payable, leases payable, debt service assessment payable to the Commission, and bonds payable.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors,

employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

Invested in capital assets, net of related debt. This category represents the University'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. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for 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. **Expendable restricted net assets** include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted net assets. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's management or the Board of Governors.

Condensed Combined Statements of Net Assets (in thousands)

	As of June 30		
	2010	2009	2008
Assets			
Current Assets	\$ 172,011	\$ 165,202	\$ 169,054
Noncurrent Assets	1,190,688	1,126,127	1,109,251
Total Assets	\$ 1,362,699	\$ 1,291,329	\$ 1,278,305
Liabilities			
Current Liabilities	\$ 151,009	\$ 135,772	\$ 138,447
Noncurrent Liabilities	469,517	403,498	397,173
Total Liabilities	\$ 620,526	\$ 539,270	\$ 535,620
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 700,345	\$ 651,253	\$ 614,525
Restricted for:			
Nonexpendable	4,299	3,996	4,528
Expendable	24,897	24,699	32,079
Unrestricted	12,632	72,111	91,553
Total Net Assets	\$ 742,173	\$ 752,059	\$ 742,685

Total assets of the University increased by \$71.4 million (or 5.5%) to a total of \$1,362.7 million as of June 30, 2010. The increase was primarily due to an increase in net capital assets, cash and cash equivalents, investments, net accounts receivable, and prepaid expenses. These increases were partially offset by a decrease in net loans receivable. Capital assets followed an upward trend from prior years.

- Capital assets, net increased by \$48.3 million primarily due to completion of buildings and building improvements during fiscal year 2010, including: construction of a student housing facility (WVU Honors Hall) on the Downtown campus; construction of the intermodal transportation facility and parking garage (Mountaineer Station); construction of the new WVU child care center and nursery; construction of the Potomac State College Library Information Services Center; renovations to the Summit Hall dining facility; and improvements to the soccer practice field. An additional increase was due to the completion of capital projects under Phase II of the Energy Performance Contract. The increase is also attributable to acquisition of Library holdings during fiscal year 2010.

The right-to-use software, previously classified as other assets, was reclassified as capital assets with the implementation of GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* Accordingly, software donations by Landmark Graphics Corporation and Visual Retailing, LLC were recorded as capital assets in fiscal year 2010. This increase in capital assets is consistent with the increase noted in this category from fiscal year 2008 to fiscal year 2009.

- Cash and cash equivalents increased by \$10.6 million compared to prior year primarily due to proceeds received from a lease financing agreement with BB&T to finance capital expenditures incurred in the prior year for the construction of the Child Care center and the Mountaineer Station and renovations to the Engineering Sciences Building. Cash and cash equivalents had decreased from fiscal year 2008 to fiscal year 2009 primarily due to a decrease in deposits with trustees, the University's election to fund select construction projects from existing cash, as well as transfer of cash to Bridgemont CTC and West Virginia University at Parkersburg ("WVUP") in accordance with the provisions of House Bill 3215.
- Investments increased by \$8.5 million primarily due to an increase in the fair value of the investments and additional cash invested with the Foundation. Investments had experienced a modest increase from fiscal year 2008 to fiscal year 2009 primarily due to continued acquisition of its own auction rate certificates by the University and increases in the fair value of endowed real estate.
- Accounts receivable, net increased by \$4.8 million primarily due to an increase in amounts receivable from sponsored awards including those attributable to the federal American Recovery and Reinvestment Act (ARRA) funded awards. A lower increase was noted in net accounts receivable from fiscal year 2008 to fiscal year 2009.
- Prepaid expenses increased by approximately \$950,000 mainly due to disbursement of student financial aid, including Pell grants and Athletic scholarships, prior to the applicable instructional academic term. No significant change was noted in this category from fiscal year 2008 to fiscal year 2009.
- Loans receivable, net decreased by approximately \$2.0 million from prior year due to an increase in the allowance for doubtful accounts resulting from an increase in the volume of delinquent loans in collection. Net loans receivable balances had increased from fiscal year 2008 to fiscal year 2009 due to increased activity in the Medical loan program.

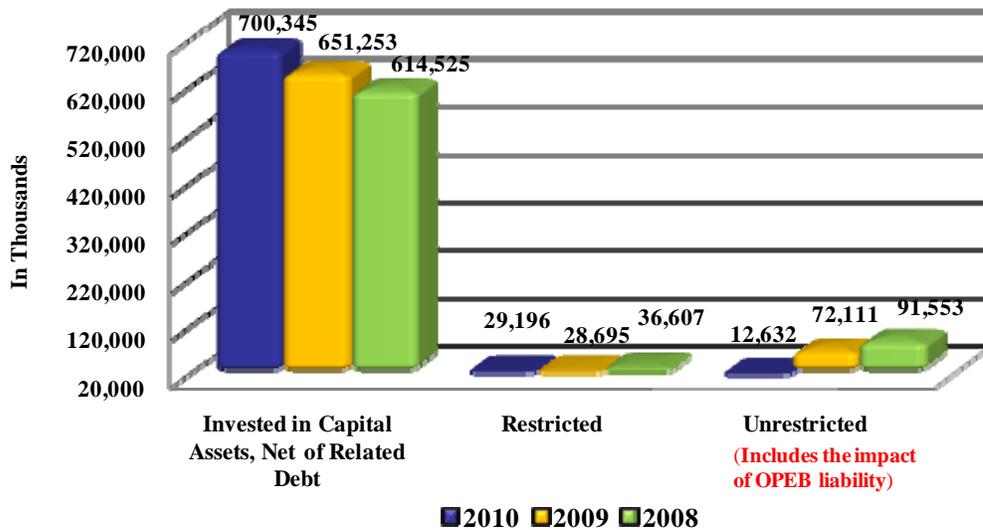
Total liabilities for the year increased by \$81.3 million (or 15.1%). This increase is primarily attributable to a significant increase in the OPEB liability, leases payable, deferred revenue, and accrued payroll. This increase was partially offset by a decrease in the reported debt service assessment payable to the Commission, bonds payable and compensated absences liability.

- OPEB liability increased by \$51.4 million due to a significant increase in the Annual Required Contribution (“ARC”) rate allocated to WVU by the West Virginia Retiree Health Benefit Trust Fund (the “Trust”). Another reason for the increase is that no State contributions were paid into the Trust on behalf of WVU. The increased ARC is a direct result of a significant increase in the state-wide OPEB liability from the prior year. The OPEB liability represents WVU’s accumulated unpaid ARC to the Trust. The OPEB liability had increased from fiscal year 2008 to fiscal year 2009 and is expected to continue this upward trend in the future.
- Leases payable increased by \$35.7 million primarily due to two significant leases executed in fiscal year 2010. A lease purchase agreement in the amount of \$30 million was executed with BB&T to finance the construction of the WVU Child Care Center and the Mountaineer Station garage, as well as renovations to the Engineering Sciences Building. Additionally, phase III of the Energy Performance Contract in the amount of \$6.9 million was executed with Banc of America. Leases payable had decreased from fiscal year 2008 to fiscal year 2009 primarily due to the transfer of WVUP’s portion of the leases payable related to the Energy Performance Contract Phase II in accordance with the provisions of House Bill 3215.
- Deferred revenue increased by \$2.9 million primarily due to receipt of several scheduled or advance payment sponsored awards during fiscal year 2010. A similar increase was noted in this category from fiscal year 2008 to fiscal year 2009.
- Accrued payroll increased by \$1.2 million mainly due to an increase in number of employees paid in arrears. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. Additionally, approximately 1,400 non-exempt (over time eligible) employees were moved to arrears payroll during fiscal year 2010 to ensure more accurate recording and paying of overtime. The increase in accrued payroll is also partly attributable to an increase in the number of employees participating in the summer deferred payment program that allows employees with a less than twelve month contract to spread their pay over twelve months. The increase in accrued payroll is consistent with the increase in accrued payroll from fiscal year 2008 to fiscal year 2009.
- Debt service assessment payable to the Commission decreased by \$5.1 million due to scheduled debt service (principal) payments in fiscal year 2010. This decrease is consistent with the decrease in such liability from fiscal year 2008 to fiscal year 2009.
- Bonds payable decreased by \$3.5 million due to scheduled bond principal payments and amortization of net original issue bond premium related to the 2004 revenue refunding and improvement bonds during fiscal year 2010, as well as amortization of the loss on refunding related to the 1997 refunded bonds. Bonds payable had experienced a similar decrease from fiscal year 2008 to fiscal year 2009.
- Compensated absences liability decreased by \$1.6 million mainly due to a reduction in the accrued vacation leave balances and enhanced reporting that more accurately captures the data used in the calculation of the liability. Compensated absences liability had increased from fiscal year 2008 to fiscal year 2009 due to an increase in the vacation leave liability and associated salary-related payments for active employees accruing annual leave.

The University’s current assets of \$172.0 million were sufficient to cover current liabilities of \$151.0 million indicating that the University maintained sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.

COMPARISON OF NET ASSETS June 30, 2010, 2009 and 2008



Invested in capital assets, net of related debt increased by \$49.1 million primarily due to an increase in capital assets, net, and decreases in debt assessment payable to the Commission and bonds payable. This increase is comparable to, but higher than, the increase in this category from fiscal year 2008 to fiscal year 2009.

Restricted net assets increased by approximately \$500,000 primarily due to an increase in the restricted for capital projects category due to an increase in amounts receivable related to the PRT vehicle propulsion contract. This increase was partially offset by a decrease in the restricted for loans category as a result of an increase in the allowance for doubtful loans receivable. Restricted net assets had experienced a decrease from fiscal year 2008 to fiscal year 2009.

Unrestricted net assets decreased by \$59.5 million due to a significant increase in the OPEB liability of \$51.4 million. This net asset category had experienced a decrease from fiscal year 2008 to fiscal year 2009 due to increases in the OPEB liability and other accrued liabilities as well as a decrease in cash and cash equivalents.

Revenues, Expenses and Changes in Net Assets

The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains or losses of the University for the fiscal years.

State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the “Legislature”) to the University without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Condensed Combined Statements of Revenues, Expenses and Changes in Net Assets (in thousands)

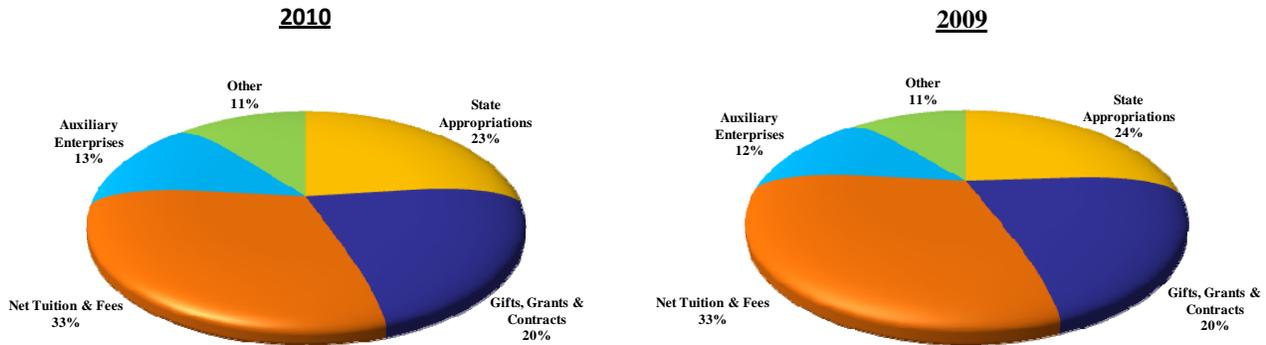
	Years Ended June 30		
	2010	2009	2008
Operating Revenues	\$ 593,541	\$ 574,754	\$ 537,928
Operating Expenses	881,326	816,077	784,932
Operating Loss	(287,785)	(241,323)	(247,004)
Net Nonoperating Revenues	241,746	226,510	252,930
(Loss) Income before Other Revenues, Expenses, Gains or Losses	(46,039)	(14,813)	5,926
Capital grants and gifts	34,511	36,509	39,219
Capital grants (federal)	961	-	-
Bond proceeds/capital projects proceeds from the Commission	681	2,647	10,081
(Decrease) Increase in Net Assets Before Transfers and Cumulative Effect	(9,886)	24,343	55,226
Transfer of net assets to Bridgemont CTC	-	(2,017)	-
Transfer of net assets to WVU Parkersburg	-	(13,429)	-
Cumulative Effect of Adoption of Accounting Principle	-	477	34,732
(Decrease) Increase in Net Assets	(9,886)	9,374	89,958
Net Assets at Beginning of Year	752,059	742,685	652,727
Net Assets at End of Year	\$ 742,173	\$ 752,059	\$ 742,685

The University achieved a positive income before other revenues, expenses, gains or losses after adjusting for the effect of OPEB liability and unrealized gains on investments as follows (in thousands):

	Year Ended June 30, 2010
Loss before other revenues, expenses, gains or losses	\$ (46,039)
OPEB added to liability	51,443
Unrealized gains	(4,985)
Modified Amount	\$ 419

Revenues:

The following charts illustrate the composition of revenues by source for 2010 and 2009.



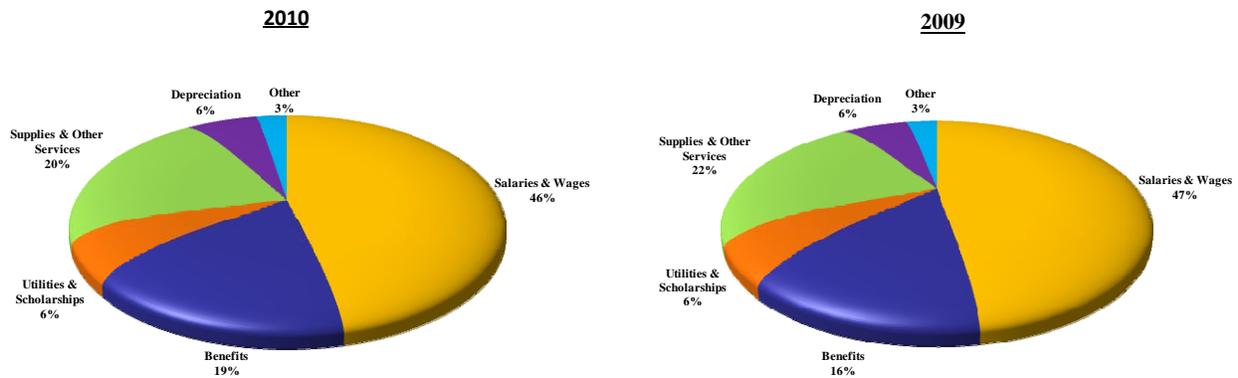
The total revenues for fiscal year 2010 were \$889.9 million, an increase of \$31.1 million over the prior year. The most significant sources of revenue for the University are tuition and fees, State appropriations, and grants and contracts. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Investment return increased by \$12.7 million primarily due to increase in the fair value of investments with the Foundation. Investment income had experienced a decrease from fiscal year 2008 to fiscal year 2009 primarily due to significant losses in market value of investments and significantly reduced returns on investments reflecting market performance.
- Pell grant revenue increased by \$9.0 million attributable to an increase in the number of students applying for and receiving the grant as well as an increase in the grant awarded per student. Pell Grant revenue had decreased \$3.8 million from fiscal year 2008 to fiscal year 2009.
- Tuition and fees increased by \$7.7 million primarily due to an increase in the fee rate and an increase in non-resident student enrollment. This increase was partially offset by an increase in the scholarship allowance due to more institutional resources used for awarding financial aid. This increase is consistent with, but slightly lower than, increases in prior years.
- Grants and contracts revenue (non-capital related) increased by \$6.9 million mainly due to increased revenues from new ARRA awards, as well as increased revenues from several new and existing State grants. A similar increase was noted in this revenue category from fiscal year 2008 to fiscal year 2009.
- Auxiliary revenue increased by \$5.9 million primarily due to an increase in room and dining services revenue, auxiliary fee revenue and athletics revenue. Room and dining services revenue increased primarily due to an increase in room and board fees, an increase in occupancy and number of meal plans, as well as the operation of Greek housing on campus. Auxiliary fee revenue increased due to an increase in auxiliary special fees. Athletics revenue increased mainly because of an increase in basketball season ticket sales. An additional increase is attributable to increase in revenues from parking fees and parking fines. This increase in auxiliary revenue is consistent with the increase in this category from fiscal year 2008 to fiscal year 2009.

- Revenues from sales and services of educational activities increased by approximately \$740,000 over prior year primarily due to an increase in royalties generated from University's trademark licensing as well as an increase in the attendance at the activities and programs offered by the Arts & Entertainment office. This category had experienced an increase from fiscal year 2008 to fiscal year 2009 due to increased revenues from study abroad programs and conferences and events at WVU Jacksons Mills and the Fire Service Academy.
- Payments on behalf of the University decreased by \$5.9 million as a result of elimination of funds transferred by the State and PEIA into the Retiree Health Benefit Trust fund. This category of revenue had declined from fiscal year 2008 to fiscal year 2009 by \$4.3 million.
- Bond/capital projects proceeds from the Commission decreased by \$2.0 million primarily because a majority of the projects financed by such proceeds have been completed and only a few projects remain that require reimbursement of construction expenditures from the Higher Education Facilities 2004 Series B bonds issued by the Commission. This category had experienced a similar decrease from fiscal year 2008 to fiscal year 2009.
- Capital grants & gifts decreased by approximately \$2.0 million compared to prior year primarily due to reduced revenues from existing capital grants, notably the capital grants related to the construction of the Mountaineer Station and the Clinical Center in the Charleston Division of the Health Sciences Center. This decrease was partially offset by an increase in new capital grants including awards from the Department of Transportation for the PRT vehicle propulsion, receipt of donated right-to-use software from Landmark Graphics and Virtual Retailing, LLC, as well as an increase in assets donated to the WVU Foundation on the University's behalf. Capital grants and gifts had experienced a similar decrease from fiscal year 2008 to fiscal year 2009 attributable to reduced revenues from capital grants during fiscal year 2009.
- Service Agreement revenue decreased by \$1.6 million from prior year mainly due to a change in the scope of services provided by the WVU Institute of Technology ("WVUIT"), a division of WVU, to Bridgemont CTC. In fiscal year 2009, service agreement revenue was recorded for the first time, representing receipts from Bridgemont CTC for administrative and academic services provided.
- Other operating revenue decreased by approximately \$800,000 from prior year. During fiscal year 2009, liquidated damages were recognized as revenue under a termination agreement with John Beilein, former basketball coach of WVU. This category had experienced a significant decrease of \$4.2 million from fiscal year 2008 to fiscal year 2009.
- State appropriations decreased by \$11.1 million from prior year primarily due to a reduction in budget appropriations from the State. This decrease was offset by \$10.6 million of State fiscal stabilization funds received under the federal ARRA. State appropriations had decreased from fiscal year 2008 to fiscal year 2009 due to a change in the reporting entity of the University in fiscal year 2009.

Expenses:

The following is a graphic comparison of total expenses by category between 2010 and 2009.



Total expenses for fiscal year 2010 were \$899.9 million, an increase of \$65.3 million from prior year. This increase is consistent with, but higher than, the increase noted in total expenses from fiscal year 2008 to fiscal year 2009. This increase is primarily due to an increase in several categories of expenses as detailed below.

- Benefits expense increased by \$40.5 million due to a large increase in OPEB expense resulting from a significantly higher annual required contribution allocation from the Trust fund and elimination of transfers of State general funds into the Trust fund during fiscal year 2010. An additional increase was caused by increases in University's health insurance expense resulting from an increase in premium rate, increased service related tuition waivers to faculty and staff and increased salary related payments. This increase was partially offset by a decrease in the accrual for compensated absences that represent active employees' leave accrual balances. Benefits expense had experienced an increase from fiscal year 2008 to fiscal year 2009 in correspondence with an increase in the salary expense and also attributable to an increase in service related tuition waivers to faculty, staff and graduate assistants.
- Salaries and wages increased by \$19.8 million from the prior year as a result of an increase in the number of both tenure track and non-tenure track faculty, increases in the Research Corporation payroll mainly attributable to an annual merit raise program implemented during fiscal year 2010, as well as an impact during the first quarter of fiscal year 2010 of the University's prior year salary increase program. A similar, but slightly higher, increase was noted in salaries and wages from fiscal year 2008 to fiscal year 2009.
- Scholarship and fellowship expenses increased by \$3.7 million over the prior year primarily due to an increase in the amount of financial aid awarded to students during fiscal year 2010, including Pell grants and institutional awards, as well as an increase in tuition and fee merit waivers. This category had experienced a decrease from fiscal year 2008 to fiscal year 2009 primarily due to scholarship expenses for Bridgemont CTC and WVUP being excluded from the WVU reporting entity in fiscal year 2009.
- Interest on capital-asset related debt increased by \$2.2 million compared to prior year primarily due to interest payments on new capital leases, namely the \$30 million lease with BB&T and phase III of the Energy Performance Contract. An additional increase is attributable to lower amount of interest capitalized on construction projects. No significant change was noted in this category from fiscal year 2008 to fiscal year 2009.

- Expense related to loan cancellations and write-offs increased by \$1.8 million over prior year attributable to an increase in the allowance for doubtful loans as a result of an increase in the volume of delinquent loans in collection. No significant change was noted in this category from fiscal year 2008 to fiscal year 2009.
- Supplies and other services increased by approximately \$900,000 mainly attributable to an increase in sponsored awards and a corresponding increase in related expenses. An additional increase was caused by improvement projects undertaken across campus, an increase in travel expenses related to the Study Abroad programs and Athletics team travel, and increased clothing and recreational supplies associated with Athletics teams. This increase was partially offset by a decrease in insurance expense resulting from reduced funds transferred to the WVU Foundation to cover potential medical malpractice claims and lower BRIM insurance premiums. Supplies and other services had increased from fiscal year 2008 to fiscal year 2009 mainly due to increases in contractual and professional services.
- Depreciation expense increased by approximately \$790,000 over the prior year mainly as a result of increase in depreciation associated with equipment, buildings, library holdings and software. Depreciation expense had experienced a similar increase from fiscal year 2008 to fiscal year 2009.
- Other operating expenses decreased by \$2.2 million due to certain one-time transactions that occurred in fiscal year 2009 and that caused the prior year expense to be greater than current year's. Primary prior year transaction was: transfer of funds to the Blanchette Rockefeller Neurosciences Institute that was appropriated by the State for programmatic purposes. This category had experienced an increase from fiscal year 2008 to fiscal year 2009 mainly due to the amortization of donated software from Schlumberger Technology and Landmark Graphics Corporation and the one-time transaction.
- Other non-operating expense decreased by \$1.9 million mainly due to a decrease in capital losses incurred on the retirement of partially depreciated assets. This category had experienced an increase from fiscal year 2008 to fiscal year 2009 due to capital losses incurred on the retirement of partially depreciated assets.

Cash Flows

The statements of cash flows provide information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the University.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

Cash flows from capital financing activities. This section includes cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

Condensed Statements of Cash Flows (in thousands)

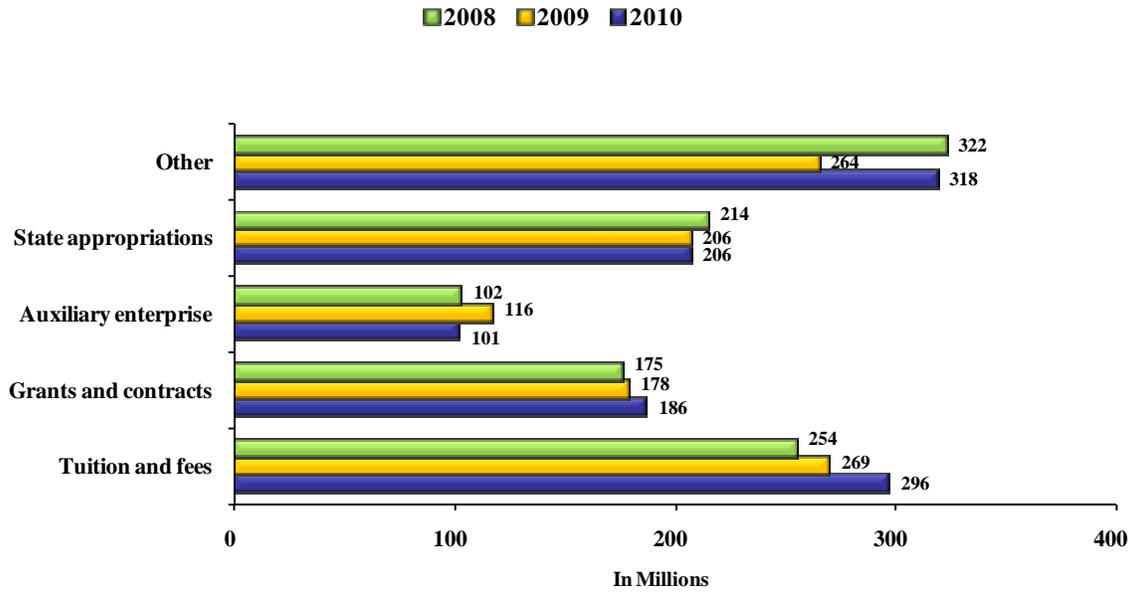
	Years Ended June 30		
	2010	2009	2008
Cash Provided By (Used In):			
Operating Activities	\$ (184,414)	\$ (168,536)	\$ (167,925)
Noncapital Financing Activities	247,725	231,230	247,799
Capital Financing Activities	(51,783)	(86,339)	(97,770)
Investing Activities	(942)	(5,151)	22,497
Increase (Decrease) in Cash and Cash Equivalents	10,586	(28,796)	4,601
Cash and Cash Equivalents, Beginning of Year	124,347	153,143	148,542
Cash and Cash Equivalents, End of Year	\$ 134,933	\$ 124,347	\$ 153,143

Total cash and cash equivalents increased by \$10.6 million during fiscal year 2010 to \$134.9 million.

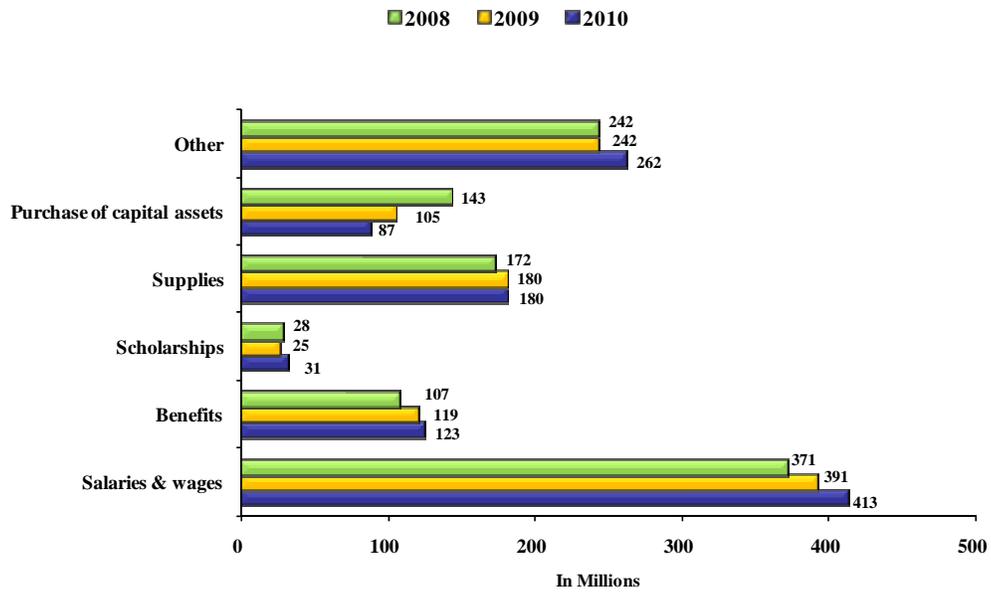
- Net cash used in operating activities increased by \$15.9 million primarily due to increases in payments to employees, for benefits and for scholarships and fellowships. These increases in outflows were partially offset by increases in cash inflows from tuition and fees. Cash used in operating activities had experienced a slight increase from fiscal year 2008 to fiscal year 2009.
- Net cash provided by noncapital financing activities increased by \$16.5 million primarily due to increased cash inflows from Pell grants. This category had experienced a decrease from fiscal year 2008 to fiscal year 2009 due to transfers of cash to the Bridgemont CTC and to WVUP in accordance with the provisions of House Bill 3215.
- Net cash used in capital financing activities decreased by \$34.6 million primarily due to decrease in cash outflows for purchase of capital assets and an increase in cash inflows from lease financing. This category had experienced a decrease of \$11.3 million from fiscal year 2008 to fiscal year 2009.
- Net cash used in investing activities decreased by \$4.2 million primarily as a result of decrease in purchase of Research Corporation investments. During fiscal year 2009, cash was used in investing activities versus cash provided during fiscal year 2008.

The following graphs illustrate the sources and uses of cash –

SOURCES OF CASH



USES OF CASH



Capital Asset and Long Term Debt Activity

The University had significant construction and capital activity in fiscal year 2010, financed by bond proceeds, loan proceeds, leases, grants, gifts and other University funds.

- The University completed construction of a student housing facility (WVU Honors Hall) on the Downtown campus; an intermodal transportation facility and parking garage (Mountaineer Station); a WVU child care center and nursery school; renovations to the Summit Hall Dining facility; construction of a natural turf soccer practice field on the Evansdale campus; build-out of the Blanchette Rockefeller Neurosciences Institute shell space to include addition of offices, laboratories and a vivarium; and renovations to the old Erickson Alumni Center building to convert it into an art museum and rare book preservation center. Other on-going capital activity included: replacement of propulsion units pertaining to the PRT transportation vehicles; construction of a basketball practice facility to be used by both the men's and women's basketball teams; and renovations and life safety improvements to the White Hall.
- During fiscal year 2010, the University acquired two floors of the Marina Tower in the Wharf District of Morgantown to provide expanded office space for several University administrative offices. The University also purchased real estate (General Woodworking Company) in the City of Westover with the intention of demolishing several buildings on the site and preparing the site for future development.
- The University capitalized on-going costs associated with the development of MyTime, a time and leave management system, that will record hours worked by non-exempt employees in a more accurate and reliable manner. The University also completed implementation of an electronic student evaluation and instruction system, an electronic request system to support eCampus users and a DigiTool/WVU Scholar to serve as a repository of all student theses and other scholarly documents for sharing across campus.
- With the implementation of GASB Statement No. 51, "*Accounting and Financial Reporting for Intangible Assets*," intangible assets are reported as part of capital assets. Accordingly, during fiscal year 2010, right-to-use software donated by Landmark Graphics Corporation and Visual Retailing, LLC, totaling \$8.6 million, were recorded as capital assets.
- The University completed upgrade of facilities under phase II of a performance energy contract with Siemens Building Technologies, Inc. The performance energy contract is designed to reduce energy consumption, reduce deferred maintenance, implement life safety improvements, and advance operational enhancements throughout the University. During fiscal year 2010, the University entered into phase III of the performance energy contract funded by a lease financing agreement with the Banc of America Public Capital Corp. Under phase III, energy performance projects are being undertaken at the Health Sciences Center of the University. The University also executed a lease financing agreement with BB&T in the amount of \$30.0 million to finance construction expenditures related to the WVU Child Care Center, the Mountaineer Station garage as well as renovations to the Engineering Sciences Building.

The University, including the Health Sciences Center and its regional campuses, has planned capital expenditures of approximately \$178.0 million for an on-going capital plan and approximately \$5.1 million for annual repairs and maintenance. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University campuses. These capital projects are being financed through bond proceeds, grants, loans and other sources of revenues available to the University including internal financing, operational revenue and other financing sources.

The West Virginia Economic Development Authority issued Education, Arts, Science and Tourism (EAST) bonds in August 2010 including funding in the amount of \$29.5 million for the following WVU projects: White Hall renovation; HSC electrical upgrade; College of Pharmacy renovation/expansion; and Old Main renovations at WVUIT.

The University's Board of Governors has approved two strategic plans – a WVU Recreation plan to upgrade the University's recreation/intramural/club sports and a student health and wellness plan including the construction of an \$18.8 million student health facility on the Evansdale campus.

The WVU bond proceeds were generated through the issuance of revenue refunding and improvement bonds by the University, in November 2004, in the aggregate principal amount of \$220.0 million, and the Higher Education Facilities 2004 Series B Bonds issued by the Commission (HEPC Revenue Bonds). Other financing sources include excess lottery funds received from the Commission for health, life safety, ADA and deferred maintenance projects. The proceeds from the University's revenue refunding and improvement bonds were also used to advance refund outstanding 1997 Series A and B Student Union Revenue Bonds and 1997 Series B Dormitory and Athletics Revenue Bonds.

During fiscal year 2006, the Board of Directors of the Corporation had approved a borrowing plan by the Corporation of up to \$24.4 million to finance certain improvements at the HSC including financing the construction of the Biomedical Research Building, and the HSC Learning Center and Library Addition. The Corporation has entered into construction loan and pledge agreements with the West Virginia Housing Development Fund, the West Virginia Economic Development Authority, and the West Virginia Infrastructure and Jobs Development Council to finance such projects. All amounts from the respective State agencies have been drawn down and are recorded as notes payable.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however \$88.0 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2010.

The University maintains an A+ and Aa3 credit ratings from Standard and Poor's and Moody's respectively.

Economic Outlook

University administration remains confident of the institution's financial stability and its ability to fulfill its mission as the state's flagship institution.

The University's financial position is closely tied to that of the State of West Virginia. As such, the University is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. While the State reduced the general revenue budget appropriations to the University by 11% between fiscal years 2009 and 2011, those reductions were restored by granting the University State fiscal stabilization funds under the federal ARRA for educational and general expenditures. The University received \$10.6 million in stabilization funds in fiscal year 2010 and is expected to receive approximately \$14.2 million in fiscal year 2011. During fiscal year 2010, the University also received competitive ARRA awards from several agencies in the amount of approximately \$40.0 million. ARRA funds are subject to stringent monitoring and reporting requirements and the University has developed a sound compliance (including training) and reporting process to demonstrate transparency and accountability for those funds.

The University anticipates the possibility of significant reductions in State funding in fiscal years 2012 and 2013; however, through the first two months of the current fiscal year State revenues remain strong (approximately 9% above estimates). The impact of any reductions in State appropriations could be compounded by the need for additional funds for strategic investments related to the instructional, service and research missions. This need compels the University to constantly focus on cost control and revenue generation strategies.

For the fiscal year 2011, while WVU-Main Campus tuition and fees were increased by 1.9% for residents and 3.7% for non-resident students, the Institution experienced the largest opening day enrollment level in its history at nearly 29,300 with significant growth in the freshmen and transfer populations compared to the prior year. As the main campus incoming freshman class size exceeds 5,000 (the second largest freshman class in history), the University maintains a high quality academic profile for the admitted freshman students. Divisional campus Potomac State College (PSC) continues its hearty enrollment growth of 65% over the past ten years with another record enrollment year and an increase in the number of students continuing their education at the PSC campus. The entering class profile of divisional campus West Virginia University Institute of Technology has improved notably although with a somewhat reduced enrollment in fall 2011 but stable revenue.

University administration believes that WVU represents an unparalleled value for a quality educational experience. WVU's continued significant growth in non-resident freshmen, in this time of continuing economic uncertainty, demonstrates that students and parents from beyond West Virginia share this perspective.

The University's research programs represent an important component of its mission as well. As federal deficits increase and funding becomes scarce, an increased competition for limited funds will make funded research grants more difficult to secure in the future. However, the University is attempting to meet those challenges by making significant investments in new faculty start-up programs, sponsoring professional development activities (such as targeted grant development workshops, mentorship programs and external peer review programs) and fostering relationships with external partners to identify potential funding opportunities. The University is also actively investing in advanced energy initiatives and biomedical science programs. The University remains optimistic that those investments are producing positive results as total sponsored funding for fiscal year 2010 rose by 18 percent over last fiscal year to top out at \$177 million – \$26 million higher than the previous year and an all-time high for sponsored funding at WVU. Fiscal year 2010 also featured aggressive pursuit of National Science Foundation funding that should bear fruit in early fiscal year 2011 with three major awards.

While the administration strives to pursue and increase critical revenue sources, it is faced with future cost increases related to employer health insurance, general operating costs, facility upkeep/upgrade and maintaining competitive faculty and staff salary plans. In fiscal year 2011, University's Board of Governors approved a \$6.5 million one-time, non-recurring faculty-staff salary enhancement plan effective January 2011, which is part of the University's \$901.4 million fiscal year 2011 operating budget. The budget also includes funding for additional faculty positions and associated start-up costs. This commitment reflects the University's intent to decrease the student to faculty ratio and enhance the education and research experience at WVU. The Administration realizes that the University will face significant challenges that will require careful financial planning and management in future periods. University Administration is in the process of implementing innovative financial planning and monitoring tools to meet those challenges.

Perhaps the most significant challenge facing the University (and the State as a whole) is funding the Other Post Employment Benefit costs that originate from GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. WVU is a participant in the West Virginia State Retiree Health Benefit Trust Fund, a multiple-employer, cost sharing defined benefit plan legislatively established to accumulate funds for the retiree programs. The state-wide OPEB liability is calculated at the Trust fund level and the current year annual required contribution is allocated to each participant based on employment levels. As a result, options available to WVU to manage or lower its OPEB obligations are extremely limited.

In fiscal year 2010, the State provided no funding at all for the Fund's annual required contribution of \$791.9 million. There is no commitment of any additional funding from the State in the ensuing years. On an aggregate basis, this will require the University to accrue a liability to the Trust fund of approximately \$50 million for fiscal year 2011. At this point, none of the higher education institutions within the State are planning to fund this liability; however, the situation remains very uncertain.

To meet these challenges, the University has embarked on a 2020 strategic planning process. A Strategic Council, with cross-campus representation, has been charged with recommending a future path for WVU and its campuses and suggesting structural, cultural, academic and resource changes needed to propel WVU into a 21st century land-grant institution. Several work groups have been formed to discuss and provide feedback on topics such as: enhancing educational attainment; discovery and innovation; global engagement; diversity and inclusion; faculty/student/staff retention; and living/learning opportunities. The Strategic Plan will be harmonized with other major plans including the financial plan, the capital plan, the research plan and the fundraising campaign.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2010 AND 2009

(Dollars in Thousands)

	2010	2009
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 109,354	\$ 109,483
Accounts receivable, net of allowances for doubtful accounts of \$4,776 and \$3,491	53,588	48,018
Due from the Commission	1,255	885
Service agreement receivable from Bridgemont CTC and Parkersburg	81	18
Loans receivable, current portion	4,135	4,146
Inventories	1,705	1,705
Prepaid expenses	1,721	775
Notes receivable from Bridgemont CTC, current portion	40	40
Bond issuance cost, current portion	132	132
Total current assets	<u>172,011</u>	<u>165,202</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	25,579	14,864
Investments	85,238	76,748
Accounts receivable	652	1,452
Loans receivable, net of allowances for doubtful accounts of \$6,440 and \$4,531	33,487	35,493
Notes receivable from Bridgemont CTC	200	240
Bond issuance cost, net	1,123	1,255
Capital assets, net	1,044,409	996,075
Total noncurrent assets	<u>1,190,688</u>	<u>1,126,127</u>
TOTAL ASSETS	<u>\$ 1,362,699</u>	<u>\$ 1,291,329</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED)

AS OF JUNE 30, 2010 AND 2009

(Dollars in Thousands)

	2010	2009
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 31,244	\$ 31,273
Accrued liabilities	3,358	2,876
Accrued payroll	16,529	15,288
Deposits	3,109	2,787
Deferred revenue	51,539	48,633
Due to the Commission	213	504
Compensated absences	22,238	23,834
College system debt owed to the Commission, current portion	162	157
Debt service assessment payable to the Commission, current portion	5,411	5,143
Leases payable, current portion	12,419	1,170
Bonds payable, current portion	3,690	3,514
Notes payable, current portion	1,097	593
Total current liabilities	<u>151,009</u>	<u>135,772</u>
Noncurrent Liabilities:		
Other post employment benefits liability	65,954	14,511
Advances from federal government	26,741	26,776
College system debt owed to the Commission	75	237
Debt service assessment payable to the Commission	82,612	88,022
Leases payable	50,708	26,243
Bonds payable	199,486	203,176
Notes payable	24,527	25,203
Other noncurrent liabilities	19,414	19,330
Total noncurrent liabilities	<u>469,517</u>	<u>403,498</u>
TOTAL LIABILITIES	<u>\$ 620,526</u>	<u>\$ 539,270</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 700,345	\$ 651,253
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	3,739	3,436
Other	475	475
Total nonexpendable	<u>4,299</u>	<u>3,996</u>
Expendable:		
Scholarships and fellowships	189	688
Sponsored programs	591	321
Loans	17,992	19,785
Capital projects	4,628	100
Debt service	1,497	1,370
Other	-	2,435
Total expendable	<u>24,897</u>	<u>24,699</u>
Unrestricted	<u>12,632</u>	<u>72,111</u>
TOTAL NET ASSETS	<u>\$ 742,173</u>	<u>\$ 752,059</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2010 AND 2009

(Dollars in Thousands)

	2010	2009
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of \$35,866 and \$29,622	\$ 286,455	\$ 278,728
Federal land grants	8,723	8,797
Local land grants	1,037	1,056
Federal grants and contracts	80,997	69,139
State grants and contracts	37,238	38,453
Local grants and contracts	500	453
Nongovernmental grants and contracts	42,705	46,498
Sales and services of educational departments	16,320	15,584
Auxiliary enterprises, net of scholarship allowances of \$7,364 and \$6,262	111,950	106,095
Interest on student loans receivable	715	605
Net service agreement revenue from Bridgemont CTC and Parkersburg	752	2,395
Other operating revenues (including revenue from outsourced enterprise of \$1,575 and \$1,575)	6,149	6,951
Total operating revenues	<u>593,541</u>	<u>574,754</u>
OPERATING EXPENSES		
Salaries and wages	414,451	394,663
Benefits	172,720	132,175
Scholarships and fellowships	30,012	26,291
Utilities	25,242	24,897
Supplies and other services	181,525	180,622
Depreciation and amortization	51,937	51,149
Loan cancellations and write-offs	2,517	699
Assessments by the Commission for operations	2,589	2,506
Waivers in support of other State institutions	161	691
Other operating expenses	172	2,384
Total operating expenses	<u>881,326</u>	<u>816,077</u>
OPERATING LOSS	<u>(287,785)</u>	<u>(241,323)</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED) YEARS ENDED JUNE 30, 2010 AND 2009

(Dollars in Thousands)

	2010	2009
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 195,300	\$ 206,352
State fiscal stabilization funds	10,630	-
Payments on behalf of the University	145	6,051
Gifts	18,986	19,015
Federal Pell grants	27,635	18,672
Investment income (loss) (including unrealized gain (loss) of \$4,985 and \$(7,582))	7,579	(5,094)
Interest on capital asset-related debt	(12,714)	(10,492)
Assessments by the Commission for debt service	(4,971)	(5,224)
Other nonoperating expenses - net	(844)	(2,770)
Net nonoperating revenues	<u>241,746</u>	<u>226,510</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(46,039)	(14,813)
Capital grants and gifts	34,511	36,509
Capital grants (federal)	961	-
Bond/capital projects proceeds from the Commission	<u>681</u>	<u>2,647</u>
(DECREASE) INCREASE IN NET ASSETS BEFORE TRANSFERS AND CUMULATIVE EFFECT	(9,886)	24,343
TRANSFER OF NET ASSETS TO BRIDGEMONT CTC	-	(2,017)
TRANSFER OF NET ASSETS TO WVU PARKERSBURG	-	(13,429)
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	<u>-</u>	<u>477</u>
(DECREASE) INCREASE IN NET ASSETS	(9,886)	9,374
NET ASSETS - BEGINNING OF YEAR	<u>752,059</u>	<u>742,685</u>
NET ASSETS - END OF YEAR	<u>\$ 742,173</u>	<u>\$ 752,059</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

**COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2010 AND 2009**

(Dollars in Thousands)

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 296,178	\$ 268,750
Federal and local land grants	9,760	9,853
Grants and contracts	157,888	158,804
Payments to suppliers	(179,688)	(179,812)
Payments to employees	(413,208)	(391,449)
Payments for benefits	(123,181)	(118,837)
Payments for utilities	(24,369)	(25,632)
Payments for scholarships and fellowships	(31,425)	(25,012)
Loan advances returned to federal government	(35)	(116)
Disbursements of loans to students	(499)	(1,631)
Interest earned on loans to students	675	647
Auxiliary enterprise charges	100,843	116,320
Sales and service of educational departments	15,889	15,146
Payments of net operating expenses from Bridgemont CTC and Parkersburg	690	2,207
Other receipts	6,068	2,226
	<u>(184,414)</u>	<u>(168,536)</u>
Net cash used in operating activities		
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	195,300	206,202
State fiscal stabilization funds	10,630	-
Gifts	18,986	19,015
Federal Pell grants	27,635	18,672
Assessments by the Commission for debt service	(4,971)	(5,224)
William D. Ford direct lending receipts	200,594	171,916
William D. Ford direct lending payments	(200,583)	(171,504)
Transfer of cash to Bridgemont CTC	-	(1,205)
Transfer of cash to Parkersburg	-	(6,825)
Other nonoperating receipts	134	183
	<u>247,725</u>	<u>231,230</u>
Net cash provided by noncapital financing activities		
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(5,299)	(5,049)
Bond/capital projects proceeds from the Commission	63	2,622
Capital gifts and grants received	21,043	29,531
Capital grants - federal received	961	-
Purchases of capital assets	(87,020)	(105,010)
Capital projects proceeds from lease trustees	36,864	-
Principal paid on capital debt	(6,162)	(6,827)
Interest paid on capital debt and leases	(12,233)	(11,020)
Proceeds from loans	-	9,414
	<u>(51,783)</u>	<u>(86,339)</u>
Net cash used in capital financing activities		
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	2,562	2,623
Purchase of investments	(6,680)	(3,858)
Redemption of matured investments	3,806	-
Purchase of Research Corporation investments	(630)	(3,916)
	<u>(942)</u>	<u>(5,151)</u>
Net cash used in investing activities		
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,586	(28,796)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>124,347</u>	<u>153,143</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 134,933</u>	<u>\$ 124,347</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED) 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	\$ (287,785)	\$ (241,323)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	51,937	51,149
Donated maintenance expense	2,430	4,960
Expenses paid on behalf of the University	145	6,051
Changes in assets and liabilities:		
Accounts receivable, net	(4,998)	(8,932)
Due from the Commission	248	596
Loans receivable, net	2,017	(933)
Prepaid expenses	(946)	107
Inventories	-	(308)
Accounts payable	(2,024)	2,974
Accrued liabilities	53,256	11,306
Deposits	322	136
Deferred revenue	2,906	4,052
Due to the Commission	(291)	55
Compensated absences	(1,596)	1,690
Advances from federal government	(35)	(116)
Net cash used in operating activities	<u>\$ (184,414)</u>	<u>\$ (168,536)</u>
Noncash Transactions:		
Cumulative effect of adoption of accounting principle	<u>\$ -</u>	<u>\$ 477</u>
Construction in progress additions in accounts payable	<u>\$ 5,851</u>	<u>\$ 3,611</u>
Equipment purchased on capital lease	<u>\$ 376</u>	<u>\$ -</u>
Donated capital assets	<u>\$ 11,038</u>	<u>\$ 2,249</u>
Unrealized gain (loss) on investments	<u>\$ 4,985</u>	<u>\$ (7,582)</u>
Capitalization of interest	<u>\$ 598</u>	<u>\$ 1,190</u>
Bond discount amortization	<u>\$ 642</u>	<u>\$ 642</u>
Loss on dispositions	<u>\$ 940</u>	<u>\$ 2,623</u>
Accrued interest on notes payable	<u>\$ 438</u>	<u>\$ 1,493</u>
Assets transferred to Bridgemont CTC	<u>\$ -</u>	<u>\$ 9</u>
Other post employment benefits liability	<u>\$ 51,443</u>	<u>\$ 8,190</u>
Expenses paid on behalf of the University	<u>\$ 145</u>	<u>\$ 6,051</u>
Transfers of net assets to Bridgemont CTC (exclusive of \$1,205 of cash)	<u>\$ -</u>	<u>\$ (803)</u>
Transfers of net assets to Parkersburg(exclusive of \$6,825 of cash)	<u>\$ -</u>	<u>\$ (6,604)</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	\$ 109,354	\$ 109,483
Cash and cash equivalents classified as noncurrent assets	25,579	14,864
	<u>\$ 134,933</u>	<u>\$ 124,347</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2010 AND 2009

1. ORGANIZATION

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

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

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

During fiscal year 2008, House Bill 3215 (H.B. 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 West Virginia University, including West Virginia University at Parkersburg (“Parkersburg”) and Bridgemont Community and Technical College (“Bridgemont”) (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University has provided Parkersburg with administrative and academic support services. Services for fiscal year 2009 were provided to Parkersburg at no cost. Effective July 1, 2009, the University began charging Parkersburg for these services.

Effective July 1, 2008, Bridgemont has separated from the University. The University has provided Bridgemont with administrative and support services. During fiscal year 2009, Bridgemont transferred capital fees, auxiliary fees, certain educational and general fees, and other fees collected from students to the University and provided instructional services to the University. Charges for these services and transfers of these fees were consistent with previous practices effective July 1, 2004.

The newly established Boards of Governors and the Board of Governors of West Virginia University jointly agreed on a division of assets and liabilities of West Virginia University. Effective July 1, 2008, \$15,446,055 was transferred in accordance with H.B. 3215. The transfer of net assets is summarized approximately as follows:

	(in thousands)
Cash and cash equivalents	\$ 8,030
Capital assets, net	14,824
Current assets, net	1,007
Current liabilities	(3,214)
Compensated absences	(385)
Other post employment benefits liability	(227)
Other long-term liabilities	(4,589)
Total	<u>\$ 15,446</u>

The University and the separately established community and technical colleges shall oversee a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking and athletics through fiscal year 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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

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

The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (WVUIT), and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal

matters of related entities. Related foundations and other affiliates of the University (see Notes 16 and 17) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB.

Related foundations and other affiliates of the University (see Notes 16 and 17) do not meet the criteria for determination as component units of the University under GASB.

- b. *Basis of Accounting* – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the combined financial statements of the University have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses are reported when materials or services are received. All accounts and transactions between the University and the Corporation have been eliminated.
- c. *Cash and Cash Equivalents* – For purposes of the statement of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash on deposit with the West Virginia Treasurer’s Office (the “Treasurer”) is invested in the WV Money Market Pool with the West Virginia Board of Treasury Investments (BTI). These investments are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

Cash in bank accounts is invested in daily repurchase agreements or the Certificate of Deposit Account Registry Service (CDARS) program. These investments are highly liquid.

Cash and cash equivalents also include cash on hand and Money Market investments.

- d. *Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. The majority of the assets underlying the alternative investments have a readily determinable market value. Because certain 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.
- e. *Allowance for Doubtful Accounts* – It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectibility experienced by the University on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- f. *Inventories* – Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.

- g. Noncurrent Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students or to maintain sinking funds or reserve funds or to purchase capital or other noncurrent assets or settle long-term liabilities, or (2) permanently restricted net assets are classified as a noncurrent asset on the statement of net assets.

Investments held for more than one year and not used for current operations are also classified as a noncurrent asset.

- h. Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, infrastructure assets and intangible assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The estimated useful life of intangible assets varies. The University’s capitalization threshold for equipment is \$5,000. The accompanying combined financial statements reflect all adjustments required by GASB.
- i. Deferred Revenue* – Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as tuition, football ticket sales, orientation fees, room and board, financial aid deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.
- j. Compensated Absences and Other Post Employment Benefits*– The University accounts for compensated absences in accordance with the provisions of GASB.

GASB provides standards for the measurement, recognition, and display of other post employment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for post employment benefits for the State of West Virginia (the “State”). Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting the State Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://www.wvpeia.com>.

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

The University’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University 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 and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance

premiums when they retire. Effective July 1, 2007, the liability is provided for under the multiple employer cost sharing plan sponsored by the State (see Note 8).

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 5 years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire.

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

k. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the “Severance Plan”) to provide incentives for the voluntary severance of the University’s classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants that elected the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed \$45,000. Participants that elected the January 15, 2004 exit date will receive their fiscal year 2003 base salary less \$5,000 not to exceed \$40,000. The total payment for either exit date is divided into 96 equal consecutive monthly payments. If the employee was over age 59 at the time his or her payments began, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67th birthday. Any employee age 66 or older at the time his or her benefits began received his or her payment in a lump sum. The University’s total liability as of June 30, 2010 and 2009 was \$240,000 and \$430,000, respectively, which includes approximately \$17,000 and \$31,000 for employee benefits as of June 30, 2010 and 2009, respectively.

l. *Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) OPEB liability and other liabilities that will not be paid within the next fiscal year; and (3) projected claim payments for self insurance.

m. *Net Assets* – GASB establishes standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. Net assets are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University’s net assets are classified as follows:

Invested in capital assets, net of related debt: This represents the University’s total investment in capital assets, net of 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 which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the “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 Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature. At June 30, 2010 and 2009, the University had no restricted balances remaining in these funds.

Restricted net assets – nonexpendable: This includes endowment and similar type funds 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 include resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net assets are used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the Board.

- n. *Classification of Revenue* – The University 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, and (4) federal land grants, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University’s academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts, contributions and federal Pell grants, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations and investment income.

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

- o. *Use of Restricted Net Assets* – The University has 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. The University attempts to utilize restricted net assets first when practicable. The University did not have any designated net assets as of June 30, 2010 or 2009.
- p. *Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students’ behalf.

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

- q. *Federal Financial Assistance Programs* – The University 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 universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately \$200 million in fiscal year 2010 and approximately \$172 million in fiscal year 2009 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal years 2010 and 2009, the University received and disbursed \$31.4 million and \$22.3 million, respectively, under these other federal student aid programs.

- r. *Government Grants and Contracts* – Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.
- s. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.
- t. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.
- u. *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 University and its employees, including those physicians employed by the University and related to the University's academic medical center hospital. Such coverage is provided to the University 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 \$1,000,000 of each property

insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1,000,000. 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 future premium adjustments to the University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded, as the change in estimate became known.

The University's Health Sciences Center (HSC) established a \$250,000 deductible program under BRIM's professional liability coverage for the University effective July 1, 2005. Prior to this date, the HSC was totally covered by BRIM at a limit of \$1,000,000 per occurrence. Starting July 1, 2005, HSC 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 HSC entered into an agreement with BRIM whereby the HSC has on deposit \$3.0 million as of both June 30, 2010 and 2009, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC 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 University Foundation, Incorporated (the "Foundation") to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program and premium levels determined by BRIM, the University has recorded a liability of \$18.6 million to reflect projected claim payments at both June 30, 2010 and 2009.

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

- v. *Use of Estimates* – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- w. *Risks and Uncertainties* – The University utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

- x. *Reclassifications* – Certain reclassifications have been made to the 2009 combined financial statements to conform to the current year presentation for the adoption of GASB Statement No. 51. With such adoption, \$4,628,000 of other assets was reclassified into capital assets. Amortization expense was also reclassified to conform to current year presentation.
- y. *Newly Adopted Statements Issued by the GASB* – During fiscal year 2010, the University adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on the financial statements.

The University 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.

- z. *Recent Statements Issued by the GASB* – The GASB has issued 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 University has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

2010

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 65,402	\$ 561	\$ 65,963
West Virginia University - Auxiliaries	24,882	-	24,882
Cash on deposit with Trustee or MBC	-	22,017	22,017
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	19,017	-	19,017
Cash on Hand	49	-	49
Cash in Money Market	4	-	4
	<u>\$ 109,354</u>	<u>\$ 25,579</u>	<u>\$ 134,933</u>

2009

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 57,275	\$ 571	\$ 57,846
West Virginia University - Auxiliaries	22,183	-	22,183
Cash on deposit with Trustee or MBC	-	11,292	11,292
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	29,975	-	29,975
Cash on Hand	46	-	46
Cash in Money Market	4	-	4
	<u>\$ 109,483</u>	<u>\$ 14,864</u>	<u>\$ 124,347</u>

Cash on Deposit with the Treasurer. These bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held as collateral by the bank in the name of the State. Investments in the WV Money Market Pool are included in Cash on Deposit with the Treasurer.

Cash on Deposit with Trustee or Municipal Bond Commission (MBC). Cash on deposit with Trustee or MBC represents various project revenue, repair and replacement and debt service accounts held by the Trustee or the State's MBC and related to various University specific bond issues (see Notes 9 and 10). Bank balances are fully insured by the FDIC through the CDARS program or fully collateralized by government backed securities in the name of the University. Deposits with the MBC are invested in the Investment Management Board (IMB) and BTI WV Government Money Market Pool (See Note 5 for investment risks). Deposits with the bond trustee represent investment of a small portion of the 2004 revenue refunding and improvement bonds which have been invested in the CDARS program. Investments in the CDARS program are 100% FDIC insured.

Deposits with BRIM Escrow Account Treasurer. The University is required to maintain a cash balance of \$3.0 million. The Treasurer invests these funds in the WV Money Market Pool. For investment risks, see Note 5.

Cash in bank. The combined carrying amount of cash in bank at June 30, 2010 and 2009 was \$19.0 million and \$30.0 million, respectively, as compared with combined bank balances of \$19.0 million and \$31.2 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Though June 30, 2010, bank balances were 100% insured by the FDIC and collateralized in the name of the State or the Corporation. Sweep accounts tied to the bank accounts are collateralized with the bank through a Repurchase Agreement in the name of the State or the Corporation.

Cash on Hand. Imprest funds approved by the Treasurer comprise the cash on hand.

Cash in Money Market. The underlying securities for the Money Market funds are U.S. Government securities.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30 (dollars in thousands):

	2010	2009
Student tuition and fees, net of allowances for doubtful accounts of \$2,418 and \$2,074	\$ 5,479	\$ 5,689
Grants and contracts receivable, net of allowances for doubtful accounts of \$1,548 and \$690	35,620	28,938
Due from West Virginia University Hospitals, Incorporated	3,273	2,755
Auxiliary services, net of allowances for doubtful accounts of \$795 and \$713	2,430	1,945
Investment earnings receivable	76	44
Other, net of allowances for doubtful accounts of \$15 and \$14	5,874	8,473
Due from the Foundation	587	887
Due from other State agencies	901	739
Total accounts receivable	<u>54,240</u>	<u>49,470</u>
Less noncurrent portion	652	1,452
Current portion	<u>\$ 53,588</u>	<u>\$ 48,018</u>

West Virginia University Hospitals, Incorporated receivables represent various administrative expenses incurred by the University on behalf of West Virginia University Hospitals, Incorporated for which reimbursement has not yet been received.

5. INVESTMENTS

The University had the following investments as of June 30 (dollars in thousands):

2010	Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:					
	Bandywine Global Fixed Income	\$ 1,102	\$ 180		\$ 1,282
	BTI Short Term Bond Pool	13,065			13,065
	Harbor Bond Fund	9	2,475	\$ 8	2,492
	Vanguard Bond Index Fund	79	1,797		1,876
	Dodge & Cox Income Fund	398	8,385		8,783
	Wells Fargo	3			3
Mutual Money Market Funds:					
	State Street Cash - SSGA Money Market		2,400		2,400
Mutual Stock Funds:					
	Dodge & Cox International Stock Fund	385	1,000		1,385
	Dodge & Cox Stock Fund	2,289	32		2,321
	Eaton Vance	504			504
	Wells Fargo	174			174
	MFS	2,580			2,580
Fixed Income Funds:					
	Income Research and Management		5,765		5,765
Other Investments-Commodity:					
	SPDR Gold Shares	3,160			3,160
State and Local Government Securities:					
	Auction Rate Certificates		7,475		7,475
Land and Other Real Estate Held as Investments					
	Land - Fred G. and Nannie D. Wood Loan Fund			477	477
Other Alternative Investments:					
	CF Absolute Return Investors B Blue			127	127
	CF Global Absolute Alpha Company			1,131	1,131
	CF Multi-Strategy Bond Fund	3	5,524	66	5,593
	CF Multi-Strategy Bond Investors Fund	2	4,514		4,516
	CF Core Equity Fund	127	7,117		7,244
	CF Core Equity	3,527	1,419		4,946
	CFI Multi-Strategy Equity Fund	76	4,241		4,317
	Robeco-Sage Capital International		1,973	1,649	3,622
		<u>\$ 27,483</u>	<u>\$ 54,297</u>	<u>\$ 3,458</u>	<u>\$ 85,238</u>

2009	Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:					
	Bandywine Global Fixed Income	\$ 1,122	\$ -	\$ -	\$ 1,122
	BTI Short Term Bond Pool	12,660			12,660
	Evergreen	3			3
	Harbor Bond Fund	1,288			1,288
	Income Research & Management	6,919			6,919
	Vanguard Bond Index Fund	1,259			1,259
Mutual Money Market Funds:					
	State Street Cash - SSGA Money Market		6,658		6,658
Mutual Stock Funds:					
	Dodge & Cox International Stock Fund	1,223			1,223
	Dodge & Cox Stock Fund	2,012			2,012
	Eaton Vance	455			455
	Evergreen	156			156
	MFS	2,335			2,335
Other Investments-Commodity:					
	SPDR Gold Shares	1,459			1,459
State and Local Government Securities:					
	Auction Rate Certificates		10,950		10,950
Land and Other Real Estate Held as Investments					
	Land - Fred G. and Nannie D. Wood Loan Fund		477		477
Other Alternative Investments:					
	CF Absolute Return Investors B Blue			1,084	1,084
	CF Global Absolute Alpha Company			1,018	1,018
	CF Govt Securities Fund		70		70
	CF Multi-Strategy Bond Fund		6,189		6,189
	CF Multi-Strategy Bond Investors Fund		5,728		5,728
	CF Multi-Strategy Equity Fund		6,367		6,367
	CF Short Term Fund		108		108
	CFI Multi-Strategy Equity Fund		3,795		3,795
	Robeco-Sage Capital International			3,413	3,413
		<u>\$ 30,891</u>	<u>\$ 40,342</u>	<u>\$ 5,515</u>	<u>\$ 76,748</u>

Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect observable market inputs. Level 3 represents investments with no observable market.

As the University invests with the BTI, funds are transferred to the BTI and the BTI invests in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds

that have been invested. 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 Legislature and is subject to oversight by the Legislature.

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

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

In 2005, the Legislature passed Senate Bill 603 ("S.B. 603"). S.B. 603 granted the University the ability to invest a limited amount of funds with the Foundation. As allowed by S.B. 603, the University invested \$25.0 million with the Foundation in October 2006 and invested an additional \$4.0 million in October 2009.

In 2006, an investment strategy was initiated between the HSC and BRIM in conjunction with the Treasurer. The goals were 1) to provide an asset pool to settle medical professional liability claims and 2) to provide an investment pool for medical professional liability premiums with the goal of self-funding premiums in the future. This investment pool is managed by the Foundation through an agency agreement.

As of June 30, 2010 and 2009, the University's investments held with the Foundation were \$61.0 million and \$49.7 million, respectively. The University's investments held with the Foundation 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. These policies also state that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 5% for the Corporation investments, 10% for the S.B. 603 investments, and 20% for the BRIM investments.

Beginning April 2008, based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and on a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the University's Auction Rate Certificates (ARC). The University, through its Board, issued ARC debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Starting in December 2007, the market for ARCs and other Auction Rate Securities experienced significant turmoil. To address the ARC market's ability to function, the Securities and Exchange Commission (SEC) issued a letter which allowed issuers and/or their affiliates to bid on such ARCs to allow for a more reasonable interest rate relative to the issuers credit rating. Of the \$7.6 million of the University's ARCs outstanding at June 30, 2010, the Corporation owned \$7.5 million, or 99%. Of the \$11.6 million of the University's ARCs outstanding at June 30, 2009, the Corporation owned \$10.95 million, or 95%. In October 2009, there was a scheduled redemption of \$4.0 million. The University's remaining ARCs mature in October 2012.

In May 2008, the University invested in the BTI's WV Short Term Bond Pool an amount which represents long-term investment monies of the University. The WV Short Term Bond Pool is a bond mutual fund which was created to invest monies of participants which have a perceived longer term investment horizon. The goal of the portfolio is to earn incremental returns over the WV Money Market Pool with an objective of capital growth rather than current income. The portfolio is restricted to monthly contributions and withdrawals and calculates a per-unit price each month. The risk factor on this portfolio is higher than the WV Money Market Pool. As of June 30, 2010 and 2009, the investment was \$13.1 million and \$12.7 million, respectively.

The University also has investments - the Wood investments – from the estate of donors with restricted purposes.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

Of the BTI's Consolidated Fund Pools and accounts which the University may invest in, all are subject to credit risk.

WV Money Market Pool - 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 University's ownership represents 2.59% and 2.58%, respectively.

WV Short Term Bond Pool - 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 Standard & 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	Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	\$ 24,330	5.37%	\$ 16,402	13.75%
	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 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 University's ownership represents 2.80% and 3.88%, respectively, of these amounts held by the BTI.

Other Investments— The BRIM investment policy states that the average quality rating of each of the public managers overall fixed income portfolio will be a minimum of A1/A. At a minimum, at least 80% of the portfolio must be rated investment grade (BBB-) or better. The Corporation's investment policy permits corporate securities rated not less than single A by one major rating agency. The S. B. 603 investment policy requires the average quality rating of each of the public managers overall fixed income portfolio be a minimum of AA/Aa-1. Credit ratings were as follows at June 30:

Portfolio	Investment	2010 Standard & Poor's Rating	2009 Standard & Poor's Rating
BRIM	Harbor Bond Fund	A	B
S.B. 603	Income Research & Management	AA+	AA
BRIM	Vanguard Bond Index Fund	-	AA1/AA2
BRIM, S.B. 603, Corporation	State Street Cash - SSGA Money Market	Am	Am
BRIM, S.B. 603 Corporation	CF Multi-Strategy Bond Fund	AA	AA
BRIM, S.B. 603 Corporation	CF Multi-Strategy Bond Investors Fund	AA	AA
BRIM, S.B. 603 Corporation	CF Short Term Fund	-	AA
S.B. 603	Auction Rate Certificates	A+	A+
	Brandywine Global Fixed Income	A	

The remaining investments have not been rated. These funds are periodically evaluated at a blended rate.

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.

WV Money Market - 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>	<u>33</u>	<u>\$ 2,570,261</u>	<u>47</u>

WV Short Term Bond Pool - 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)	WAM (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>	<u>530</u>	<u>\$ 314,932</u>	<u>691</u>

Other Investments. Investments in the CF Multi-Strategy Bond Investors Fund, CF Multi-Strategy Bond Fund, Auction Rate Certificates, Harbor Bond Fund, Vanguard Bond Index Fund, Income Research and Management, Brandywine Global Fixed Income, and Dodge and Cox Income Fund are subject to interest rate risk. Interest rate risk is managed by limiting the time period or duration of the specific investment.

Concentration of Credit Risk

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.

At June 30, 2010, more than 5% of the University's investments were in the BTI Short Term Bond Pool, Dodge & Cox Income Fund, Income Research & Management, Auction Rate Certificates, CF Multi-Strategy Bond Fund, CF Multi-Strategy Bond Investors Fund, CF Core Equity Fund, CF Core Equity, and CFI Multi-Strategy Equity Fund. At June 30, 2009, more than 5% of the University's investments were in the BTI Short-Term Bond Pool, Income Research & Management, State Street Cash – SSGA Money Market, Auction Rate Certificates, Commonfund Multi-Strategy Bond Fund, Commonfund Multi-Strategy Bond Investors Fund, and Commonfund Multi-Strategy Equity Fund.

Custodial Credit Risk

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

For BTI investments, 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.

For other investments, as of June 30, 2010, there was custodial credit risk related to the SPDR Gold Shares which are uninsured and registered in State Street's name. As of June 30, 2009, there was no custodial credit risk since all investments were in an external or open-end mutual fund in the name of the University

Foreign Currency Risk

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.

For the other investments, at June 30, 2010, \$694,000 of the Brandywine Global Fixed Income Fund investment and \$154,000 of the Harbor Bond Fund was denominated in foreign currency. Also, the Dodge and Cox International Stock Fund, valued at \$1.4 million, may use foreign currency contracts to hedge portfolio positions and facilitate security transactions in foreign currency denominated securities. These investments represent 2.62% of the total investments. At June 30, 2009, \$1.1 million of the Brandywine Global Fixed Income Fund investment was denominated in foreign currency. Also, the Dodge & Cox International Stock Fund, valued at \$340,000, may have used foreign currency contracts to hedge portfolio positions and facilitate security transactions in foreign currency denominated securities. These investments represent .02% of the total investments.

6. CAPITAL ASSETS

Balances and changes in capital assets were as follows June 30 (dollars in thousands):

2010	Beginning			Ending
	Balance	Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 25,580	\$ 1,320	\$ -	\$ 26,900
Construction in progress	96,881	76,958	(97,354)	76,485
Total capital assets not being depreciated	<u>\$ 122,461</u>	<u>\$ 78,278</u>	<u>\$ (97,354)</u>	<u>\$ 103,385</u>
Other capital assets:				
Land improvements	\$ 26,002	\$ 5,224	\$ -	\$ 31,226
Buildings	959,756	80,485	(1,982)	1,038,259
Equipment	143,919	28,286	(27,713)	144,492
Library books	105,904	8,200	(23)	114,081
Software	44,357	4,573	(61)	48,869
Infrastructure	249,841	3,883	-	253,724
Other Assets	19,847	8,672	-	28,519
Intangible Assets	25	-	-	25
Total other capital assets	<u>1,549,651</u>	<u>139,323</u>	<u>(29,779)</u>	<u>1,659,195</u>
Less accumulated depreciation for:				
Land improvements	(10,525)	(1,777)	-	(12,302)
Buildings	(240,066)	(19,575)	868	(258,773)
Equipment	(86,295)	(12,274)	9,485	(89,084)
Library books	(81,606)	(6,536)	(11)	(88,153)
Software	(42,184)	(1,294)	(447)	(43,925)
Infrastructure	(200,117)	(4,895)	(92)	(205,104)
Other Assets	(15,236)	(5,584)	-	(20,820)
Intangible Assets	(8)	(2)	-	(10)
Total accumulated depreciation	<u>(676,037)</u>	<u>(51,937)</u>	<u>9,803</u>	<u>(718,171)</u>
Other capital assets, net	<u>\$ 873,614</u>	<u>\$ 87,386</u>	<u>\$ (19,976)</u>	<u>\$ 941,024</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 122,461	\$ 78,278	\$ (97,354)	\$ 103,385
Other capital assets	<u>1,549,651</u>	<u>139,323</u>	<u>(29,779)</u>	<u>1,659,195</u>
Total cost of capital assets	<u>1,672,112</u>	<u>217,601</u>	<u>(127,133)</u>	<u>1,762,580</u>
Less accumulated depreciation	<u>(676,037)</u>	<u>(51,937)</u>	<u>9,803</u>	<u>(718,171)</u>
Capital assets, net	<u>\$ 996,075</u>	<u>\$ 165,664</u>	<u>\$ (117,330)</u>	<u>\$ 1,044,409</u>

2009	Beginning			Ending
	Balance	Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 26,725	\$ 92	\$ (1,237)	\$ 25,580
Construction in progress	116,944	82,952	(103,015)	96,881
Total capital assets not being depreciated	<u>\$ 143,669</u>	<u>\$ 83,044</u>	<u>\$ (104,252)</u>	<u>\$ 122,461</u>
Other capital assets:				
Land improvements	\$ 24,544	\$ 1,458	\$ -	\$ 26,002
Buildings	902,033	78,933	(21,210)	959,756
Equipment	140,645	15,318	(12,044)	143,919
Library books	100,284	7,691	(2,071)	105,904
Software	43,146	1,435	(224)	44,357
Infrastructure	230,982	21,223	(2,364)	249,841
Other Assets	19,661	186	-	19,847
Intangible Assets	25	-	-	25
Total other capital assets	<u>1,461,320</u>	<u>126,244</u>	<u>(37,913)</u>	<u>1,549,651</u>
Less accumulated depreciation for:				
Land improvements	(8,950)	(1,575)	-	(10,525)
Buildings	(232,267)	(18,503)	10,704	(240,066)
Equipment	(85,243)	(10,620)	9,568	(86,295)
Library books	(77,358)	(6,142)	1,894	(81,606)
Software	(41,421)	(928)	165	(42,184)
Infrastructure	(194,856)	(6,670)	1,409	(200,117)
Other Assets	(8,527)	(6,709)	-	(15,236)
Intangible Assets	(6)	(2)	-	(8)
Total accumulated depreciation	<u>(648,628)</u>	<u>(51,149)</u>	<u>23,740</u>	<u>(676,037)</u>
Other capital assets, net	<u>\$ 812,692</u>	<u>\$ 75,095</u>	<u>\$ (14,173)</u>	<u>\$ 873,614</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 143,669	\$ 83,044	\$ (104,252)	\$ 122,461
Other capital assets	<u>1,461,320</u>	<u>126,244</u>	<u>(37,913)</u>	<u>1,549,651</u>
Total cost of capital assets	1,604,989	209,288	(142,165)	1,672,112
Less accumulated depreciation	<u>(648,628)</u>	<u>(51,149)</u>	<u>23,740</u>	<u>(676,037)</u>
Capital assets, net	<u>\$ 956,361</u>	<u>\$ 158,139</u>	<u>\$ (118,425)</u>	<u>\$ 996,075</u>

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

The University capitalized interest on borrowings, net of interest earned on related debt of \$598,000 and \$1.2 million during fiscal years 2010 and 2009, respectively.

7. LONG-TERM LIABILITIES

Balances and changes in long-term liabilities were as follows at June 30 (dollars in thousands):

2010	Beginning			Ending	Due within One Year
	Balance	Additions	Reductions	Balance	
Other post employment benefits liability	\$ 14,511	\$ 51,443	\$ -	\$ 65,954	
College system debt owed to the Commission	394	-	(157)	237	\$ 162
Advances from federal government	26,776	-	(35)	26,741	-
Debt service assessment payable to the Commission	93,165	-	(5,142)	88,023	5,411
Leases payable	27,413	37,564	(1,850)	63,127	12,419
Bonds payable	206,690	-	(3,514)	203,176	3,690
Notes payable	25,796	420	(592)	25,624	1,097
Other noncurrent liabilities	19,531	3,844	(3,799)	19,576	162
Total long-term liabilities	<u>\$ 414,276</u>	<u>\$ 93,271</u>	<u>\$ (15,089)</u>	<u>\$ 492,458</u>	

2009	Beginning				Ending	Due within One Year
	Balance	Transfers	Additions	Reductions	Balance	
Other post employment benefits liability	\$ 6,548	\$ (227)	\$ 8,190	\$ -	\$ 14,511	
College system debt owed to the Commission	761	(216)	-	(151)	394	\$ 157
Advances from federal government	26,891	-	28	(143)	26,776	
Debt service assessment payable to the Commission	98,938	(874)	-	(4,899)	93,165	5,143
Leases payable	33,842	(3,529)	61	(2,961)	27,413	1,170
Bonds payable	210,004	-	-	(3,314)	206,690	3,514
Notes payable	15,048	-	10,897	(149)	25,796	593
Other noncurrent liabilities	17,476	(15)	5,408	(3,338)	19,531	201
Total long-term liabilities	<u>\$ 409,508</u>	<u>\$ (4,861)</u>	<u>\$ 24,584</u>	<u>\$ (14,955)</u>	<u>\$ 414,276</u>	

8. OTHER POST EMPLOYMENT BENEFITS

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 was \$66.0 and \$14.5 respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$62.3 million and \$10.8 million, respectively, during 2010, and \$26.1 million and \$12.3 million, respectively, during 2009. As of the years ended June 30, 2010 and 2009, there were 568 and 556 retirees receiving these benefits.

9. LEASES PAYABLE

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2010 are as follows (dollars in thousands):

Fiscal Year Ending June 30,	
2011	\$ 6,552
2012	5,332
2013	4,469
2014	3,861
2015	3,348
2016-2020	10,872
2021-2025	9,880
2026-2030	9,880
2031-2035	1,980
2036-2040	5
2041-2045	5
2046-2050	5
2051-2055	5
2056-2058	3
Total	<u>\$ 56,197</u>

Total rental expense for the years ended June 30, 2010 and 2009 was \$7.2 million and \$7.9 million, respectively. The University leases 6 floors of a seven floor office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University does not have any non-cancelable leases.

- b. *Capital* – The University leases certain property, plant and equipment under capital leases. Net book value of leased assets totaled \$68.3 million and \$43.0 million at June 30, 2010 and 2009, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

Ending June 30,	
2011	\$ 14,742
2012	12,807
2013	3,665
2014	3,738
2015	3,893
2016-2020	19,922
2021-2025	17,158
2026-2030	<u>8,055</u>
Minimum lease payments	83,980
Less amount representing interest	<u>(20,853)</u>
Present value of minimum lease payments	63,127
Current Portion	<u>12,419</u>
Noncurrent Portion	<u><u>\$ 50,708</u></u>

During fiscal year 2010, the University 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.

10. BONDS PAYABLE

Bonds payable consisted of the following at June 30 (dollars in thousands):

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>2010 Principal Amount Outstanding</u>	<u>2009 Principal Amount Outstanding</u>
Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2012, variable rate		\$ 975 to 4,200	\$ 7,600	\$ 11,625
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	55,430	55,430
Revenue Improvement Bonds, 2004 Series C, due through 2035	4.3-5.0%	0 to 12,780	138,710	138,710
Unamortized Bond Premium			3,912	4,160
Unamortized Loss on Bond Defeasance			(2,476)	(3,235)
Net Bonds Payable			203,176	206,690
Current Portion			3,690	3,514
Noncurrent Portion			\$ 199,486	\$ 203,176

The 1997 Dormitory Series A Bonds were issued to advance refund the University's Dormitory Revenue Bonds (West Virginia University Project), 1992 Series A, dated May 1, 1992, and to pay a portion of the costs of issuance of the 1997 Series A Bonds. The 1997 Dormitory Series B Bonds were issued to finance improvements to certain dormitories at West Virginia University and to reimburse the University for certain prior capital expenses made for such purpose, and to pay a portion of the costs of issuance of the Bonds.

The 1997 Athletic Facilities Series A Bonds were issued to advance refund the 1985 Series A Annual Tender Revenue Bonds, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series A Bonds. The 1997 Athletic Facilities Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of an indoor football practice facility at West Virginia University and to reimburse the University for certain prior capital expenditures made for such purpose, and to pay a portion of the costs of issuance of the 1997 Athletic Facilities Series B Bonds.

The 1997 Student Union Series A Bonds were used to advance refund the 1986 Student Union Fee Revenue Bonds. The 1997 Student Union Series B Bonds were issued to finance a portion of the costs of acquisition, construction and equipping of a new student union and related capital improvements, and to pay a portion of the costs of issuance and interest on the 1997 Series A Bonds.

Refunded Debt

On November 1, 2004, the Board issued \$220.0 million in revenue bonds as follows:

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of \$25.9 million. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. The 2004 Subseries A-1 and A-2 Bonds bear interest at an auction rate which was .098% and .500%, respectively, at June 30, 2010 and .500% and .063%, respectively, at June 30, 2009. These bonds were used to advance refund outstanding 1997 Series A Dormitory and Athletics Revenue Bonds with a par amount of \$12.4 million and to finance a portion of the costs of certain capital projects at the University.

2004 Series B Revenue Refunding Bonds in the amount of \$55.4 million with an average interest rate of 4.7%. The 2004 Series B Bonds were issued to advance refund outstanding 1997 Series A and B Student Union Revenue Bonds and 1997 Series B Dormitory and Athletics Revenue Bonds with a par amount of \$54.0 million, and to pay the costs of issuance of 2004 Series B Bonds.

2004 Series C Revenue Improvement Bonds in the amount of \$138.7 million with an average interest rate of 4.9%. The 2004 Series C Bonds were issued to finance a portion of certain improvements at the University, including capitalized interest and to pay the costs of issuance of the 2004 Series C Bonds.

The bond proceeds of \$226.1 million included net original issue premium on the 2004 Bonds in the amount of \$5.3 million and \$0.8 million in accrued interest.

It is estimated that the advance refunding of the 1997 series bonds will result in a reduction in the University's total debt service payments over the next 19 years of approximately \$8.4 million. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1.9 million. The reacquisition price exceeded the net carrying amount of the old debt by \$6.7 million. This amount is being netted against the new debt and deferred and amortized as interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

Approximately \$4.7 million and \$9.6 million at June 30, 2010 and 2009, respectively, represents unexpended proceeds of bond issuance, and is restricted to expenditures for capital improvements and bond related costs. This includes approximately \$4.7 million and \$9.6 million in cash and cash equivalents at June 30, 2010 and 2009, respectively.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>Principal</u>	<u>Interest</u>	<u>Total Payments</u>
2011	\$ 4,200	\$ 9,647	\$ 13,847
2012	4,395	9,478	13,873
2013	4,550	9,316	13,866
2014	4,585	9,154	13,739
2015	4,785	8,958	13,743
2016-2020	27,475	41,226	68,701
2021-2025	35,200	33,499	68,699
2026-2030	45,160	23,541	68,701
2031-2035	57,970	10,727	68,697
2036	13,420	319	13,739
Bonds Payable	201,740	<u>\$ 155,865</u>	<u>\$ 357,605</u>
Unamortized Bond Premium	3,912		
Loss on Bond Defeasance	(2,476)		
Net Bonds Payable	203,176		
Current Portion	3,690		
Noncurrent Portion	<u>\$ 199,486</u>		

11. NOTES PAYABLE

On September 7, 2005, the Board of Directors of the West Virginia University Research Corporation approved a borrowing plan by the Corporation of up to \$24.4 million to finance certain improvements at the University's Health Sciences Center (HSC). The West Virginia University Board of Governors has approved the Corporation entering into such transaction. The Corporation has entered into construction loan agreements with the West Virginia Housing Development Fund (WVHDF), the West Virginia Economic Development Authority (WVEDA), and the West Virginia Infrastructure and Jobs Development Council (IJDC).

WVHDF loan. WVHDF made a construction and term loan in the principal amount of \$6.0 million for the purpose of financing the construction of the Biomedical Research building and the HSC Learning Center and Library addition, and renovations to the existing HSC laboratories. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The rate is calculated on the basis of a 360-day year on amounts advanced. The note is due 240 months from the closing date of October 24, 2005.

A note modification agreement dated April 26, 2007 allowed the 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 June 30, 2009, was \$6.1 million and \$6.4 million, respectively.

The loan is pledged by facilities and administrative revenues received by the Corporation under any grants, contracts, and other agreements on behalf of the HSC as follows:

- 1) 30% of the total HSC facilities and administrative revenues, up to a total of \$6.8 million (“threshold amount”) received by the Corporation in any single fiscal year.
- 2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

WVEDA loan. WVEDA made a construction and term loan in the principal amount of \$9.0 million for the purpose of financing a portion of the Blanchette Rockefeller Neurosciences Institute building. 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 accrued but payment will be deferred for the first 36 months of the loan. Commencing on October 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 June 30, 2009, was \$9.7 million and \$10.0 million, respectively.

The loan is pledged by facilities and administrative revenues received by the Corporation under any grants, contracts, and other agreements on behalf of the HSC as follows:

- 1) 30% of the total HSC facilities and administrative revenues, up to a total of \$6.8 million (“threshold amount”) received by the Corporation in any single fiscal year.
- 2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

IJDC loan. IJDC made a construction and term loan in the principal amount of \$9.4 million for the purpose of financing a portion of the construction of certain improvements to the Blanchette Rockefeller Neurosciences Institute building and the Biomedical Research building. During fiscal year 2009, the Corporation drew down the entire \$9.4 million which is recorded as a note payable.

The proceeds of the IJDC loan were disbursed on a draw basis as construction progressed. The principal balance of the IJDC 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 accrued but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, 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 June 30, 2009, was \$9.8 million and \$9.4 million, respectively. After the expiration of the five year period, the interest rate applicable to \$3.0 million in principal for the balance of the term of the loan will be based on the satisfaction of certain employment criteria.

The loan is pledged by facilities and administrative revenues received by the Corporation under any grants, contracts, and other agreements on behalf of the HSC as follows:

- 1) 30% of the total HSC facilities and administrative revenues, up to a total of \$6.8 million (“threshold amount”) received by the Corporation in any single fiscal year.
- 2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

Total principal and interest payments remaining to be paid at June 30, 2010 and June 30, 2009 were approximately \$35.5 million and \$36.2 million, respectively. Total facilities and administrative revenues earned by the HSC during fiscal years 2010 and 2009 were \$8.6 million and \$7.8 million, respectively. Total pledged revenue as of June 30, 2010 and June 30, 2009 was \$3.3 million and \$2.8 million, respectively.

The scheduled maturities of the notes payable are as follows (dollars in thousands):

Fiscal Year Ending June 30,	WVHDF Loan		WVEDA Loan		WVIJDC Loan		Total Principal
	Principal	Interest	Principal	Interest	Principal	Interest	
2011	\$ 264	\$ 307	\$ 414	\$ 524	\$ 419	\$ 196	\$ 1,097
2012	278	293	435	502	539	281	1,252
2013	292	278	461	476	556	264	1,309
2014	308	263	488	450	573	247	1,369
2015	324	247	515	423	591	229	1,430
2016-2020	1,891	963	3,047	1,643	3,238	862	8,176
2021-2025	2,441	414	4,015	675	3,771	330	10,227
2026	326	6	310	4	128	1	764
Notes Payable	6,124	<u>\$ 2,771</u>	9,685	<u>\$ 4,697</u>	9,815	<u>\$ 2,410</u>	25,624
Current Portion	264		414		419		1,097
Noncurrent Portion	<u>\$ 5,860</u>		<u>\$ 9,271</u>		<u>\$ 9,396</u>		<u>\$ 24,527</u>

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

University System of West Virginia, the former State College System of West Virginia or the former Interim Governing Board (collectively, the “Boards”). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. Certain tuition and registration fees (referred to as system fees) of the members of the former State University System are generally pledged as collateral for the Commission’s bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain as a capital obligation of the Commission; however, effective June 30, 2002, an amount of principal related to each institution was reported as debt service assessment payable to the Commission by each institution and as a receivable by the Commission.

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1997, in accordance with the provisions of Senate Bill 591, WVUIT is required to make annual payments through 2012 to the Policy Commission for purposes of the State College System’s debt service.

The Commission issued 2004 Series B Higher Education Facilities Revenue Bonds (the “HEPC 2004 B Bonds”) in August 2004 to provide funds for capital improvements at institutions of higher education throughout the State’s universities and colleges, including the University. The HEPC 2004 B Bonds are secured by the pledge of higher education institutions’ tuition and registration fees as well as excess lottery revenues. The HEPC 2004 B Bonds are considered an indirect obligation of the University and the principal amount of the bonds related to the University is not reported as a payable to the Commission.

13. UNRESTRICTED NET ASSETS

The University did not have any designated unrestricted net assets as of June 30, 2010 or 2009.

	2010	2009
Total unrestricted net assets before OPEB liability	\$ 78,586	\$ 86,622
Less: OPEB liability	<u>65,954</u>	<u>14,511</u>
Total unrestricted net assets	<u><u>\$ 12,632</u></u>	<u><u>\$ 72,111</u></u>

14. RETIREMENT PLANS

Substantially all eligible employees of the University participate in either the West Virginia State 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 election between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants from West Virginia higher education. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers’ Defined Contribution Plan. Contributions to

and participation in the West Virginia Teachers' Defined Contribution Plan by University employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2010 and 2009. Required employee contributions were 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 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The contribution rate is set by the Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, 4101 MacCorkle Ave S.E., Charleston, WV 25304-1636.

Contributions to the STRS for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending				
June 30,	WVU	Employees	Total	
2010	\$ 2,000	\$ 1,000	\$ 3,000	
2009	2,000	1,000	3,000	
2008	2,000	1,000	3,000	

The TIAA-CREF and Educators Money are defined-contribution benefit plans in which benefits are based upon amounts contributed plus investment earnings. Each employee who elects to participate in these plans is required to make a contribution equal to 3% (for employees of the Corporation enrolled in TIAA-CREF) or 6% (for employees of the State enrolled in TIAA-CREF or Educators Money) of their total annual compensation. The University simultaneously matches the employees' 3% or 6% contribution. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2010	\$ 21,000	\$ 21,000	\$ 42,000
2009	20,000	20,000	40,000
2008	19,000	19,000	38,000

Contributions to Educators Money for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2010	\$ 300	\$ 300	\$ 600
2009	200	200	400
2008	200	200	400

The University's total payroll for fiscal years 2010 and 2009 was \$414.4 million and \$394.7 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were \$14.5 million, \$359.9 million and \$4.8 million in fiscal year 2010 and \$15.1 million, \$341.9 million and \$4.1 million in fiscal year 2009, respectively.

15. COMMITMENTS

- a. *Purchase Commitment* – The 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, the 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. The University's total payments for steam purchased under the agreement were \$7.8 million and \$9.1 million in fiscal years 2010 and 2009, respectively. An additional \$155,000 was accrued at June 30, 2010 to record the University's liability to meet the minimum steam purchase requirement for the contract year ended September 30, 2010. No such accrual was needed at June 30, 2009. The 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.
- b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately \$53.6 million and \$31.1 million at June 30, 2010 and 2009, respectively.

16. AFFILIATED ORGANIZATIONS (Unaudited)

The University has affiliations with separately incorporated organizations including West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated (the “Association”); the Center for Entrepreneurial Studies and Development, Incorporated; University Health Associates; the Physician’s Office of Charleston; Potomac State College Alumni Association; and Tech Foundation, Incorporated. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB standards. Accordingly, the financial statements of all such organizations are not included in the accompanying combined financial statements.

The National Aeronautics and Space Administration Independent Verification and Validation facility was established in Fairmont, West Virginia in 1993 in partnership with the University. Under a cooperative agreement with the University, verification and validation research programs are conducted at the facility. The facility is operated and maintained by the University’s Facilities and Services Division.

Related Party Transactions

- a. *University Health Associates* - University Health Associates (UHA) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia University School of Medicine (WVUSOM) and West Virginia University School of Dentistry (WVUSOD). The membership of UHA consists of physicians who are faculty members of the WVUSOM and WVUSOD. UHA coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by UHA’s membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other clinical practice management services.

The University is reimbursed by UHA for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses UHA for costs associated with the services it provides to the University. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from UHA.

Total funds disbursed to UHA and total funds collected from UHA totaled \$1.1 million and \$10.6 million in fiscal year 2010 and \$2.3 million and \$16.4 million in fiscal year 2009, respectively. Accounts receivable at June 30, 2010 and 2009 includes \$2.9 million and \$1.9 million, respectively, due from UHA for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. There were no amounts due to UHA at June 30, 2010 and 2009.

- b. *West Virginia University Hospitals, Incorporated* - West Virginia University Hospitals, Incorporated (WVUH or the “Hospital”) is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the HSC. The Hospital’s tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital

for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal years 2010 and 2009, \$29.6 million and \$27.8 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, and rent. Accounts receivable at June 30, 2010 and 2009 include \$3.3 million and \$2.8 million, respectively, due from WVUH for such items. During fiscal years 2010 and 2009, \$228,000 and \$271,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2010 and 2009 include \$7,000 and \$5,000, respectively, due to WVUH for such items.

- c. *West Virginia University Alumni Association, Incorporated* – The Association is a West Virginia not-for-profit corporation and was established to promote and advance the interests and welfare of the University and to foster a spirit of fraternity and loyalty among graduates, former students, faculty and other friends of the University.

Employees of the Association are paid through the University. The University funds a portion of their salary through State funds and graduate fees. The University funded \$276,000 and \$242,000 for the years ended June 30, 2010 and 2009, respectively. The remaining payroll is billed to the Association. The Association owed the University \$386,000 and \$495,000 related to payroll and postage as of June 30, 2010 and 2009, respectively.

The Association reimburses the University for one-third of the alumni magazine. These payments were \$55,000 and \$86,000 for the years ended June 30, 2010 and 2009, respectively. The Association owed the University \$50,000 and \$0 for the alumni magazine as of June 30, 2010 and 2009, respectively.

The University owed the Association \$395,000 for site preparation costs related to storm water retention at the site of the new Alumni Center as of June 30, 2009. There was no amounts due at June 30, 2010.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering revenue received from the University was approximately \$600,000 and \$400,000 for the years ended June 30, 2010 and 2009, respectively.

The University charged the Association \$359,000 and \$454,000 for catering services for the years ended June 30, 2010 and 2009, respectively. The Association owed the University \$283,000 and \$43,000 as of June 30, 2010 and 2009, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University \$115,000 and \$129,000 for the years ended June 30, 2010 and 2009, respectively.

During fiscal year 2009, the old alumni center building reverted back to the University. The fair market value of the building transferred to the University was \$1,485,000. The Association entered into a long-term lease with the University for land to construct a new alumni center building and parking lot. The term of the land lease is \$1 rent per year for forty years with options to renew for additional forty year periods.

17. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED (Unaudited)

The Foundation is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose “to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . .” Oversight of the Foundation is the responsibility of an independently elected Board of Directors. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. The Foundation does not meet the criteria for determination as a component unit of the University as described by GASB. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University’s endowments are under the control and management of the Foundation.

The Foundation’s assets totaled \$878.8 million and \$753.9 million at June 30, 2010 and 2009, respectively, with net assets of \$491.6 million and \$433.7 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$66.9 million and \$56.8 million in fiscal years 2010 and 2009, respectively.

Total funds expended by the Foundation in support of University activities totaled \$40.6 million and \$40.3 million in fiscal years 2010 and 2009, respectively. This support and the related expenditures are primarily recorded in the University’s combined financial statements.

18. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against 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 University would not have a material effect on the financial position of the University.

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

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

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

At June 30, 2010 and 2009, the University has recorded a liability of \$143,000 and \$0, respectively, for asbestos removal in accordance with the provisions of GASB.

19. SUBSEQUENT EVENTS

During August 2010, the West Virginia Development Office issued approximately \$162 million of Education, Arts, Science and Tourism (EAST) 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 University has been approved to receive \$26.5 million of these proceeds. The West Virginia Development Office is responsible for repayment of the debt.

20. SEGMENT INFORMATION

During fiscal year 2005, the Board issued revenue refunding and improvement bonds to finance a portion of the costs of certain capital projects at the University, including reimbursement for certain capital expenditures made prior to the issuance of such bonds, and to advance refund the outstanding 1997 Dormitory, Athletics facilities, and Student Union revenue and revenue refunding bonds.

Descriptive information for the University's segment 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 University Revenue Improvement Bonds 2004 Series C (Collectively the "2004 Bonds")

On November 1, 2004 the Board issued \$25,900,000 of 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 Bonds 1997 Series A, and the \$3,250,000 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 the University, including reimbursement to the University 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 and \$138,710,000, respectively. 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 the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs 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 funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

Total principal and interest payments remaining to be paid at June 30, 2010 and 2009 were approximately \$357.6 million and \$371.5 million, respectively. Total gross pledged revenue for fiscal year 2010 and 2009 was \$122.2 million and \$117.2 million, respectively.

Condensed financial information for each of the University's segments follow:
(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2010	AUXILIARIES As of/Year Ended 2009
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current Assets	\$ 31,203	\$ 27,050
Noncurrent and Capital Assets *	437,318	427,607
Total Assets	<u>468,521</u>	<u>454,657</u>
Liabilities:		
Current Liabilities	28,656	28,354
Long-Term Liabilities	211,460	204,487
Total Liabilities	<u>240,116</u>	<u>232,841</u>
Net Assets:		
Invested in Capital Assets, net of related debt	234,125	220,851
Restricted	8	1
Unrestricted	(5,728)	964
Total Net Assets	<u>\$ 228,405</u>	<u>\$ 221,816</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Auxiliary and Capital Fees	\$ 26,695	\$ 26,211
Operating Revenues	98,493	94,022
Operating Expenses	(111,076)	(108,203)
Net Operating Income	14,112	12,030
Nonoperating Revenues/Expenses:		
Investment Income	118	478
Net Transfers to Other Funds	(7,257)	(8,203)
Other Nonoperating Income	6,151	10,405
Gifts	7,166	6,780
Other Nonoperating Expenses	(3,656)	(4,067)
Interest Expense*	(10,045)	(8,863)
Increase in Net Assets	6,589	8,560
Net Assets - Beginning of Year	221,816	213,256
Net Assets - End of Year	<u>\$ 228,405</u>	<u>\$ 221,816</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Net Cash Provided by Operating Activities	\$ 10,118	\$ 11,863
Net Cash Flows Provided by		
Noncapital Financing Activities	7,166	6,780
Net Cash Flows Used in		
Capital and Related Financing Activities	(19,829)	(38,855)
Net Cash Flows Provided by		
Investing Activities	118	478
Decrease in Cash	(2,427)	(19,734)
Cash - Beginning of Year	33,288	53,022
Cash - End of Year	<u>\$ 30,861</u>	<u>\$ 33,288</u>
Reconciliation of cash		
Cash classified as current assets	\$ 26,140	\$ 23,725
Cash classified as noncurrent assets	4,721	9,563
	<u>\$ 30,861</u>	<u>\$ 33,288</u>

* Interest of \$501,000 and \$733,000 was capitalized for fiscal year 2010 and 2009, respectively.

21. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

The University's operating expenses by functional and natural classification are as follows:

Functional Classification	Year Ended June 30, 2010										Total	
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses		
Instruction	\$ 164,894	\$ 69,431	\$ -	\$ 246	\$ 22,835	\$ -	\$ -	\$ -	\$ -	\$ -	13	\$ 257,419
Research	64,484	33,281	-	1,112	39,299	-	-	-	-	-	-	138,176
Public Service	35,491	11,614	-	64	14,925	-	-	-	-	-	29	62,123
Academic Support	23,094	9,459	-	73	4,936	-	-	-	-	-	-	37,562
Student Services	19,728	8,096	-	13	6,714	-	-	-	-	-	6	34,557
Operation and Maintenance of Plant	24,976	12,832	-	17,172	24,992	-	-	-	-	-	-	79,972
General Institutional Support	44,983	16,122	-	34	23,903	-	-	-	-	-	60	85,102
Student Financial Aid	-	-	30,012	-	-	-	-	-	-	-	64	30,012
Auxiliary Enterprises	36,801	11,885	-	6,528	43,921	-	-	-	-	-	-	99,199
Depreciation	-	-	-	-	-	51,937	-	-	-	-	-	51,937
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,589	-	-	-	2,589
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	161	-	-	161
Loan Cancellations and Write Offs	-	-	-	-	-	-	2,517	-	-	-	-	2,517
Total Expenses	\$ 414,451	\$ 172,720	\$ 30,012	\$ 25,242	\$ 181,525	\$ 51,937	\$ 2,517	\$ 2,589	\$ 161	\$ -	172	\$ 881,326

Functional Classification	Year Ended June 30, 2009										Total	
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses		
Instruction	\$ 157,445	\$ 51,002	\$ -	\$ 233	\$ 24,452	\$ -	\$ -	\$ -	\$ -	\$ -	313	\$ 233,445
Research	62,174	26,657	-	260	33,019	-	-	-	-	1,891	-	124,001
Public Service	33,842	9,507	-	158	13,402	-	-	-	-	-	32	56,941
Academic Support	21,499	6,271	-	81	6,440	-	-	-	-	-	-	34,291
Student Services	17,724	5,929	-	14	6,238	-	-	-	-	-	-	29,905
Operation and Maintenance of Plant	23,664	9,338	-	17,610	23,529	-	-	-	-	-	-	74,141
General Institutional Support	42,705	13,329	-	36	30,441	-	-	-	-	-	85	86,596
Student Financial Aid	-	-	26,291	-	-	-	-	-	-	-	-	26,291
Auxiliary Enterprises	35,610	10,142	-	6,505	43,101	-	-	-	-	-	63	95,421
Depreciation	-	-	-	-	-	51,149	-	-	-	-	-	51,149
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,506	-	-	-	2,506
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	691	-	-	691
Loan Cancellations and Write Offs	-	-	-	-	-	-	699	-	-	-	-	699
Total Expenses	\$ 394,663	\$ 132,175	\$ 26,291	\$ 24,897	\$ 180,622	\$ 51,149	\$ 699	\$ 2,506	\$ 691	\$ -	2,384	\$ 816,077

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 University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2010, and have issued our report thereon dated October 27, 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 University's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, 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 control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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



October 27, 2010