West Virginia State University Research and Development Corporation

Financial Statements as of and for the Years Ended June 30, 2013 and 2012, and Independent Auditors' Report and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2013

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia State University Research and Development Corporation (the "Corporation"), which comprise the statements of net position as of June 30, 2013 and 2012, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Corporation as of June 30, 2013 and 2012, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 – 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2013, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 22, 2013

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West Virginia State University
Research and Development Corporation

Management's Discussion and Analysis
Fiscal Year Ended June 30, 2013

I. Introduction

A. *Historical Background*

West Virginia State University Research and Development Corporation (the Corporation) was incorporated in 1991, under the W. Va. Code Chapter 18B. The Corporation serves as the West Virginia State University's (the University) primary fiscal management agent of its externally sponsored support including grants, contracts, and gifts derived from federal, state, municipal, corporate, foundation and private individuals. The Corporation operates as a nonprofit entity exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The Corporation formally provides management oversight for the aforementioned University's functions via the affiliations and operating agreements with the University's Board of Governors and the University, respectively.

West Virginia State University is an 1890 Land-Grant and Historically Black institution of higher education founded in 1891. The University's central mission is to provide its state's citizens and stakeholders with quality instruction, research programs, and public service and outreach educational opportunities. In the last decade, propitiated by the regaining and growth of its research and extension land-grant functions, as well as the establishment of graduate programs, the University has evolved into a more intensive research and service-oriented institution. Consequently, external supplemental support has become essential to continue enhancing the delivery of the University's mission. Furthermore, the University encourages its faculty, administrators, and staff to actively pursue externally sponsored programs in the advancement of its aforementioned educational missions. Heretofore, the University experienced a gradual increase in external support which was reflected in the steady growth of the Corporation's operating revenues and expenses, as well as in its assets and liabilities since 1991.

B. *Overview of the Financial Statements and the Financial Analysis*

The Corporation is pleased to present its financial statements for the year ended June 30, 3013. A discussion and analysis of the Corporation's financial statements, which is provided in this document, are required supplemental information as prescribed by the Governmental Accounting Standards Board (GASB No. 34 & 35 directives). This financial information is structured into an activity-based reporting format and provides an overview of the Corporation's fiscal activities focusing on the year ended. The analysis is based on the position of three main financial statements: (1) Net Position, (2) Revenues, Expenses, and Changes in Net Position, and (3) Cash Flows. Additional information relevant to fiscal years 2012 and 2011 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

II. Statement of Net Position

The "Statement of Net Position" reflects the Corporation's assets, liabilities, and its net position at the end of the fiscal year. This statement provides stakeholders with fiscal information of the Corporation at a point in time (June 30, 2013). This statement provides readers an overview of the net position and the assets which are available to the Corporation for future expenditures and to continue its operations.

Net position is divided into three main categories: (1) net investment in capital assets, (2) restricted net position, and (3) unrestricted net position. The first asset category provides information on the Corporation's interest in property, plant and equipment owned by the institution. The second category is further divided into non-expendable and expendable components of restricted net position. Non-expendable components of restricted net position are only available for investment purposes; usually the Corporation does not operate the components of restricted net position. Expendable components of restricted net position are to be expended by the institution for the purpose in which donors and/or grantors have intended (time and purpose restriction). Finally, unrestricted components of net position are not restricted as to use, but only available to the institution for allowable expenditures.

Net Position

	FY 2013	FY 2012	FY 2011
Assets			
Current assets	$675,222	$788,188	$1,349,508
Cash and cash equivalents	433,555	490,794	163,219
Non-current assets:			
Capital assets, net	1,481,666	1,428,578	1,411,981
Total Assets	**$2,590,443**	**$2,707,560**	**$2,924,708**
Liabilities			
Current liabilities	454,822	502,948	524,482
Non-current liabilities	2,775,750	2,699,714	1,988,376
Total Liabilities	**3,230,572**	**3,202,662**	**2,512,858**
Net Position			
Net investment in capital assets	1,481,666	1,428,578	1,411,981
Restricted – expendable			
Unrestricted	(2,121,795)	(1,923,680)	1,000,131
Total Net Position	**(640,129)**	**(495,102)**	**411,850**
Total Liabilities and Net Position	**$2,590,443**	**$2,707,560**	**$2,924,708**

Assets: In fiscal year 2013, the Corporation's total assets decreased by $117,117, which represents a 4% decrease in comparison to the previous year. The overall decrease is attributed to a reduction in the portion of the current assets by $170,205 (13%) including a reduction of cash and cash equivalents (-$57,239), grants and contracts receivable (-$131,248), and prepaid expenses (-$14,652); compared to the previous year. In relation to the portion of non-current assets, the value of capital assets, net had a slight gain of $53,088 compared to the previous year. Therefore the overall decrease in total assets was due to a decrease in the value of current assets' portion. Current assets represented 43% of the total assets; whereas the non-current portion represented 57%. The value of cash and cash equivalents depends on the level of grant activity and the time at which this report is prepared; thus is normally affected by receivables and payables in transit as well as by outstanding items, such as checks

Liabilities: The balance of total liabilities during the current fiscal year increased only slightly by 1% ($27,910); compared to the previous year's total liabilities change of 27% ($689,804). The increase effect resulted from a slight expansion of the non-current liabilities portion, which increased by 3% ($76,036). The increase in non-current liabilities in turn was in response to slightly higher compensated absences ($27,942) and higher OPEB ($48,094). Current liabilities, on the other hand, decreased by 10% (from $502,948 to $454,882) caused by a reduction in the accounts payable ($16,400) and a slight decrease in the current portion of the compensated

reduction in the accounts payable ($16,400) and a slight decrease in the current portion of the compensated absences ($15,228). Accounts payable are variable throughout the year and vary from year to year depending upon the Corporation's level of activity. In relation to the total liabilities' value, current and non-current liabilities this year contributed 14% and 86% respectively this year, which was a similar ratio compared to the previous year's 16% and 84% proportion. The current ratio suggests that the Corporation continues to operate with less current liabilities; as the value of its non-current portion of the liabilities 16% and 84% sustains a slightly upward trend.

Net Position: The value of total net position this year suffered a 29% contraction ($145,027), from the previous year; which was caused mainly by a 10% deficit in the portion of unrestricted net position ($198,115); in spite of a 4% increase ($53,088) in the portion related to net investment in capital assets. The resulting deficit in unrestricted net position was largely in part attributed to the booking of OPEB related to this year's accrued liability entry. The value of accumulated depreciation ($371,737) and equipment reductions ($165,950) this year, relative to the value of capital assets additions ($424,825), slightly increased the overall net position of capital assets net by $53,088 (4% increase). Net investment in capital assets comprised the purchase of fixed assets that are required to fulfill the goals and objectives obligated within the Corporation's grants and contracts agreements. The slight increase in capital assets ($53,088) is thus attributed to the acquisition of equipment and related assets required to run the ensued research and academic activities comprised within these awards. Unrestricted components of net position are utilized by the Corporation to support expenses related to reimbursable grants in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in performing research or associated educational activities. Unrestricted components of net position this year continued decreasing and showed a negative value due to the fact that the OPEB liability accumulated up to date has been allocated to this particular component of the statement of net position. The Corporation's unrestricted component of net position is mainly derived from external donors and the recovery of indirect costs from grants and sponsored agreements.

III. Revenue, Expenses, and Changes in Net Position

The statement of "Revenue, Expenses, and Changes in Net Position" reveals the financial activities that contributed to changes in the total net position. The statement presents the operating and non-operating revenues earned, and all of the expenses, gains and losses incurred by the Corporation during the ensued fiscal year. Both, the revenues earned and the expenses incurred by the Corporation, are disclosed as operating and non-operating to distinguish as to their purpose and their associated allocation. Any other revenues, expenses, gains, and losses are also part of this statement to identify atypical potential sources of revenue and possible expenses not being directly associated with the Corporation's chief activities.

Operating revenues are generally derived from grants, contracts, and external sponsored agreements in exchange for goods and services as agreed with the Corporation's funding agencies or constituents providing these resources. Operating expenses are those expenses incurred in the acquisition or production of promised goods and services provided in return for revenues, and to carry out the mission of the Corporation. Non-operating revenues are those revenues not directly linked to providing the aforementioned goods and/or services.

Revenues, Expenses and Changes in Net Position			
	FY 2013	**FY 2012**	**FY 2011**
Operating revenues	$12,174,392	$14,905,490	$13,017,198
Operating expenses	12,744,308	16,219,018	14,385,795
Operating Gains/Losses	**(569,916)**	**(1,313,528)**	**(1,368,597)**
Non-operating revenues and expenses:	424,889	406,576	626,580
Increase (Decrease) in Net Position	(145,027)	(906,952)	(742,017)
Net Position - Beginning of Year	(495,102)	411,850	1,153,867
Net Position – End Year	**($640,129)**	**$(495,102)**	**$411,850**

Operating revenues for the Corporation derive from federal, state, and private funding sources. Operating revenues this year decreased, for the first time since 2001, by 18% ($2,731,098) compared to a 15% increase in the previous year. This significant reduction in operating revenues was mainly due to a corresponding substantial (23.2 %) contraction in federal funding ($2,761,713). State funding decreased only by 2.3 % and private funding actually increased by 16.2%. The decrease in the level of federal funding stemmed from systematic reductions in formula funding through the sequestration process imposed by the federal government during this fiscal year. Private funds were up this year, reversing a downward trend that had been consistent since 2010. The Corporation (in concert with the University) continues its efforts to secure more private funding. As is the case each year, the Corporation's revenue composition varies from year to year depending upon the availability of funds from each revenue source, and the overall level of combined efforts exercised by the Corporation and University's faculty, staff and administrators. Strategies to compensate for the loss of federal funding this year are being discussed and will be explored for the following fiscal year. The overall positive growth trend in operating revenues experienced by the Corporation heretofore, reflects an aggressive effort in pursuing external resources by the University's faculty, staff, and administrators.

The Corporation's total operating expenses this year also decreased by 21%, compared to an 13% growth experienced in the previous year. The operating expenses decreased from $16,219,018 to $12,744,308. Operating expenses are commonly interrelated to the level of operating revenues. The more revenues the Corporation manages, the higher the level of expenditures it incurs. The significant overall decrease ($3,474,710) in the Corporation's total operating expenses was comprised by a significant reduction in expenses related to payments to suppliers (31%), followed by lesser decreases in salaries (15%) and employee benefits (10%). The decrease in expenses related to employee salaries and benefits can be explained by a reduction in the Corporation's workforce, which was compulsory due to the aforementioned cuts in federal revenues. Finally, expenses related to depreciation decreased by 5 %; whereas expenses related to utilities increased by 18%, compared to the previous year.

The Statement of Revenues, Expenses, and Changes in Net Position, reflects an operating loss for the year of $569,916, compared to last year's loss of $1,313,528. Operating losses this year were contributed by the booking of accumulated depreciation, the inclusion of the OPEB as a component of liability, and a significant decrease in federal revenues. The activity-based financial reporting format, to which the Corporation subscribes through GASB 34, must account for the value of depreciation of its capital assets; and as per GASB 45, the value of OPEB liability. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are recorded as capital expenses and capitalized by the Corporation or the University's fiscal entities (depending on the type of asset acquired). The cost of the assets' depreciation is not recoverable due to the fact that it cannot be charged back to federal or state grants and/or contracts in subsequent years. In other words, these

assets are not normally replenished at the end of their useful life. Thus, accumulated depreciation is a factor which affects the value of net position reported within a given year. Another factor affecting the status of the Corporation's operating activity (gains or losses) is the reimbursable nature of its revenues. Revenues are recovered based on the expenditures terms of the agreement, and thus a transient deficit status results while the revenue is reimbursed to the Corporation.

Non-operating revenues and expenses were immaterial ($64), compared the value of their operating counterparts, as the Corporation does not purposely engage in growing these components as part of its financial activities. The value of capital grants and gifts to the institution increased this year from $414,619 to $424,825. Increase in capital grants and gifts, in turn, had minimal effect on the erosion of this year's position of the Corporation's net position (from -$495,102 to -$640,129).

IV. Cash Flows

The "Statement of Cash Flows" is the last financial statement presented by the Corporation. This statement provides detail information regarding the Corporation's cash position during the year's end. The statement of cash flows is comprised of five elements: (1) Operating cash flows, which show the net cash used by the Corporation in carrying out its operating activities; (2) The cash flow activities from non-capital financial activities, which reflect the cash received and spent for non-operating, non-investing, and non-capital financial purposes; (3) The cash flows from investing activities, which indicates the level of purchases, proceeds, and interests received from investing activities; (4) The cash flows from capital and related financing activities, invested in the acquisition of fixed or capital assets as per agreements with funding agencies; and (5) The reconciliation of net cash used to the operating income (or losses) reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Cash Flows

	FY 2013	FY 2012	FY 2011
Cash provided (used) by:			
Operating activities	$(57,303)	$327,377	($271,989)
Investing activities	64	198	98
Capital and related financing activities	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	**(57,239)**	**327,575**	**(271,891)**
Cash, beginning of year	490,794	163,219	435,110
Cash, end of year	**$433,555**	**$490,794**	**$163,219**

The Corporation's cash and cash equivalents as of June 30, 2013 was $433,555 compared to the $490,794 last year's position. This year's slightly lower value compared to last year can be attributed to a negative net cash provided by operating activities (-$57,303). Cash flow provided by financing activities represented only $64, from interest income. Interest income derived from federal and state accounts is always minimized as the Corporation does not purposely engage in investing activities of any funding derived from externally sponsored support. The combined carrying amount of cash in bank at June 30, 2013 and 2012 was $433,555 and $490,794, respectively. The difference is primarily caused by outstanding checks and items in transit during the span of the fiscal year. The Corporation carries a certain level of cash in the banks in order to effectively conduct its operating activities. In relation to the operating expenses, the level of cash required this year was 4% which was comparable with the average level of cash required within the last 10 years (5%).

The total value of cash and cash equivalents this year, in relation to the total value of operating revenues was 3%, which was the same ratio compared to the values from the previous year. This level of overall cash, as a percentage of operating revenues, suggests that the Corporation operated and met its obligations with the same level of cash as required or used in the previous year.

V. Capital Assets and Debt Administration

The Corporation, through an official operations agreement with the University, is charged with the fiscal management of all grants, contracts, and sponsored agreements for the institution. Certain grants allow purchases of capital assets, including educational and research equipment, land and buildings, new construction and renovation of educational facilities, infrastructure development, and motored vehicles. This year, the purchase of capital assets in terms of additions totaled $424,825 which compared to the $414,619 additions from previous year. Major assets (excluding vehicles) such as real estate and capital improvements are titled to the University and recorded on the University's financial statements. These assets are normally recorded as expenditures within the Corporation and capitalized on the University's side. As per agreement and policy, the assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2012 or 2013.

VI. Economic Outlook

West Virginia State University, as a historically black, 1890 Land-Grant Institution, continues strengthening its capabilities of delivering quality teaching, research and outreach programs. While the institution maintains its tradition of excellence in teaching, it also continues to expand its research and outreach programming, which require the key support of additional external resources. The regaining of the University's Land-Grant status, as well as gaining University status with the implementation of graduate programs, has significantly augmented activities related to research, teaching and public service. To that end, the University will continue to encourage its academic faculty and research and outreach staff to seek opportunities for enhancing research, teaching and public service through external sponsored funding.

As a Land-Grant Institution, the University currently receives federal and state funding and entitlements, including formula funds and associated state matching appropriations exclusive to 1890 Universities. However, a great portion of the external support received by the University comes from competitive grants and unsolicited requests. Although government-derived resources have become scarcer in the past few years, the University managed to modestly increase their level of revenue derived from these sources until this year. The slight reduction in revenue this year reflects the constraining funding environment at both the federal and state levels. The University recognizes that increased efforts must be pursued to improve and expand its funding sources derived from non-traditional sources, such as partnerships with private and non-private institutions and foundations, and generating program income through the sale of services and the establishment of intellectual property.

The University has recently undergone a reorganizational structure establishing a more efficient and effective way to obtain and manage external and internal resources for the conduct of research, instruction and outreach programming. This reorganization supports the establishment of additional graduate programs at the University and associated research and public service. Thus, the University will continue to seek increased funding to support current and future programs. Furthermore, the institution will continue seeking to increase participation in statewide initiatives, along with other state Universities, related to research infrastructural development, translating into regional economic development. As these endeavors materialize, there will be greater administrative activity and more opportunities for the University to continue the quest of enhancing its mission via external funding.

The national federal funding climate for the next two federal fiscal years is expected to continue being flat at best. In some instances, however, there will be significant reductions in federal funding to higher education institutions. For example, as a result of sequestration, the United States Department of Agriculture (USDA), one of the University's key federal land-grant partners, cut federal formula funds to colleges and universities by up to 10 percent for federal fiscal year 2013. To exacerbate the situation, USDA has conveyed to partnering colleges and universities that there may be additional cuts of up to 7.5 percent in federal fiscal year 2014. West Virginia State University, like many other land-grant colleges and universities across the country, are being proactive in preparing for these cuts. These will include, but are not be limited to, reduction in operational costs, strategic staffing, freezing vacant positions and possible layoffs. As stated, the University will continue to be aggressive in seeking funding via competitive grants and contracts in an attempt to both bring in resources to support the University's mission as well as offset pending cuts. The Corporation has and will continue to be a foundational fiscal catalyst in increasing sponsored activities at the University.

The Corporation, as the designated fiscal manager of these external resources, will continue playing a vital role in the administration and advancement of research, teaching and public service for the University. As these financial statements reflect, the Corporation has managed to sustain an overall moderate increase in revenues in spite of a latent economy. All funding streams captured by the University and administered by the Corporation continue having positive impacts on economic development, research capacity, expansion of educational facilities of the University and the communities and citizenry served throughout the state.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 433,555	$ 490,794
Grants and contracts receivable	523,436	654,684
Other receivables	-	2,664
Due from West Virginia State University	41,128	5,530
Prepaid expense	110,658	125,310
Total current assets	1,108,777	1,278,982
NONCURRENT ASSETS - Capital assets - net	1,481,666	1,428,578
TOTAL ASSETS	2,590,443	2,707,560
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL	$ 2,590,443	$ 2,707,560

See notes to financial statements.

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 238,497	$ 254,897
Due to other	1,298	17,796
Compensated absences - current portion	215,027	230,255
Total current liabilities	454,822	502,948
NONCURRENT LIABILITIES:		
Compensated absences - noncurrent portion	83,983	56,041
Other post employment benefits liability	2,691,767	2,643,673
Total noncurrent liabilities	2,775,750	2,699,714
Total liabilities	3,230,572	3,202,662
DEFERRED INFLOWS OF RESOURCES	-	-
TOTAL	3,230,572	3,202,662
NET POSITION:		
Net investment in capital assets	1,481,666	1,428,578
Unrestricted	(2,121,795)	(1,923,680)
Total net position	(640,129)	(495,102)
TOTAL	$ 2,590,443	$ 2,707,560

See notes to financial statements. (Concluded)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
OPERATING REVENUES — Contracts and grants:		
Federal	$ 9,107,162	$ 11,868,875
State	2,434,313	2,491,896
Private	632,917	544,719
Total operating revenues	12,174,392	14,905,490
OPERATING EXPENSES:		
Salaries and wages	5,683,271	6,656,236
Supplies and other services	5,356,165	7,709,990
Benefits	1,274,248	1,413,022
Depreciation	371,737	389,781
Utilities	58,887	49,989
Total operating expenses	12,744,308	16,219,018
OPERATING LOSS	(569,916)	(1,313,528)
NONOPERATING REVENUES (EXPENSES):		
Investment income	64	198
Loss on disposal of capital assets	-	(8,241)
Net nonoperating revenue (expenses)	64	(8,043)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(569,852)	(1,321,571)
CAPITAL GRANTS AND GIFTS	424,825	414,619
DECREASE IN NET POSITION	(145,027)	(906,952)
NET POSITION — Beginning of year	(495,102)	411,850
NET POSITION — End of year	$ (640,129)	$ (495,102)

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Contracts and grants	$ 12,272,706	$ 15,440,556
Payments to and on behalf of employees	(6,896,711)	(7,401,501)
Payments to suppliers	(5,374,411)	(7,661,900)
Payments to utilities	(58,887)	(49,778)
Net cash provided by (used in) operating activities	(57,303)	327,377
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	424,825	414,619
Purchases of capital assets	(424,825)	(414,619)
Net cash provided by capital financing activities	-	-
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES — Investment income	64	198
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(57,239)	327,575
CASH AND CASH EQUIVALENTS — Beginning of year	490,794	163,219
CASH AND CASH EQUIVALENTS — End of year	$ 433,555	$ 490,794
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	$ (569,916)	$ (1,313,528)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	371,737	389,781
Changes in assets and liabilities:		
Grants/contracts receivable	131,248	527,020
Other receivable	2,664	9,337
Due from West Virginia State University	(35,598)	(1,530)
Prepaid expenses	14,652	26,493
Accounts payable and due to other	(32,898)	(6,055)
Compensated absences and other post employment benefits liability	60,808	695,859
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (57,303)	$ 327,377
NONCASH INVESTING AND FINANCING ACTIVITIES — Loss on disposal of capital assets	$ 0	$ (8,241)

See notes to financial statements

1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government and encourages the acceptance of gifts, grants, contracts, and equipment and the sharing of facilities, equipment, technical assistance, and instructional programs in the State. The Corporation is governed by a board of directors (the "Board of Directors"), the chairperson of which is the president of the University.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independent accredited community and technical colleges. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Kanawha Valley Community and Technical College Board of Governors and the Board of Directors of the WVSU Research and Development Corporation agreed on a division of assets to be transferred to the Kanawha Valley Community and Technical College.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity — The Corporation is included in the financial statements of the University (its Parent), as the University is the sole member of the nonstock not-for-profit corporation. 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 West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), 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.

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

Net Investment in Capital Assets — This represents the Corporation'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 net investment in capital assets. The Corporation has no capital-related debt.

Restricted, Expendable — This includes resources in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The Corporation did not have any restricted, expendable components of net position at June 30, 2013 and 2012.

Restricted, Nonexpendable — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation did not have any restricted nonexpendable components of net position at June 30, 2013 or 2012.

Unrestricted — This represents resources that are not subject to externally imposed stipulations. Such resources are derived from investment income and sales and services of educational activities. These resources are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Board of Directors.

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

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

Allowance for Doubtful Accounts — It is the Corporation's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances, and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts. As of June 30, 2013 and 2012, the Corporation has not recorded an allowance for doubtful accounts.

Capital Assets — Capital assets include property, plant, and equipment, software, books, and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, 5 years for software, and 3 to 10 years for furniture and equipment. The Corporation's threshold for capitalizing capital assets is $5,000.

Compensated Absences and Other Post Employment Benefits Liability — GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The Corporation is 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 and its stand-alone financials can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage, and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health insurance premium subsidy from the Corporation. Two groups of employees hired after July 1, 2010, will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

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

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

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

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

Nonoperating Revenues — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell Grants, investment income, and sale of capital assets (including natural resources).

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

Use of Restricted Components of Net Position — The Corporation has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Generally, the Corporation attempts to utilize restricted resources first when practical.

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

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

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 expenditures during the reporting period. Actual results could differ from those estimates.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — The Corporation has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement did not have a material impact on the financial statements.

The Corporation has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement did not have a material impact on the financial statements.

The Corporation has early adopted GASB Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64.* This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its combined financial statements.

The GASB has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. Early application is encouraged. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2013 and 2012 was $433,555 and $490,794, respectively, compared with the combined bank balance of $687,075 and $735,905, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2013 and 2012, $516,079 and $537,491, respectively, were covered by Federal Deposit Insurance Corporation, while $170,996 and $198,414 respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

4. CAPITAL ASSETS

A summary of capital asset transactions for the years ended June 30, 2013 and 2012, is as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 4,100,615	$ 360,223	$ (165,950)	$ 4,294,888
Motor vehicles	501,604	64,602	-	566,206
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	5,148,233	424,825	(165,950)	5,407,108
Less accumulated depreciation for:				
Equipment	2,859,540	295,243	(165,950)	2,988,833
Motor vehicles	314,101	76,494	-	390,595
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	3,719,655	371,737	(165,950)	3,925,442
Capital assets — net	$ 1,428,578	$ 53,088	$ -	$ 1,481,666
Capital asset summary:				
Capital assets	$ 5,148,233	$ 424,825	$ (165,950)	$ 5,407,108
Less accumulated depreciation	3,719,655	371,737	(165,950)	3,925,442
Capital assets — net	$ 1,428,578	$ 53,088	$ -	$ 1,481,666

2012	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 3,921,888	$ 299,335	$ (120,608)	$ 4,100,615
Motor vehicles	486,292	115,284	(99,972)	501,604
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	4,954,194	414,619	(220,580)	5,148,233
Less accumulated depreciation for:				
Equipment	2,645,700	326,207	(112,367)	2,859,540
Motor vehicles	350,499	63,574	(99,972)	314,101
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	3,542,213	389,781	(212,339)	3,719,655
Capital assets — net	$ 1,411,981	$ 24,838	$ (8,241)	$ 1,428,578
Capital asset summary:				
Capital assets	$ 4,954,194	$ 414,619	$ (220,580)	$ 5,148,233
Less accumulated depreciation	3,542,213	389,781	(212,339)	3,719,655
Capital assets — net	$ 1,411,981	$ 24,838	$ (8,241)	$ 1,428,578

Title for motor vehicles is with the University.

5. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, which are based upon actuarial determined amounts. At June 30, 2013, 2012 and 2011, the noncurrent liability related to OPEB costs was $2,691,767, $2,643,673 and $1,958,639, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $48,094 and $0, respectively, during 2013, $685,034 and $0, respectively, during 2012, and $1,184,365 and $0, respectively, during 2011. As of the year ended June 30, 2013, there were zero retirees receiving these benefits.

6. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF, which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012 and 2011, were $519,150, $554,363 and $557,187, respectively, which consisted of equal contributions from the Corporation and covered employees in 2013, 2012 and 2011 of $259,575, $277,181 and 278,583, respectively.

The Corporation's total payroll for the years ended June 30, 2013, 2012 and 2011, was $5,428,356, $5,743,267, and $5,830,313, respectively; total covered employees' salaries for TIAA-CREF were $4,326,249, $4,619,690, and $4,643,222 in 2013, 2012 and 2011, respectively.

7. CONTINGENCIES

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

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation 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 Corporation would not seriously affect the financial position of the institution.

8. SUBSEQUENT EVENTS

The Corporation did not have any recognized or nonrecognized subsequent events that need to be recorded or disclosed after June 30, 2013, the statement of net position date. Subsequent events have been evaluated through the date of the auditors' report, the date the financial statements were available to be issued.

9. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2013, are as follows:

Year Ended June 30,	
2014	$ 34,909
2015	31,112

The total operating lease expense for the years ended June 30, 2013 and 2012, was $85,808 and $74,583, respectively. The Corporation does not have any noncancelable leases.

10. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2013 and 2012, the Corporation has no designated unrestricted components of net position.

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2013 and 2012, are as follows:

2013	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 1,990,737	$ 441,578	$ 1,607,523	$ 16,200	$ -	$ 4,056,038
Public service	1,456,021	352,151	1,184,599	41,422	-	3,034,193
General institutional support	2,236,513	480,519	2,465,438	1,265	-	5,183,735
Auxiliary enterprises	-	-	98,605	-	-	98,605
Depreciation	-	-	-	-	371,737	371,737
Total	$ 5,683,271	$ 1,274,248	$ 5,356,165	$ 58,887	$ 371,737	$ 12,744,308

2012	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 2,036,212	$ 441,193	$ 1,332,685	$ 19,979	$ -	$ 3,830,069
Public service	1,579,358	425,426	2,615,921	16,402	-	4,637,107
General institutional support	3,017,209	543,808	3,688,958	13,608	-	7,263,583
Auxiliary enterprises	23,457	2,595	72,426	-	-	98,478
Depreciation	-	-	-	-	389,781	389,781
Total	$ 6,656,236	$ 1,413,022	$ 7,709,990	$ 49,989	$ 389,781	$ 16,219,018

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SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:					
U.S. Department of Agriculture					
Bioplex 11 — Agricultural Waste Management Research Program	D	10.200		$ 29,781	
		10.200 Subtotal			$ 29,781
Cooperative State Research Education and Extension Service					
Cooperative Research (Evans Allen — Section 1445) 1890	D	10.205		1,727,502	
		10.205 Subtotal			1,727,502
Capacity Building Grant — TROUT	D	10.216		76,134	
Capacity Building Grant — CGIAR	D	10.216		53,350	
Capacity Building Grant — ALCORN SUBAWARD	I	10.216	Alcorn State	11,245	
Capacity Building Grant — ALCORN PEPPERS	I	10.216	Alcorn State	2,517	
Capacity Building Grant — FINFISHES	D	10.216		(69)	
Capacity Building Grant — 4-H FAMILY	D	10.216		91,164	
Capacity Building Grant — TOMATOES	D	10.216		69,250	
Capacity Building Grant — VALUE ADDED PEPPERS	D	10.216		126,289	
Capacity Building Grant — MINE SITES	D	10.216		14,207	
Capacity Building Grant — BIO TECHNOLOGIES	D	10.216		18,914	
Capacity Building Grant — BIO ENERGY COMM	D	10.216		116,004	
Capacity Building Grant — PUMPKIN	D	10.216		13,560	
Capacity Building Grant — CROP EVOLUTION	D	10.216		114,502	
		10.216 Subtotal			707,067
Sustainable Agriculture (SARE)	I	10.215	University of Vermont	150	
		10.215 Subtotal			150
Hibiscus	I	10.216	Southern University	4,337	
					4,337
National Institutes of Health (NIH)					
WV INBRE 12	I	93.389	MarshallUniversityRC	573	
WV INBRE NATURAL PRODUCTS	I	93.389	MarshallUniversityRC	23,714	
WV INBRE HANKINS	I	93.389	MarshallUniversityRC	18,480	
WV INBRE HANKINS SUMMER	I	93.389	MarshallUniversityRC	12,500	
WV INBRE HANKINS 13	I	93.389	MarshallUniversityRC	131,999	
WV INBRE HANKINS 14	I	93.389	MarshallUniversityRC	5,363	
		93.389 Subtotal			192,629
National Science Foundation (NSF)					
EPSCOR — Track 1	I	47.081	WVRO HEPC	341,673	
EPSCOR — Track 2 Cyberinfrastructure	I	47.082	WVRO HEPC	164,726	
		Subtotal			506,399
Total research and development cluster					3,167,865

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WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
US Department of Agriculture					
MCINTIRE STENNIS 10	D	10.202		$ 87	
MCINTIRE STENNIS 11	D	10.202		12,976	
MCINTIRE STENNIS 11	D	10.202		49,028	
		10.202 Subtotal			$ 62,091
Solcap 3	I	10.303	Michigan State University	1,470	
Solcap 4	I	10.303	Michigan State University	10,118	
		10.303 Subtotal			11,588
Cooperative State Research Education and Extension Service					
Cooperative Extension Service (Smith Lever — Section 1444)	D	10.500		1,285,774	
1890 Facilities Grant Extension Service	D	10.500		74,081	
Renewable Resources Extension Act RREA 10	D	10.500		1,845	
Renewable Resources Extension Act — RREA 11	D	10.500		84	
Renewable Resources Extension Act — RREA 12	D	10.500		6,806	
Expanded Food and Nutrition Education Program — EFNEP 10	D	10.500		113	
Expanded Food and Nutrition Education Program — EFNEP 11	D	10.500		36,932 37,038	
Children, Youth, and Families at Risk Program — CYFAR 12	D	10.500		52,769	
Children, Youth, and Families at Risk Program — CYFAR 13	D	10.500		75,291	
Children, Youth, and Families at Risk Program — CYFAR SCRATCH	D	10.500		42,473	
DOD Health Literacy	D	10.500		132	
		10.500 Subtotal			1,613,338
Summer Food Program 12	D	10.559		46,885	
		10.559 Subtotal			46,885
Rural Business Service — RBS 12	D	10.856		39,069	
		10.856 Subtotal			39,069
USFC ARD SYMPOSIUM	D	10.001		(171)	
NIFI ARD SYMPOSIUM	D	10.001		50,000	
					49,829

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WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2013

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
Afri Food Security	I	10.310	Pennsylvania State	$ 12,779	
Speciality Lettuce	I	10.170	WV Dept. of Agriculture	8,011	
		Subtotal			$ 20,790
National Science Foundation					
LSAMP 247	I	47.076	University of Kentucky	7,029	
Appalachian Information Technology Extension Service	I	47.076	Virginia Polytecnic	887	
		47.076 Subtotal			7,916
U.S. Department of Education (D of Ed)					
Title III-B-2011 Strengthening Historically Black College:	D	84.031		5,115	
Title III-B-2012 Strengthening Historically Black College:	D	84.031		594,867	
Title III-B-2013 Strengthening Historically Black College:	D	84.031		1,453,392	
Title III CCRAA 2010	D	84.031B		3,835	
Title III Part F 2011	D	84.031B		68,907	
Title III Part F 2011	D	84.031B		239,147	
Title III Part F 2012	D	84.031 B		562,545	
		Subtotal			2,927,808
Title VII Master 2011	D	84.382 G		20,319	
Title VII Master 2011	D	84.382 G		64,059	
Title VII Master 2012	D	84.382 G		498,594	
		84.382 G Subtotal			582,972
African Zion Church	D	15.932		3,070	
					3,070
National Aeronautics & Space Administration (NASA)					
Science, Engineering, Mathematics & Aerospace Acaden	D	43.001		204,744	
					204,744
U.S. Department of the Interior					
4-H Youth Mentoring 11	I	16.726	4-H	4,182	
4-H Youth Mentoring 12	I	16.726	4-H	39,608	
4-H Youth Mentoring 13	I	16.726	4-H	3,561	
					47,351
U.S. Department of Health and Human Services					
DHHR Demo Garden	I	93.283	WVDHHR	42,382	
REACH 2012	I	93.283	WVDHHR	130,030	
					172,412
U.S. Department of Transportation (DOT)					
STI 10	I	20.205	WV DOT	338	
STI 12	I	20.205	WV DOT	42,022	
STI 13	I	20.205	WV DOT	2,127	
DOT DBE	I	20.205	WV DOT	104,939	
		20.205 Subtotal			149,426
TOTAL FEDERAL AWARDS					$ 9,107,154

See notes to schedule of expenditures of federal awards.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2013

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of West Virginia State University Research and Development Corporation (the "Corporation") for the year ended June 30, 2013, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

2. Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.

3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is unlikely.

4. Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2013, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
Research and Development:			
U.S. Department of Agriculture	Cornell University	10.216	$ 28,028
U.S. Department of Agriculture	Texas A&M University	10.216	16,615
U.S. Department of Agriculture	University of Illinois @ Urbana	10.216	2,050
	Subtotal Research and Development		46,693
Other Programs:			
U.S. Department of Transportation	Joseph Kusimo & Assoc.	20.205	97,438
	Total All Subrecipients		$ 144,131

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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 Board of Directors of
West Virginia State University
Research and Development Corporation

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia State University Research and Development Corporation (the "Corporation"), which comprise the statement of net position as of June 30, 2013, and the related statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 22, 2013.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation's financial statements are free from 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*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 22, 2013

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

To the Board of Directors of
West Virginia State University
Research and Development Corporation

Report on Compliance for Each Major Federal Program

We have audited the West Virginia State University Research and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Corporation's major federal programs for the year ended June 30, 2013. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2013.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
October 22, 2013

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified opinion	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes	X No
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies)identified not considered to be material weakness(es)?	____ Yes	X No
Type of auditors' report issued on compliance for major programs:	Unmodified opinion	
Any audit findings disclosed that are required to be reported in accordance with OMB Circular A-133 (Section .510(a))?	____ Yes	X No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B Programs $ 300,000

Auditee qualified as low-risk auditee? X Yes ____ No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable