West Virginia State University

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

WEST VIRGINIA STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Virginia State University:

We have audited the accompanying combined statements of net assets of West Virginia State University (the "University") as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the discretely presented financial statements of the West Virginia State University Foundation, Incorporated (the "Foundation") (a component unit of the University). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Foundation, is solely based on the report of such auditors.

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

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

The Management's Discussion and Analysis on pages 3–12, which is the responsibility of the University's management, 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 December 20, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

Deloitte & Touche LLP

December 20, 2010

West Virginia State University

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2010

MISSION STATEMENT

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

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

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

The following values guide our decisions and behavior:

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

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

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

West Virginia State University (the "University" or WVSU) is pleased to present the combined financial statements for the year ended June 30, 2010. The combined information also includes the West Virginia State University Research and Development Corporation (the "Corporation"). The West Virginia State University Foundation, Incorporated is included as a discretely presented component unit.

There are three financial statements presented: the statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows.

This required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2010.

The Governmental Accounting Standards Board (GASB) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University.

During fiscal year 2008, House Bill No. 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of 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 Board of Governors and the Board of Governors of the University jointly agreed on a division of assets and liabilities of the University. The division of all assets and liabilities was effective retroactively to July 1, 2008. The amount of net assets transferred out from the University to the separately established community and technical college was $786,903 during 2009. Due to the materiality of the change, the remaining operations of the University will be treated as a new accounting entity. Due to the change in accounting entity, no comparable information for 2008 is presented in this management discussion and analysis.

STATEMENT OF NET ASSETS

The purpose of the University's combined statement of net assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities, and net assets of the University as of June 30, 2010 and 2009.

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

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

Net assets are divided into three major types:

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

- Restricted Net Assets: restricted assets categorized as:
    a. Nonexpendable – Nonexpendable restricted net assets are permanently restricted and only the income from such net assets can be used. The University does not have such net assets as of June 30, 2010.
    b. Expendable – Expendable restricted net assets are net assets that are available for expenditures as determined by donors and/or external entities with regard to time or purpose.

- Unrestricted Net Assets: assets available to the institution to utilize for any lawful purpose.

Condensed Combined Statement of Net Assets

	FY 2010	FY 2009	Difference
Current Assets			
Total current assets	$ 9,602,097	$ 7,780,425	$ 1,821,672
Total noncurrent assets	28,898,882	27,305,435	1,593,447
Total Assets	$38,500,979	$35,085,860	$ 3,415,119
Current liabilities			
Total current liabilities	$ 5,106,200	$ 4,895,903	$ 210,297
Total noncurrent liabilities	11,860,320	9,218,596	2,641,724
Total Liabilities	$16,966,520	$14,114,499	$2,852,021
Net Assets			
Invested in capital assets, net of related debt	$21,124,105	$18,910,163	$ 2,213,942
Restricted expendable	674,823	715,396	(40,573)
Unrestricted	(264,469)	1,345,802	(1,610,271)
Total Net Assets Sub-Total	21,534,459	20,971,361	563,098
Total Liabilities and Net Assets	$38,500,979	$35,085,860	$ 3,415,119

Assets:

Total assets increased over the previous fiscal year by $3.4 million. This was because current assets increased by $1.8 million and noncurrent assets by $1.6 million. The cash and cash equivalent difference of $1.4 million accounted for most of the increase in current assets. Investment in capital assets in the amount of $1.6 million was the main difference in noncurrent assets for fiscal year 2010. Total current assets of $9.6 million exceeded total current liabilities of $5.1 million for a net working capital of $4.5 million.

Liabilities:

Total liabilities increased by $3.0 million over the prior fiscal year. Most of the difference is other post employment benefits of $3.4 million.

Net assets:

Net assets' biggest differences from the prior fiscal year are investment in capital assets – net of related debt of $2.2 million and unrestricted net assets of $(1.6) million.

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

The purpose of the combined statement of revenues, expenses, and changes in net assets is to present the operating and nonoperating revenues earned and expenses incurred by the University and any other revenues, expenses, gains, and losses of the University.

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

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

	FY 2010	FY 2009	Difference
Operating revenues	$35,405,930	$ 33,385,122	$ 2, 020, 808
Operating expenses	54,411,458	49,984,795	4,426, 663
Operating loss	(19,005,528)	(16,599,673)	(2,405,855)
Nonoperating revenues – net	18,594,223	17,177,546	1,416,677
Gain (loss) before other revenues, expenses, gains, or losses	(511,305)	577,873	(1,089,178)
Capital projects and bond proceeds from the Commission	382,501	247,616	134,885
Capital grants and gifts	456,849	70,993	385,856
State capital grants (federal)	135,053	-	135,053
Increase in net assets	563,098	896,482	(333,384)
Net assets, beginning of year	20,971,361	20,074,879	896,482
Net assets, end of year	$21,534,459	$20,971,361	$ 563,098

Operating Revenues:

Student tuition and fees increased by $1.4 million for fiscal year 2010, and federal contracts and grants increased by $0.5 million.

Operating Expenses:

The salaries and wages difference of $0.7 million, benefits of $2 million, and student financial aid of $1.2 million were the significant changes for operating expenses.

Operating revenues of $35 million compared to operating expenses of $54 million resulted in an operating loss of $19 million. Although State appropriations of $11.8 million are counted as nonoperating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

Nonoperating Revenues (Expenses):

The Federal Pell Grants difference of $1.7 million is the main source of change for fiscal year 2010 for nonoperating revenues (expenses) of $1.4 million. State appropriations decreased $(0.8) million but were backfilled by the State fiscal stabilization funds by the same amount of $0.8 million.

STATEMENT OF CASH FLOWS

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

Condensed Combined Statement of Cash Flows

	FY 2010	FY 2009	Difference
Cash provided (used) in:			
Operating activities	$(14,558,215)	$(13,787,693)	$ (770,522)
Noncapital financing activities	18,948,704	17,214,655	1,734,049
Capital financing activities	(2,994,591)	(1,742,002)	(1,252,589)
Interest on investments	20,542	52,572	(32,030)
Increase in cash and cash equivalents	1,416,440	1,737,532	(321,092)
Cash - beginning of year	6,149,480	4,411,948	1,737,532
Cash - end of year	$ 7,565,920	$ 6,149,480	$ 1,416,440

Major differences in funding included in operating activities consist of student tuition and fees of $1.3 million. The major differences in use include payment of suppliers of $0.4 million and payment for scholarships and fellowships of $1.2 million.

Major differences in funding included in noncapital financing included Federal Family Education Loan Program (FFELP) lending receipts of $1.2 million and Federal Pell Grants of $1.7 million. Differences in use include FFELP lending payments of $1.3 million.

Purchases of capital assets were the major difference in capital finance activities, which amounted to $1.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

WVSU accomplished significant capital and renovation activity during fiscal year 2010. The purchase, renovation, and restoration of capital assets, such as land and/or buildings, educational and scientific equipment, renovation of classroom and research facilities, and replacement of motor vehicles, are important for improvement of the University. With frugal management of resources and funding made available from grants, contracts, and sponsored agreements held within the University and its Corporation, there is normally provision of allowable funding for the purchase and improvements of the capital assets.

The main campus of the University is attractive and well maintained. Situated between two major cities in the State, the University campus attracts and is accessible to traditional and non-traditional students. Research indicates that the appearance and ambiance of a campus is a major consideration in recruitment and retention efforts and is a factor in revenue production. As mentioned, various funding streams of the University have impact on the continued expansion of educational facilities of the University. Some of the projects for 2009–2010 included:

> **Building Improvements**: Several Hamblin Hall science building laboratories were renovated to provide state-of-the-art learning facilities. The upgrades of the environs to more modern specifications for the College of Natural Science and Mathematics were welcomed improvements to the academic environment. Classrooms in Davis Fine Arts were also equipped with energy efficient, color-sensitive lighting. Two of the College of Professional Studies classrooms in Wallace Hall were also updated. The improved laboratories in the three buildings will help with recruitment and retention of students.
>
> **Facilities Development**: WVSU is pleased to be part of the EAST Bond projects, which will provide funding for the $15,000,000 Fleming Hall renovation and addition. The project is to be completed during the academic year of 2012–2013. This project supported by the West Virginia Higher Education Policy Commission (the "Commission"), the West Virginia Legislature, and the Governor of West Virginia will renew and expand an important academic facility on campus.
> A major renovation of the Toney House was accomplished. The building serves as an office facility for the University on Route 25 adjacent to the Gus R. Douglass Land-Grant Administrative building. There were some improvements to parking areas surrounding both buildings as well.
>
> The WVSU Booker T. Washington Park in Malden, West Virginia, to the east of Charleston, received some improvements in landscaping and signage, and a historic monument was erected. Some minor painting and repairs were done to surrounding structures in the University's historic complex.
> An All Hazards Community Siren was constructed on the campus of the University to further improve emergency warning efforts. The siren is operated by Kanawha-Putnam County Emergency Services. It is solar powered and state-of-the art and has voice-over capabilities. The warning system was donated by local chemical companies to Kanawha County, and it was determined that the University would be the best location for it to be constructed.
>
> **Infrastructure**: Investments in infrastructure occurred for several areas of campus. The Fire Sprinkler System was completed in Sullivan Hall, and initial work for the Sullivan Hall Elevator

Project was also accomplished. Preliminary work was begun on the control center and infrastructure aspects of Sullivan Hall elevators. This work will continue throughout the upcoming year.

With 50/50 Energy Project funding, the University replaced the chiller and air cooling tower at Ferrell Hall. Some steam lines were abandoned in the middle of campus and toward the Drain Jordan Library and Wilson University Union. New energy-efficient boilers were installed at the Drain-Jordan Library and Wilson University Union to replace the abandoned steam lines. Some additional security systems were also purchased.

Technology Infrastructure: WVSU, Marshall University, and West Virginia University are part of an EPSCORE grant project to increase bandwidth for the Internet, thus allowing more shared research information with other universities with similar research project capabilities. There are further plans to implement more technology upgrading over the next three to five years. In addition, the University purchased the beginnings of a campus-wide "*Voice-over Internet"* Telephone System that will replace the antiquated phone system for the University over a three-year period.

With regard to debt administration, the University has been frugal. For example, as with other public higher education institutions, the Commission assesses each public higher education institution for funds to address the payment of debt service on revenue bonds that have been previously issued for financing of academic and other facilities of the State's universities and colleges. Though the bonds remain a capital obligation of the Commission, an amount is listed on all the institutional reports as debt service, including the University. The University and the Corporation's debt activity during fiscal year 2010 related solely to the repayment of bonds, leases, and notes payable according to agreements.

The aforementioned capital and infrastructure improvements at the University will continue to ensure that the University properties are well-maintained. Good efforts have been made to maintain and improve the campus facilities, land, and infrastructure. This is an important asset for the University in maintaining significant value.

ECONOMIC OUTLOOK

The importance of higher education to the economy is undisputable, even in a worldwide climate of monetary challenges. Education is the third largest employment base in the Kanawha Valley, where WVSU is located. The University's students and graduates are instrumental in attracting new businesses to the Greater Charleston and Greater Kanawha Valley area, thus building a stronger economy in the region.

The University's combined financial position is closely correlated to that of the State. For fiscal year 2010, the economic outlook for the State may be more optimistic than expected a year ago. Previous information indicated that the tax revenues for the Mountain State would be greatly reduced during 2009–2010. This anticipated downturn in collection activity did not materialize. In fact, there is a slightly more positive economic outlook for the capital city area of Charleston and surrounding locales and West Virginia in general.

WVSU is continuing to lower dependence on State appropriations through initiatives for self-reliance and sustainability for the future. This year, approximately 26% of the University's total funding came from the State. The seeking of external funding for new initiatives has proven successful. In addition, energy efficiencies as a result of projects such as lighting changes and chiller upgrades across the University have begun to show return in lowered utility costs.

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

The University is one of West Virginia's three research institutions. This status, plus the Land-Grant designation, positions the University for program development and implementation to serve students, the State, and the community. The ability to do research and extension helps solidify the institution as a major economic force in the area. Continuing lab improvements help improve the knowledge base in many areas, such as biotechnology and agricultural research.

Enrollment Plan: In times of declining enrollment statistics nationwide, the University has worked to increase enrollment and retention efforts. Even though the Kanawha Valley Community and Technical College will not be utilizing the campus in about two years, the enrollment management efforts of the University are helping the University. New programming via traditional educational routes and the Land-Grant efforts appear to draw students. There will continue to be more web-based courses or e-learning and lifelong learning, which will contribute to enrollment growth. In addition, the University plans to increase advertising for undergraduate and graduate programs. Enrollment management strategies are being implemented to help maximize additional revenue from returning veterans and non-traditional displaced workers in addition to traditional student enrollments.

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

There are challenges as a result of the University and the College funding separation. With the legal separation, more emphasis will be directed toward the University's development rather than having to assist in the development of the community and technical college. This should obviously result in a stronger WVSU poised for serving students. However, the next two years do provide challenges with regard to making certain that the community and technical college reimburses the University at the full-cost level.

A definite challenge incurred results from lower funding levels for higher education in West Virginia, and that will probably continue. As mentioned, the University was not fully reimbursed for services for several years by the community college due to underfunded legislative mandates. The University still is underfunded with regard to equalizing appropriations that were given to schools that supported community and technical college components.

Academic Planning: The academic programs of the University are of good quality and are ever improved. The quality educational offerings will continue to result in revenue from students. As mentioned in a previous section, there are plans to offer more e-learning and add new graduate programs. Academic classroom upgrades and the Fleming Hall renovation and addition will contribute to a more attractive academic and congregating space, thus enhancing student recruitment and retention efforts. Also, there has been continued interest to develop more modern housing to be made available to resident students.

The University is continuing to pursue the academic programming and facility development, in concert with campus master planning efforts, which will result in the increased capacity for enrollment management programming.

Technology: The further development, utilization, and expansion of e-learning by teachers and students is a platform for revenue generation. This continuing provision of more technology options related to educational opportunities, management of information, securing of data, communications, and offering of services to students is expected to have positive results.

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

To conclude, net assets increased over the last fiscal year, which is a positive indicator of the financial stability of the University. An increase in fees for the University helped this to be realized.

The University is committed to providing quality undergraduate and graduate students for the workforce of the State. The University is able to recruit traditional and non-traditional students to the attractive campus and via e-learning experiences.

Since the University receives base budget support from the government, this slight improvement in projected and actual revenues for the State is positive for this state-assisted higher-education institution, as for others in West Virginia. Though there are no predictions for greatly expanded base funding, the fear of added reductions to higher education base budgets for fiscal year 2011 has been somewhat mitigated.

Land-Grant programming will continue to provide opportunity for new funding sources to further develop the University and its programming. These factors, coupled with increased graduate offerings and students, will bode well for this established University.

It is very important that the agreement with Kanawha Valley Community and Technical College be completed for realization of revenue to pay for services utilized and costs incurred by the University.

Enrollment management programming and increased strategies for advertisement are predicted to attract more students to the University. Additional recruiting efforts will be matched by emphasis on retention of students who bring in revenue. These programs and the $15,000,000 EAST Bond-funded Fleming Hall renovation and addition to the beautiful WVSU campus will be measurable draws for students to attend and stay at the University. New masters programming will also be attractive for consumers.

Energy savings projects, some of which are part of the 50/50 formal project funding, will continue to help with utility costs of the University. WVSU will reap the benefits of these cost savings for many years via efficiencies in addition to the renewed infrastructure.

The University is involved in funding with other research institutions that will result in the expanded bandwidth for communicating information over the Internet with some other universities. This increased technology infrastructure capacity building over a three-year period will poise WVSU for better communication capabilities.

The expansion and continuing development of the Mardi Gras Entertainment area of Nitro, West Virginia, positioned near the University and the addition of motel, restaurant, and shopping facilities nearby will help students find work to pay for their education. Similarly, these facilities will need middle managers and technology majors for computer programming and security personnel to work near and in the facilities. Employees may aspire to more education while working, or they may have family members who will want higher education opportunities. This, it is anticipated, will contribute to further provision of students for this historic institution with versatile educational offerings.

In conclusion, the slightly brighter revenue projections for West Virginia and that impact upon budgeting, as well as nearby economic development; the emphasis on recruitment, retention, and advertising efforts; the Fleming Hall renovation and addition on the beautiful campus of the University; and the new academic program development over the next two to three years, results in a positive economic outlook for WVSU in the future.

WEST VIRGINIA STATE UNIVERSITY

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

ASSETS	2010	2009
CURRENT ASSETS:		
Cash and cash equivalents	$ 7,565,920	$ 6,149,480
Due from State		
Accounts receivable — net	1,271,686	844,134
Loans to students — current portion	106,647	104,958
Inventories	468,349	511,766
Prepaid expenses	189,495	170,087
Total current assets	9,602,097	7,780,425
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	601,568	629,099
Loans to students — net of allowance of $246,665 and $236,275 in 2010 and 2009, respectively	412,147	432,053
Deferred finance costs — net	29,935	32,429
Capital assets — net	27,855,232	26,211,854
Total noncurrent assets	28,898,882	27,305,435
TOTAL	$ 38,500,979	$ 35,085,860

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

LIABILITIES AND NET ASSETS	2010	2009
CURRENT LIABILITIES:		
Accounts payable	$ 1,143,324	$ 1,118,166
Due to Commission	1,235	4,698
Accrued liabilities	1,977,585	1,894,625
Compensated absences — current portion	861,546	863,997
Deferred revenue	547,261	434,388
Debt obligation to the Commission — current portion	243,526	234,925
Bonds payable — current portion	245,000	240,000
Notes payable — current portion	86,723	105,104
Total current liabilities	5,106,200	4,895,903
NONCURRENT LIABILITIES:		
Deposits	142,505	136,804
Compensated absences	438,211	500,888
Debt obligation to the Commission	111,806	355,331
Bonds payable	3,547,768	3,785,798
Notes payable	2,526,239	2,612,962
Advances from federal sponsors	579,122	579,122
Other post employment benefits liability	4,514,669	1,247,691
Total noncurrent liabilities	11,860,320	9,218,596
Total liabilities	16,966,520	14,114,499
NET ASSETS:		
Invested in capital assets — net of related debt	21,124,105	18,910,163
Restricted for — expendable:		
Loans	73,255	86,298
Debt service	601,568	629,098
Total restricted	674,823	715,396
Unrestricted net assets	(264,469)	1,345,802
Total net assets	21,534,459	20,971,361
TOTAL	$ 38,500,979	$ 35,085,860

See notes to combined financial statements. (Concluded)

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENTS OF NET ASSETS AS OF JUNE 20, 2010 AND 2009

	2010	2009
ASSETS		
CURRENT ASSETS:		
Cash	$ 879,686	$ 769,543
Other receivables	4,270	20,053
Investments — fair value	3,649,657	3,218,314
Beneficial interest in trusts	115,685	109,518
Property and improvements:		
Land	166,000	166,000
Buildings and improvements	1,276,425	1,276,425
Furniture and equipment	46,448	46,448
Total property and improvements	1,488,873	1,488,873
Less accumulated depreciation	559,105	524,042
Property and improvements — net	929,768	964,831
OTHER ASSETS	7,573	7,400
TOTAL	$ 5,586,639	$ 5,089,659
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES — Accounts payable and accrued expenses	$ 7,434	$ 5,189
NET ASSETS:		
Unrestricted	399,693	329,997
Temporarily restricted	1,364,132	1,018,701
Permanently restricted	3,815,380	3,735,772
Total net assets	5,579,205	5,084,470
TOTAL	$ 5,586,639	$ 5,089,659

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

	2010	2009
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $3,803,720 and $2,927,624, in 2010 and 2009, respectively	$ 10,172,654	$ 8,779,903
Contracts and grants:		
Federal	10,655,754	10,144,675
State	3,379,087	2,788,063
Private	986,846	1,278,082
Sales and services of educational activities	171,477	158,253
Auxiliary enterprise revenue — net of scholarship allowance of of $2,259,156 and $2,066,883 in 2010 and 2009, respectively	5,861,348	6,198,554
Miscellaneous — net	142,750	12,619
Fees charge to the students of Kanawha Valley Community and Technical College	1,089,714	1,218,973
Charges to Kanawha Valley Community and Technical College	2,946,300	2,806,000
Total operating revenues	35,405,930	33,385,122
OPERATING EXPENSES:		
Salaries and wages	23,409,976	22,735,058
Benefits	8,563,654	6,549,454
Supplies and other services	14,035,321	13,490,624
Utilities	2,008,231	2,017,490
Student financial aid — scholarships and fellowships	4,904,144	3,679,944
Depreciation and amortization	1,361,277	1,342,079
Loan cancellations and write-offs	10,390	44,744
Fees assessed by the Commission for operations	118,465	125,402
Total operating expenses	54,411,458	49,984,795
OPERATING LOSS	(19,005,528)	(16,599,673)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	11,814,794	12,642,590
State fiscal stabilization funds (federal)	827,795	
Federal Pell Grants	6,350,209	4,627,430
Payments on behalf of West Virginia State University	0	292,130
Investment income	20,542	52,572
Interest on indebtedness	(364,905)	(379,647)
Loss on capital asset disposals	(10,118)	(2,164)
Fees assessed by the Commission	(44,094)	(55,365)
Net nonoperating revenues	18,594,223	17,177,546
GAIN (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(411,305)	577,873
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	382,501	247,616
CAPITAL GRANTS AND GIFTS	456,849	70,993
STATE CAPITAL GRANTS (FEDERAL)	135,053	
INCREASE IN NET ASSETS	563,098	896,482
NET ASSETS — Beginning of year	20,971,361	20,074,879
NET ASSETS — End of year	$ 21,534,459	$ 20,971,361

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE:				
Contributions and gifts	$ 247,083	$ 225,300	$ 75,941	$ 548,324
Administrative fees (expenses)	69,097	(69,097)		
Rental income	14,904			14,904
Investment income	(89,860)	197		(89,663)
Net assets released from restrictions	168,007	(168,007)		
Total revenue	409,231	(11,607)	75,941	473,565
EXPENSES:				
Salaries and wages	110,690			110,690
Taxes and licenses	23,631			23,631
Professional fees	21,684			21,684
Supplies	12,743			12,743
Maintenance	11,567			11,567
Travel	12,868			12,868
Telephone and utilities	1,756			1,756
Office expense	6,247			6,247
Printing	12,318			12,318
Meeting expense	55,425			55,425
Conference/seminar fees	6,084			6,084
Scholarships and grants	220			220
Depreciation	876	34,187		35,063
Miscellaneous	2,400			2,400
Program expenses	168,007			168,007
Total expenses	446,516	34,187		480,703
NET INCREASE (DECREASE)	(37,285)	(45,794)	75,941	(7,138)
CHANGE IN VALUE OF PERPETUAL TRUSTS			6,167	6,167
UNREALIZED LOSS ON INVESTMENTS	495,706			495,706
RECLASSIFICATIONS	(388,725)	391,225	(2,500)	
INCREASE (DECREASE) IN NET ASSETS	69,696	345,431	79,608	494,735
NET ASSETS — Beginning of year	329,997	1,018,701	3,735,772	5,084,470
NET ASSETS — End of year	$ 399,693	$ 1,364,132	$ 3,815,380	$ 5,579,205

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

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

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 10,138,521	$ 8,869,914
Contracts and grants	14,776,194	14,594,168
Payments to and on behalf of employees	(28,688,820)	(28,313,501)
Payments to suppliers	(13,978,387)	(13,563,575)
Payments to utilities	(2,008,231)	(2,017,490)
Payments for scholarships and fellowships	(4,904,144)	(3,679,944)
Loans issued to students	(95,525)	(35,935)
Collection of loans to students	95,376	67,259
Sales and service of educational activities	171,477	158,253
Auxiliary enterprise charges	5,867,049	6,216,829
Fees retained by the Commission	(118,465)	(125,402)
Fees charged to Kanawha Valley Community and Technical College students	1,089,714	1,218,973
Fees charged to Kanawha Valley Community and Technical College	2,946,300	2,806,000
Other receipts — net	150,726	16,758
Net cash used in operating activities	(14,558,215)	(13,787,693)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	11,856,439	12,569,270
State fiscal stabilization funds (federal)	827,795	-
FFELP lending receipts	12,770,638	11,570,806
FFELP lending payments	(12,812,283)	(11,497,486)
Federal Pell grants	6,350,209	4,627,430
Fees assessed by the Commission	(44,094)	(55,365)
Net cash provided by noncapital financing activities	18,948,704	17,214,655
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State capital grants (federal) received	100,000	-
Capital grants and gifts received	456,849	70,993
Capital projects proceeds from the Commission	382,501	247,616
Purchases of capital assets	(3,005,309)	(1,129,125)
Principal paid on payable to the Commission	(234,924)	(226,778)
Credit issued by Huntington Bank for Union Bond	36,862	-
Principal paid on notes and bonds	(338,134)	(314,408)
Interest paid on notes, bonds, and leases	(364,905)	(379,647)
Withdrawals from non-current cash and cash equivalents	(27,531)	(10,653)
Net cash used in capital financing activities	(2,994,591)	(1,742,002)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	20,542	52,572
INCREASE IN CASH AND CASH EQUIVALENTS	1,416,440	1,737,532
CASH AND CASH EQUIVALENTS — Beginning of year	6,149,480	4,411,948
CASH AND CASH EQUIVALENTS — End of year	$ 7,565,920	$ 6,149,480

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

	2010	2009
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (19,105,528)	$ (16,599,673)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,361,277	1,342,079
Expenses paid on behalf of the University	-	292,130
Loss on disposal of assets	10,118	2,164
Changes in assets and liabilities:		
Receivables — net	(392,499)	237,133
Loans to students — net	18,217	80,207
Prepaid expenses	(19,408)	(57,093)
Inventories	43,417	(29,445)
Accounts payable and accrued liabilities	3,372,745	826,641
Compensated absences	(65,128)	(136,337)
Deferred revenue	212,873	236,226
Deposits held in custody for others	5,701	18,275
NET CASH USED IN OPERATING ACTIVITIES	$ (14,558,215)	$ (13,787,693)

See notes to combined financial statements.

(Concluded)

1. ORGANIZATION

West Virginia State University (the "University") is governed by the West Virginia State University Board of Governors (the "Board"). The Board was established by Senate Bill No. 653 ("S.B. 653").

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board standards (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 has elected not to apply the FASB statements and interpretations issued after November 30, 1989, to its combined financial statements.

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

The accompanying combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation (the "Research and Development Corporation"), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation. Their related organizations, the West Virginia State University Foundation, Incorporated (the "Foundation") and the

West Virginia Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements, as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB.

In accordance with GASB, the audited financial statements of the Foundation are discretely presented here with the University's combined financial statements. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information, as it is presented herein (see Note 20).

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

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

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

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

- *Restricted Net Assets — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any nonexpendable funds or net assets of this type as of June 30, 2010 and 2009.

- *Unrestricted Net Assets* — Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University and may be used at the discretion of the Board to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

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

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

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

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

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

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

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

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

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

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 postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

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

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/2 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire.

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

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

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

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

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

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

- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations and investment income. Nonoperating revenues also exclude student fees that were billed for capital improvements.

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Family Education Loan Program (FFELP). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University's combined statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In the year ended June 30, 2010, the University received and disbursed approximately $12.8 million on behalf of the U.S. Department of Education, which is not included as revenue and expenses in the combined statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the year ended June 30, 2010, the University received and disbursed approximately $6.7 million under these federal student aid programs.

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

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

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

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

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

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 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 standard did not have a material impact on the combined 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 standard did not have a material impact on the combined financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board 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 combined financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2010 and 2009, was held as follows:

	2010		
	Current	**Noncurrent**	**Total**
State Treasurer	$6,843,648	$ -	$6,843,648
In escrow		601,568	601,568
In bank	722,272		722,272
	$7,565,920	$601,568	$8,167,488

	2009		
	Current	**Noncurrent**	**Total**
State Treasurer	$5,351,559	$ -	$5,351,559
In escrow		629,099	629,099
In bank	797,921		797,921
	$6,149,480	$629,099	$6,778,579

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

The combined carrying amounts of cash in the bank as of June 30, 2010 and 2009, were $722,272 and $797,921, respectively, compared with the combined bank balance of $1,369,475 and $1,283,295, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances as of June 30, 2010 and 2009, $878,520 and $1,010,237, respectively, were covered by Federal Depository Insurance Corporation or collateralized by securities held by the State's agent.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2010 and 2009, are comprised of the following investment pools:

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

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

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2010 and 2009, the WV Money Market Pool investments had a total carrying value of $2,876,711,000 and $2,570,261,000, respectively, of which the University's ownership represents 0.22% and 0.14%, respectively.

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

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

At June 30, 2010 and 2009, the WV Government Money Market Pool investments had a total carrying value of $221,183,000 and $283,826,000, of which the University's ownership represents 0.02% and 0.01%, respectively.

WV Short Term Bond Pool:

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

	Credit Rating*		2010		2009	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset backed securities	Aaa	AAA	$ 24,330	5.37 %	$ 16,402	5.21 %
	Aaa	NR *	10,353	2.28	5,136	1.63
	Aa3	AAA	1,000	0.22	223	0.07
	Aa2	AAA			461	0.15
	A3	AAA			273	0.09
	Baa2	AAA			831	0.26
	Baa1	BBB**			332	0.10
	Baa2	BBB**			1,376	0.44
	Ba1	CC**	45	0.01		
	Ba2	BB**	219	0.05		
	Ba3	AAA			645	0.20
	B1	AAA			779	0.25
	B1	BBB**	605	0.13		
	B1	CCC**	857	0.19		
	B2	B**			493	0.16
	B2	CCC**	366	0.08	539	0.17
	B3	AAA			949	0.30
	B3	B**	442	0.10		
	B3	BBB**	247	0.05		
	B3	CCC**	554	0.12		
	Caal	BB**			254	0.08
	Caal	CCC**	230	0.05		
	Caa2	CCC**	779	0.17		
	NR *	AAA	3,538	0.78	679	0.22
			43,565	9.60	29,372	9.33
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
			189,095	41.70	125,104	39.72
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
			$ 453,518	100.00 %	$ 314,932	100.00 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2010 and/or 2009. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortgage backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2010 and 2009, the University's ownership represents 0.12% and 0.02%, respectively, of these amounts held by the BTI.

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

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

	2010		2009	
Security Type	**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
	$ 2,876,711	33	$ 2,570,261	47

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

	2010		2009	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 66,600	1	$ 53,000	1
U.S. Treasury notes	8,526	114		
U.S. Treasury bills	29,982	72	74,424	94
U.S. agency discount notes	36,465	115	87,662	55
U.S. agency bonds/notes	79,532	30	68,608	37
Money market funds	78	1	132	1
	$ 221,183	44	$ 283,826	51

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2010 and 2009:

	2010		2009	
Security Type	**Carrying Value (in thousands)**	**Effective Duration (Days)**	**Carrying Value (in thousands)**	**Effective Duration (Days)**
U.S. Treasury bonds/notes	$ 158,423	583	$ 88,805	917
Corporate notes	189,095	560	125,104	559
Corporate asset backed securities	43,565	679	29,372	622
U.S. agency bonds/notes	40,180	288	60,250	752
U.S. agency mortgage backed securities	4,540	360	4,975	540
Money market funds	17,715	1	6,426	1
	$ 453,518	530	$ 314,932	691

Other Investment Risks — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 and 2009, are as follows:

	2010	2009
Student tuition and fees — net of allowance for doubtful accounts of $479,946 and $570,444, in 2010 and 2009, respectively	$ 272,649	$ 218,622
Grants and contracts receivable	950,961	576,111
Due from the Commission	1,426	11,091
Due from other State agencies	16,752	2,260
Other accounts receivable	29,898	36,050
	$ 1,271,686	$ 844,134

5. DEFERRED FINANCE COSTS

A summation of deferred finance costs transactions for the years ended June 30, 2010 and 2009, is as follows:

2010	Beginning Balance	Additions	Reductions	Ending Balance
Deferred finance costs	$ 49,894	$ -	$ -	$ 49,894
Less accumulated amortization	17,465	2,494		19,959
Deferred finance costs — net	$ 32,429	$ (2,494)	$ -	$ 29,935

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

6. CAPITAL ASSETS

A summary of capital asset transactions for the University for the years ended June 30, 2010 and 2009, is as follows:

	2010			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,538,075	$ -	$ -	$ 1,538,075
Construction in progress	687,910	2,291,653	(2,244,842)	734,721
Total capital assets not being depreciated	$ 2,225,985	$ 2,291,653	$ (2,244,842)	$ 2,272,796
Other capital assets:				
Land improvements	$ 1,526,510	$ -	$ -	1,526,510
Infrastructure	4,149,923			4,149,923
Buildings	38,249,442	2,244,842		40,494,284
Equipment	7,671,585	417,095	(339,629)	7,749,051
Motor vehicles	365,758	131,364	(82,050)	415,072
Software	358,819			358,819
Library books	4,438,617	165,197	(77,098)	4,526,716
Total other capital assets	56,760,654	2,958,498	(498,777)	59,220,375
Less accumulated depreciation for:				
Land improvements	674,925	36,381		711,306
Infrastructure	3,084,197	56,704		3,140,901
Buildings	17,932,161	737,443		18,669,604
Equipment	6,376,414	383,557	(329,511)	6,430,460
Motor vehicles	364,395	14,638	(82,050)	296,983
Software	358,819			358,819
Library books	3,983,874	123,090	(77,098)	4,029,866
Total accumulated depreciation	32,774,785	1,351,813	(488,659)	33,637,939
Other capital assets — net	$ 23,985,869	$ 1,606,685	$ (10,118)	$ 25,582,436
Capital asset summary:				
Capital assets not being depreciated	$ 2,225,985	$ 2,291,653	$ (2,244,842)	$ 2,272,796
Other capital assets	56,760,654	2,958,498	(498,777)	59,220,375
Total cost of capital assets	58,986,639	5,250,151	(2,743,619)	61,493,171
Less accumulated depreciation	32,774,785	1,351,813	(488,659)	33,637,939
Capital assets — net	$ 26,211,854	$ 3,898,338	$ (2,254,960)	$ 27,855,232

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

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

7. NONCURRENT LIABILITIES

A summary of noncurrent obligation transactions for the University for the years ended June 30, 2010 and 2009, is as follows:

	2010				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$ 2,718,066	$ -	$105,104	$ 2,612,962	$ 86,723
Bonds payable	4,025,798	6,970	240,000	3,792,768	245,000
Payable to the Commission	590,256		234,924	355,332	243,526
Other noncurrent liabilities:					
Deposits held in custody for others	136,804	5,701		142,505	
Accrued compensated absences	1,364,885		65,128	1,299,757	861,546
Advances from federal sponsors	579,122			579,122	
Other post employment benefits liability	1,247,691	3,266,978		4,514,669	
Total noncurrent liabilities	$10,662,622	$ 3,279,649	$645,156	$13,297,115	

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

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

8. BONDS PAYABLE

On August 1, 2002, the University issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of $5,500,000. The bonds mature in intervals through June 1, 2022, and bear interest ranging from 3.8% to 5.125%. As of June 30, 2010 and 2009, the University had outstanding $3,792,768 and $4,025,798, respectively, net of an unamortized discount of $87,232 and $94,202, respectively.

Principal maturities for the year ending after June 30, 2010, are as follows:

Years Ending June 30	
2011	$ 245,000
2012	255,000
2013	265,000
2014	280,000
2015	295,000
2016–2020	1,720,000
2021–2022	820,000
Total	3,880,000
Less unamortized discount	(87,232)
Total	$ 3,792,768

9. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3,500,000 to be used to renovate dormitories. As of June 30, 2010 and 2009, the University had outstanding $2,612,962 and $2,718,066, respectively. At an interest of approximately 6.3%, current monthly principal and interest payments of $21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities and interest for the years ending after June 30, 2010, are as follows:

Years Ending June 30	**Principal**	**Interest**	**Total**
2011	$ 86,723	$ 128,819	$ 215,542
2012	106,866	151,784	258,650
2013	114,568	144,082	258,650
2014	120,982	137,668	258,650
2015	128,426	130,224	258,650
2016–2020	761,641	528,473	1,290,114
2021–2025	1,013,723	263,804	1,277,527
2026-2027	280,033	14,880	294,914
Total	$ 2,612,962	$ 1,499,734	$ 4,112,697

10. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. As of June 30, 2010 and 2009, the noncurrent liability related to OPEB costs was $4,514,669 and $1,247,691, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,266,978 and $579,296, respectively, during 2010 and $1,848,172 and $662,115, respectively, during 2009. For the years ended June 20, 2010 and 2009, there were 35 retirees receiving these benefits.

11. OPERATING LEASES

Future scheduled annual lease payments for year subsequent to June 30, 2010, are as follows:

Years Ending June 30	
2011	$ 194,186
2012	194,186
2013	189,494
2014	125,205
2015	71,338
Total	$ 774,409

Total rental expense for the years ended June 30, 2010 and 2009, was $260,668 and $487,908, respectively. The University does not have any noncancelable leases.

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2010, the University paid $234,925 to the Commission against the debt obligation. The amount due to the Commission as of June 30, 2010 and 2009, is $355,332 and $590,256, respectively.

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $1,350,000 of these funds. The University has drawn approximately $1,350,000 and $1,350,000, respectively through June 30, 2010 and 2009. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

13. UNRESTRICTED NET ASSETS

As of June 30, 2010 and 2009, the University has no designated net assets.

	2010	2009
Total unrestricted net assets before OPEB liability	$4,250,200	$2,593,493
Less: OPEB liability	4,514,669	1,247,691
Total unrestricted net assets	$ (264,469)	$1,345,802

14. RETIREMENT PLANS

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

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

Total contributions to the Educators Money 401(a) for the years ended June 30, 2010 and 2009, were $16,889 and $10,949, respectively, which consisted of $8,445 and $5,475 from both the University and covered employees..

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2010 and 2009. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2010 and 2009. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2010 and 2009, was $312,393 and $319,337, respectively, which consisted of $223,138 and $228,098, respectively, from the University and $89,255 and $91,239, respectively, from the covered employees.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2010 and 2009, was $2,240,562 and $2,227,376, respectively which consisted of contributions of $1,120,281 and $1,113,688, respectively from the University and covered employees.

The University's total payroll for the years ended June 30, 2010 and 2009, was $21,213,515 and $22,683,339, respectively; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were $1,487,583, $140,743, and $18,671,342, respectively, in 2010 and $1,520,652, $91,243, and $18,561,475, respectively, in 2009.

15. COOPERATIVE AGREEMENT

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal years 2010 and 2009 were $90,972 and $87,902 and $60,835 and $53,836, respectively. RCPI is not entirely or almost entirely for the benefit of the University and is, therefore, not a GASB Statement No. 39 component unit.

16. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "…to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations…" Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employ management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is, therefore, discretely presented with the University's combined financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2010 and 2009, the Foundation's net assets (including unrealized gains) totaled $5,579,205and $5,084,470, respectively, on the accrual basis of accounting.

During the years ended June 30, 2010 and 2009, the Foundation contributed $220 and $8,435, respectively, to the University for scholarships.

17. AFFILIATED ORGANIZATION

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University's accompanying combined financial statements under the blended component unit requirements. They are not included in the University's accompanying combined financial statements under the discretely presented component unit requirements as they are not significant to the University.

18. CONTINGENCIES

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

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

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

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

19. SEGMENT INFORMATION

The University issues revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

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

Condensed financial information for the University's segment as of June 30, 2010 and 2009, is as follows:

Condensed Statements of Net Assets	**State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds**	
	2010	**2009**
Assets:		
Current assets	$ 153,587	$ 94,872
Noncurrent assets	5,876,082	5,648,808
Total	$ 6,029,669	$ 5,743,680
Liabilities:		
Current liabilities	$ 256,452	$ 263,441
Noncurrent liabilities	3,549,295	3,794,598
Total liabilities	3,805,747	4,058,039
Net assets:		
Invested in capital assets	1,604,137	1,112,461
Restricted — debt service	479,177	510,549
Unrestricted	140,608	62,631
Total net assets	2,223,922	1,685,641
Total	$ 6,029,669	$ 5,743,680

Condensed Statements of Revenues, Expenses, and Changes in Net Assets	West Virginia State University, Student Union Revenue Bonds 2010	2009
Operating:		
Operating revenues	$ 933,335	$ 841,571
Operating expenses	(192,776)	(721,853)
Net operating income	740,559	119,718
Nonoperating:		
Nonoperating revenues	67	1,800
Nonoperating expenses	(202,345)	(210,855)
Increase (decrease) in net assets	538,281	(89,337)
Net assets — beginning of year	1,685,641	1,774,978
Net assets — end of year	$ 2,223,922	$ 1,685,641

Condensed Statements of Cash Flows

	2010	2009
Net cash provided by operating activities	$ 874,370	$ 278,149
Net cash used in capital and related financing	(815,655)	(438,282)
Increase (decrease) in cash and cash equivalents	58,715	(160,133)
Cash and cash equivalents — beginning of year	94,872	255,005
Cash and cash equivalents — end of year	$ 153,587	$ 94,872

20. COMPONENT UNIT DISCLOSURES

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Organization and nature of activities:

West Virginia State University Foundation (the "Foundation") was established to provide support for the private fundraising efforts of the West Virginia State University (the "University") and to manage privately donated funds on behalf of the University. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of West Virginia and managed by a volunteer Board of Directors.

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

B. Basis of accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

C. Consolidation policy:

The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, West Virginia State University Foundation Properties, Inc. Intercompany transactions and balances have been eliminated in the consolidation.

D. Basis of presentation:

The Foundation presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- *Unrestricted net assets* — Net assets not subject to donor-imposed stipulations.

- *Temporarily restricted net assets* — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

- *Permanently restricted net assets* — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

E. Cash equivalents:

For purposes of the reporting on the Consolidated Statement of Cash Flows, the Foundation considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents.

F. Investments:

Investments are reported at fair value based on quoted prices in active markets. Investment income consists of interest and dividend income earned and realized gains or losses less any related fees, and is included in the Consolidated Statement of Activities.

G. Property and equipment:

The Foundation capitalizes all expenditures in excess of $500 for property and equipment at cost. All donated assets are stated at the fair market value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

Buildings and improvements	31.5–39 years
Furniture and equipment	3–7 years

H. Contributions:

Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

I. Outstanding legacies:

The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

J. Beneficial interest in trusts:

The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities or property, and the Foundation records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the value of split-interest trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

K. In-kind contributions:

The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the statement of activities.

L. Spending policy:

Effective July 2004, the West Virginia State University Foundation, Inc.'s Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for current Foundation activities.

The revised spending policy provides that the amount which the Foundation makes available for scholarships, operating expenses and fees will be calculated by multiplying a Percentage by a Base. This computation will be made at the beginning of each fiscal year.

The Base for scholarship distributions will be an average of the market value of the Foundation's investments. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for scholarship distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

M. Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Foundation's management, such differences would not be significant.

N. Advertising and promotional expenses:

Advertising and promotional costs are charged to expense as they are incurred.

O. Accounting for uncertain tax positions:

The Foundation adopted the provisions of Accounting Standards Codification (ASC) Topic 740, Income Taxes, relating to unrecognized tax benefits on July 1, 2009. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Foundation is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Foundation believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2010 and 2009.

2. CONCENTRATIONS OF CREDIT RISK:

The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, certificates of deposit, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Certain receivables also subject the Foundation to concentrations of credit risk. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

The Foundation maintains cash balances at several banks. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250,000. At June 30, 2010, the Foundation held $254,876 in excess of the insured limit. The Foundation has entered into a repurchase agreement with a local bank with which it does business to provide collateral for certain amounts exceeding federal insurance coverage.

3. RECEIVABLES:

All pledges are due in less than one year. Receivables at June 30, 2010 and 2009 consist of the following:

	2010	**2009**
Pledge receivable — unrestricted	$ 1,928	$ 1,149
Pledge receivable — temporarily restricted	1,821	8,222
Pledge receivable — restricted	521	10,682
Less: Allowance for uncollectible pledges	-	-
	$ 4,270	$ 20,053

4. INVESTMENTS:

Investments are carried at market value at June 30, 2010 as follows:

	Cost	**Fair Value**	**Unrealized Appreciation (Depreciation)**
U.S. Government obligations and agencies	$ 449,987	$ 454,391	$ 4,404
Common stock	179,381	190,909	11,528
Preferred stock	150,004	119,510	(30,494)
Mutual funds	2,019,383	2,044,171	24,788
Corporate obligations	359,412	369,923	10,511
Cash equivalents	470,753	470,753	-
	$ 3,628,920	$ 3,649,657	$ 20,737

Investments are carried at market value at June 30, 2009 as follows:

	Cost	**Fair Value**	**Unrealized Appreciation (Depreciation)**
U.S. Government obligations and agencies	$ 350,006	$ 353,627	$ 3,621
Common stock	379,210	292,806	(86,404)
Preferred stock	150,004	89,190	(60,814)
Mutual funds	1,888,139	1,570,266	(317,873)
Corporate obligations	555,042	541,543	(13,499)
Cash equivalents	370,882	370,882	-
	$ 3,693,283	$ 3,218,314	$ (474,969)

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Foundation adopted FSP FAS 117-1 for the year ending June 30, 2009. The Board of Directors determined that the Foundation's permanently restricted net assets meet the definition of endowment funds under UPMIFA. Based on the Foundation's interpretation of UPMIFA, the Foundation reviewed all of its endowment funds and reclassified $274,675 from endowment net assets to unrestricted net assets as of June 30, 2009.

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's fair value. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

5. FAIR VALUE MEASUREMENTS:

Fair values of assets measured on a recurring basis at June 30, 2010 and 2009 are as follows:

		Fair Value Measurements at Reporting Date Using:		
June 30, 2010	**Fair Value**	**Quote Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. Government obligations and agencies	$ 454,391	$ 454,391	$ -	$ -
Common stock	190,909	190,909	-	-
Preferred stock	119,510	119,510	-	-
Mutual funds	2,044,171	2,044,171	-	-
Corporate obligations	369,923	369,923	-	-
Cash equivalents	470,753	470,753	-	-
Contribution receivable — beneficial interest in charitable remainder trust	115,685	-	-	115,685
Total	$ 3,765,342	$ 3,649,657	$ -	$ 115,685
June 30, 2009				
U.S. Government obligations and agencies	$ 353,627	$ 353,627	$ -	$ -
Common stock	292,806	292,806	-	-
Preferred stock	89,190	89,190	-	-
Mutual funds	1,570,266	1,570,266	-	-
Corporate obligations	541,543	541,543	-	-
Cash equivalents	370,882	370,882	-	-
Contribution receivable — beneficial interest in charitable remainder trust	109,518	-	-	109,518
Total	$ 3,327,832	$ 3,218,314	$ -	$ 109,518

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
July 1, 2009	$ 109,518
Total gains or losses (realized/unrealized)	6,167
June 30, 2010	$ 115,685

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust (Level 3) is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 5.0% discount rate.

6. PROPERTY AND EQUIPMENT — NET:

A summary of property and equipment as of June 30, 2010 and 2009 is as follows:

	2010	2009
Land	$ 166,000	$ 166,000
Buildings and improvements	1,276,425	1,276,425
Furniture and equipment	46,448	46,448
	1,488,873	1,488,873
Less accumulated depreciation	559,105	524,042
	$ 929,768	$ 964,831

7. COMPENSATED ABSENCES:

Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Foundation's policy is to recognize these costs when actually paid.

8. FEDERAL INCOME TAXES:

The West Virginia State University Foundation, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, West Virginia State University Foundation Properties, Inc., is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

9. RETIREMENT PLAN:

All eligible employees of the Foundation are included in the West Virginia State University's retirement plan.

10. RESTRICTIONS AND LIMITATIONS ON NET ASSET BALANCES:

Temporarily restricted:

Temporarily restricted net assets at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Athletic participation	$ 14,551	$ 13,252
Students' special projects	13,105	8,666
Academic programs	115,465	117,274
General scholarships	510,946	186,080
WVSU Foundation programs	126,692	75,869
Properties	583,373	617,560
	$ 1,364,132	$ 1,018,701

Permanently restricted:

Permanently restricted net assets at June 30, 2010 and 2009 consisted of the following:

	2010	2009
Scholarship endowments principal	$ 3,815,380	$ 3,735,772

11. SUBSEQUENT EVENTS:

The Foundation has evaluated all subsequent events through September 14, 2010, the date the financial statements were available to be issued.

21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2010 and 2009, the following table represents operating expenses within both natural and functional classifications:

2010

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Amortization and Depreciation	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	$ 8,572,194	$3,098,317	$ 901,098	$ 4,921	$ 153,978	$ -	$ -	$ -	$12,730,508
Research	1,810,784	393,716	1,297,043	16,274	22,000				3,539,817
Public service	613,352	145,185	977,499	13,171					1,749,207
Academic support	811,522	380,924	557,868	7,139	450				1,757,903
Student services	1,612,842	693,888	907,182	9,776	21,502				3,245,190
General institutional support	6,241,506	1,851,830	3,661,579	29,390	905,003				12,689,308
Operations and maintenance of plant	1,703,608	1,378,704	360,592	1,740,019	7,000				5,189,923
Scholarship and fellowship					3,794,211				3,794,211
Auxiliary enterprises	2,044,168	621,090	5,372,460	187,541					8,225,259
Loan cancellations and write-off							10,390		10,390
Depreciation and amortization expense						1,361,277			1,361,277
Fees assessed by the Commission								118,465	118,465
Total	$23,409,976	$8,563,654	$14,035,321	$2,008,231	$4,904,144	$1,361,277	$10,390	$118,465	$54,411,458

2009

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

22. SUBSEQUENT EVENT

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 $15 million of these proceeds. The West Virginia Development Office is responsible for repayment of the debt.

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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 West Virginia State University Governing Board:

We have audited the combined financial statements of West Virginia State University (the "University") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 20, 2010, which states reliance on other auditors for the discretely presented component unit. 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. The audit of the University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

December 20, 2010