

West Virginia
School of Osteopathic Medicine

Financial Statements
Years Ended June 30, 2012 and 2011
and
Independent Auditors' Reports

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	3 - 4
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	5 - 11
FINANCIAL STATEMENTS	
Statements of Net Assets	12
Component Unit-Statements of Financial Position	13
Statements of Revenues, Expenses, and Changes in Net Assets	14
Component Unit-Statements of Activities and Changes in Net Assets	15 - 16
Statements of Cash Flows	17
Notes to Financial Statements	18 - 54
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 <i>GOVERNMENT AUDITING STANDARDS</i>	55 - 56



INDEPENDENT AUDITORS' REPORT

Board of Governors
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

We have audited the accompanying financial statements of the business-type activities and discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), as of June 30, 2012 and 2011, and for the years then ended, which collectively comprise WVSOM's basic financial statements as listed in the foregoing table of contents. These financial statements are the responsibility of the management of WVSOM. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc. (a component unit of WVSOM). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc., is based solely on the report of the other 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 financial statements of The West Virginia School of Osteopathic Medicine Foundation, Inc. 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 audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of WVSOM'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. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component unit of WVSOM as of June 30, 2012 and 2011, and the respective changes in financial position, and where applicable, cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 23, 2012, on our consideration of WVSOM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

A handwritten signature in cursive script that reads "Suttle & Stalaker, PLLC".

Charleston, West Virginia
October 23, 2012



West Virginia School of Osteopathic Medicine

400 North Lee Street
Lewisburg, West Virginia 24901

Management's Discussion and Analysis Fiscal Year 2012 Financial Statements

Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine (“WVSOM”) is proud to present its financial statements for fiscal year 2012, with fiscal year 2011 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. 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 discussion and analysis of WVSOM’s financial statements provides an overview of its financial activities for the year and is required supplemental information.

The Governmental Accounting Standards Board (GASB) issued directives effective for 2002 for presentation of college and university financial statements. The format places emphasis on the overall economic resources of WVSOM.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated are discretely presented as part of WVSOM’s financial statements for the fiscal years ended June 30, 2012 and 2011.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of WVSOM as of the end of the fiscal year. The Statement of Net Assets is a point of time financial statement. The purpose of the Statement of Net Assets is to present to the readers of the financial statements a fiscal snapshot of WVSOM. The Statement of Net Assets presents end-of-year data concerning Assets (current and noncurrent), Liabilities (current and noncurrent), and Net Assets (Assets minus Liabilities). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of WVSOM. They are also able to determine how much is owed to vendors, employees, and lending institutions.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2012

Finally, the Statement of Net Assets provides a picture of the net assets and their availability for expenditure by WVSOM.

Net assets are divided into three major categories. The first category, invested in capital assets net of related debt, represents equity in the property, plant and equipment owned by WVSOM. The next asset category is restricted net assets, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net assets are available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net assets, the balances that had been restricted by the West Virginia Legislature ("Legislature") were removed by State Code and moved to the unrestricted category in fiscal year 2004. These activities were fundamental to the normal ongoing operations of WVSOM and are subject to change by future actions of the Legislature. The final category is unrestricted net assets, which are available for expenditure for any lawful purpose of WVSOM.

Schedules of Net Assets
June 30,
(In thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Assets:			
Current assets	\$ 68,123	\$ 58,481	\$ 48,438
Other non-current assets	5,008	5,084	5,454
Capital assets, net	<u>52,022</u>	<u>45,988</u>	<u>44,944</u>
Total assets	<u>125,153</u>	<u>109,553</u>	<u>98,836</u>
Liabilities			
Current liabilities	12,601	10,416	11,782
Non-current liabilities	<u>7,858</u>	<u>6,033</u>	<u>4,359</u>
Total liabilities	<u>20,459</u>	<u>16,449</u>	<u>16,141</u>
Net assets			
Invested in capital assets	52,022	45,988	44,944
Restricted – expendable	7,851	7,089	6,152
Restricted – nonexpendable	46	46	46
Unrestricted	<u>44,775</u>	<u>39,981</u>	<u>31,553</u>
Total net assets	<u>\$ 104,694</u>	<u>\$ 93,104</u>	<u>\$ 82,695</u>



WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

7

In fiscal years 2012 and 2011, the total assets of WVSOM increased by \$15.6 million and \$10.7 million, respectively. The changes described below represent the majority of this increase in 2012:

- Current assets increased by approximately \$9.6 million with cash and cash equivalents and accounts receivable for deferred tuition revenue comprising the largest increase. This increase in cash and cash equivalents occurred because the school is accumulating funds in anticipation of beginning construction of a new Student Center in 2012-13. WVSOM has continued to benefit from the increased class size.
- Noncurrent and capital assets increased by approximately \$6.0 million due to an increase in capital assets.

In fiscal year 2012, total liabilities increased by approximately \$4.0 million while in fiscal year 2011 total liabilities increased by approximately \$308 thousand. The changes described below represent the majority of the increase in 2012:

- Current liabilities for the year increased by approximately \$2.2 million primarily due to an increase of \$1.5 million in deferred revenue and a 43.4% increase in accounts payable associated with the 2012 capital construction projects.
- Noncurrent liabilities increased approximately \$1.8 million because of a significant increase in the OPEB accrued liability and a slight increase in compensated absences liability.

The ratio of current assets to current liabilities for fiscal years 2012 and 2011 is 5.4:1 and 5.6:1 respectively.

For fiscal years 2012 and 2011, net assets increased approximately \$11.6 million and \$10.4 million respectively.

Statement of Revenues, Expenses and Changes in Net Assets

Changes in total net assets, as presented on the Statement of Net Assets, are based on the activities presented in the Statement of Revenues, Expenses and Changes in Net Assets (the "SRECNA"). The purpose of the SRECNA is to present the revenues earned, both operating and nonoperating, and the expenses incurred, operating and nonoperating, and any other revenues, expenses, gains and losses earned or incurred by WVSOM.

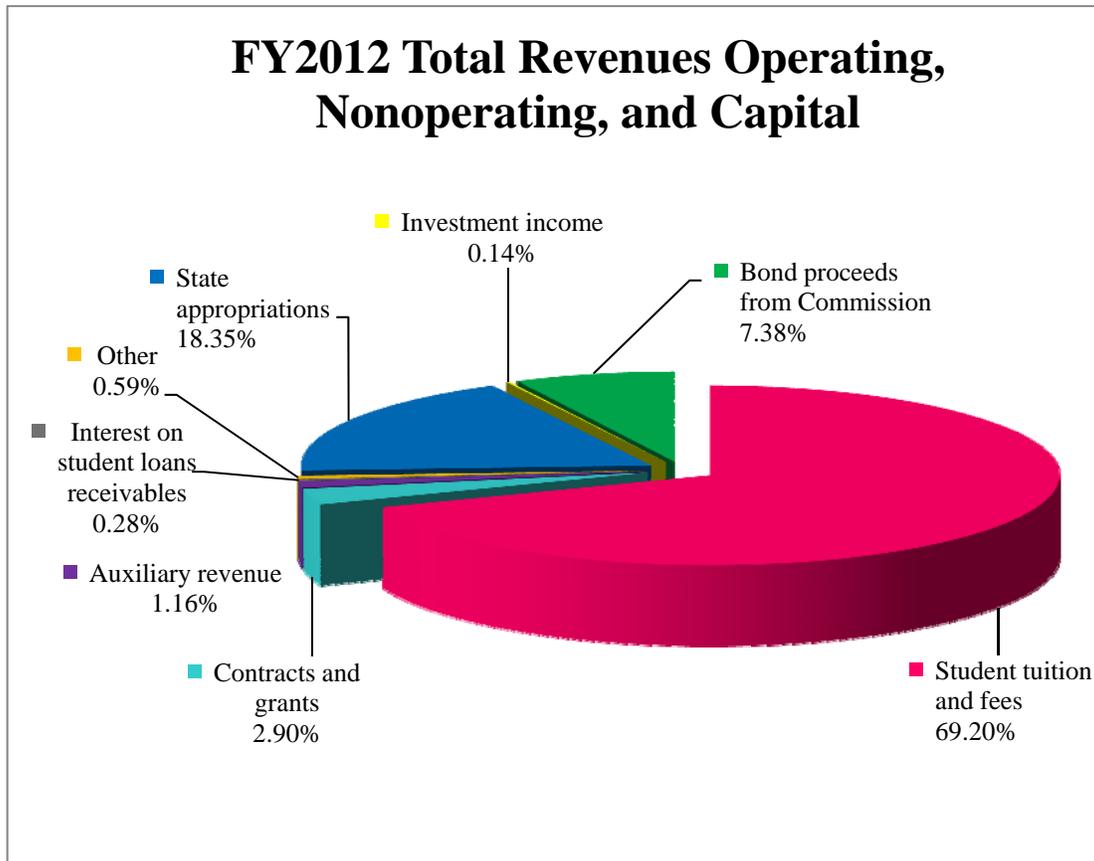
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WVSOM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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2012

Schedules of Revenues, Expenses and Changes in Net Assets
Years Ended June 30,
(In thousands of dollars)

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Operating revenues	\$ 33,978	\$ 34,136	\$ 32,361
Operating expenses	<u>34,240</u>	<u>32,279</u>	<u>29,979</u>
Operating (loss) income	(262)	1,857	2,382
Non-operating revenues - net	<u>8,468</u>	<u>8,552</u>	<u>8,450</u>
Income before other revenues, expenses, gains or losses	8,206	10,409	10,832
Capital bond proceeds from Commission	3,384	-	-
Increase in net assets	11,590	10,409	10,832
Net assets, beginning of year	<u>93,104</u>	<u>82,695</u>	<u>71,863</u>
Net assets, end of year	<u>\$ 104,694</u>	<u>\$ 93,104</u>	<u>\$ 82,695</u>

The Statement of Revenues, Expenses, and Changes in Net Assets reflect a positive year with an increase in the net assets at the end of the year. A review of the individual revenue and expense categories that contributed to the overall increase in net assets reveals the following:



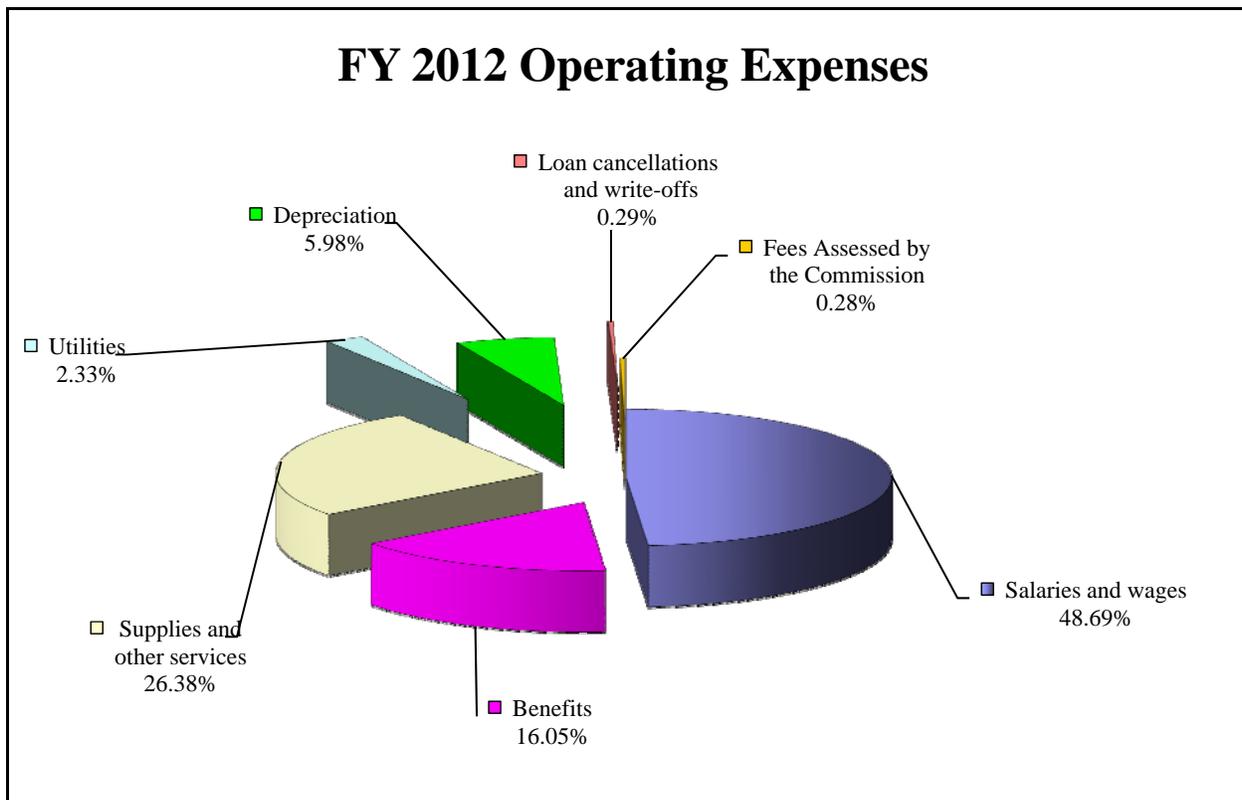
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

In fiscal year 2012 and 2011, total operating revenues decreased respectively approximately \$158 thousand and increased approximately \$2.4 million. The following explains the decrease in operating revenues in fiscal year 2012:

- Student tuition and fees (net of scholarship allowance) decreased by approximately \$977 thousand and made up 93.36% of WVSOM's operating revenues and, as the pie chart shows, 69.20% of total revenues. Tuition and fee revenues decreased over the previous year because of a greater number of in-state students in the first year class.
- Other operating revenues had a net increase of approximately \$819 thousand primarily because of funding provided by state and private sources. These other operating revenue sources comprise 6.64% of WVSOM's operating revenues and 4.92% of total revenues.

In fiscal year 2012 and 2011, non-operating revenues increased by approximately \$3.3 million and \$112 thousand, respectively. The increase in fiscal year 2012 was primarily the result of an increase in the Bond Proceeds from Commission of approximately \$3.4 million. State appropriations accounted for 18.35% of total revenues and were used to support the operations of WVSOM. Investment income made up a relatively small portion of the non-operating revenues at 0.14% of total operating and non-operating revenues. WVSOM participates in the investment pool managed by the State.

In fiscal year 2012, net assets increased approximately \$11.6 million while in fiscal year 2011 the increase was approximately \$10.4 million.



WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2012

Total operating expenses for fiscal year 2012 increased by approximately \$2.0 million, compared with an increase of approximately \$2.3 million in fiscal year 2011. The increase was primarily due to the costs with the increased class sizes and the expansion of the State Wide Campus sites.

- The salaries and wages and employee benefits categories increased by approximately \$1.4 million and made up approximately 64.74% of the operating expenses of WVSOM. Classified staff continued to be fully funded on the Mercer Schedule. The increase is primarily due to the 2.5% salary increase provided to all employees.
- Supplies and other services increased by approximately \$462 thousand and accounts for 26.38% of the operating expenses of WVSOM.
- All other operating expenses make up 8.89% of the total operating expenses as indicated on the pie chart.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating gain or loss reflected in the SRECNA. Overall, cash and cash equivalents increased by approximately \$8.3 million in fiscal year 2012. This increase is primarily due to an increase in state and private grants, bond proceeds, along with state appropriations.

**Schedules of Cash Flows
Years Ended June 30, 2012
(In thousands of dollars)**

	<u>2012</u>	<u>2011</u>	<u>2010</u>
Cash provided by (used in):			
Operating activities	\$ 4,889	\$ 3,843	\$ 6,896
Non capital financing activities	8,313	8,225	8,355
Capital financing activities	(4,965)	(2,385)	(4,146)
Investing activities	<u>60</u>	<u>93</u>	<u>78</u>
Increase in cash and cash equivalents	8,297	9,776	11,183
Cash and cash equivalents, beginning of year	<u>55,789</u>	<u>46,013</u>	<u>34,830</u>
Cash and cash equivalents, end of year	<u>\$ 64,086</u>	<u>\$ 55,789</u>	<u>\$ 46,013</u>

Capital Asset and Debt Administration

WVSOM began work on the on the HVAC replacement projects in the Robert C. Byrd Clinic and the Fredric W. Smith Science Building during 2010-11. Both projects were completed by October 2011. In 2010-11 the planning for Phase II of the HVAC replacement project in Building B and Building C was completed and work began on October 1, 2011. The project was substantially completed by September 30, 2012.



In 2011-12, WVSOM purchased three properties that are included on its approved Facilities Master Plan. The largest was the Alumni Building on the WVSOM campus.

As of June 30, 2012 and 2011, WVSOM had no existing capital debt and does not expect to have to incur debt to complete the capital projects planned in fiscal year 2012-13.



Economic Outlook

Although the State of West Virginia finished the 2011-12 budget year with a small budget surplus, State officials have forecasted general and lottery revenues to remain unchanged for 2012-13 being mindful of the continuing recession.

The WVSOM's financial position is closely tied to the financial position of the State of West Virginia and the WVSOM is always at risk that State appropriations will be reallocated away from higher education and WVSOM. The State appropriation is a key piece of WVSOM's financial condition. WVSOM anticipates receiving an appropriation increase of approximately \$524 thousand.

WVSOM's overall financial position continues to remain strong. WVSOM is well positioned to continue to attract, recruit, and matriculate professional medical students. Increases in the number of applicants (currently running ahead of the previous year), non-resident students, class size, and improvements in the physical plant, along with the continued favorable ranking of academic programs at the national level with peer schools indicate that WVSOM should be able to remain competitive for recruitment of new students. WVSOM once again was acknowledged by the *U.S. News and World Report* in its annual rankings of best graduate schools for 2012 and has WVSOM among the top medical schools (both M.D. and D.O.) nationwide, including rankings in two categories: Primary Care and Family Medicine.

For the 2012-13 academic year, to maintain cost competitiveness with peer institutions, no tuition increases for Residents or Non-residents were approved by WVSOM's Board of Governors. However, an annual technology fee of \$1,000 was approved and has been instituted.

WVSOM anticipates the 2012-13 fiscal year will be much like the last and we will continue to maintain a close watch over institutional resources to maintain the WVSOM's ability to react to unknown internal and external issues.

Requests for Information

The financial report is designed to provide an overview of the finances of WVSOM for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to West Virginia School of Osteopathic Medicine at 400 North Lee Street, Lewisburg, West Virginia 24901.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF NET ASSETS
JUNE 30, 2012 AND 2011

12

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 64,085,666	\$ 55,789,488
Appropriations due from Primary Government	330,676	231,051
Accounts receivable, net	2,835,042	1,535,597
Due from Commission	6,652	495
Loans to students-current portion	579,238	578,694
Prepaid expenses	108,451	154,555
Inventories	<u>177,680</u>	<u>191,507</u>
Total current assets	<u>68,123,405</u>	<u>58,481,387</u>
Noncurrent assets:		
Cash and cash equivalents	46,000	46,000
Pledges receivable	92,882	-
Loans to students-net of allowance of \$358,158 and \$435,655 in 2012 and 2011, respectively	4,868,587	5,037,470
Capital assets-net	<u>52,022,383</u>	<u>45,987,972</u>
Total noncurrent assets	<u>57,029,852</u>	<u>51,071,442</u>
Total assets	<u>125,153,257</u>	<u>109,552,829</u>
LIABILITIES		
Current liabilities:		
Accounts payable	1,783,895	1,244,021
Due to Commission	7,070	9,020
Accrued liabilities	673,306	625,329
Compensated absences-current portion	828,802	745,913
Deferred revenue	<u>9,308,054</u>	<u>7,791,358</u>
Total current liabilities	<u>12,601,127</u>	<u>10,415,641</u>
Noncurrent liabilities:		
Advances from federal sponsors	1,933,542	1,933,542
Other liabilities	92,882	-
Compensated absences	594,085	513,309
Other post employment benefit liability	<u>5,237,251</u>	<u>3,586,578</u>
Total noncurrent liabilities	<u>7,857,760</u>	<u>6,033,429</u>
Total liabilities	<u>20,458,887</u>	<u>16,449,070</u>
NET ASSETS		
Invested in capital assets	<u>52,022,383</u>	<u>45,987,972</u>
Restricted for:		
Expendable:		
Research	323,168	255,046
Loans	4,701,970	4,477,096
Capital projects	<u>2,825,367</u>	<u>2,356,810</u>
Total expendable	<u>7,850,505</u>	<u>7,088,952</u>
Nonexpendable	<u>46,000</u>	<u>46,000</u>
Unrestricted	<u>44,775,482</u>	<u>39,980,835</u>
Total net assets	<u>\$ 104,694,370</u>	<u>\$ 93,103,759</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2012 AND 2011

<u>ASSETS</u>		
	<u>2012</u>	<u>2011</u>
Cash and equivalents	\$ 1,149,120	\$ 627,295
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$3,500	745	3,466
Unconditional promises to give, less allowance for doubtful amounts of \$46,811 and \$24,860	186,952	64,099
Loans receivable, net of allowance for loan losses of \$0 and \$0	12,775	18,000
Marketable investments	563,869	-
Beneficial interest in assets held by community foundation	593,968	318,093
Building, equipment and vehicles, net of accumulated depreciation of \$28,997 and \$782,148	3,325	1,535,385
Restricted cash equivalent	-	15,994
Restricted certificate of deposit	-	25,055
Restricted investment	-	23,424
TOTAL ASSETS	<u>\$ 2,510,754</u>	<u>\$ 2,630,811</u>
<u>LIABILITIES AND NET ASSETS</u>		
<u>Liabilities</u>		
Accounts payable	\$ 1,456	\$ 28,003
Accrued expenses	9,000	9,000
Custodial liabilities	<u>175,011</u>	<u>248,222</u>
Total Liabilities	<u>185,467</u>	<u>285,225</u>
<u>Net Assets</u>		
Unrestricted	1,300,813	1,812,852
Temporarily restricted	374,184	127,050
Permanently restricted	<u>650,290</u>	<u>405,684</u>
Total Net Assets	<u>2,325,287</u>	<u>2,345,586</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 2,510,754</u>	<u>\$ 2,630,811</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 STATEMENTS OF REVENUE, EXPENSES, AND CHANGES IN NET ASSETS
 YEARS ENDED JUNE 30, 2012 AND 2011

14

	<u>2012</u>	<u>2011</u>
Operating revenues:		
Student tuition and fees, net of scholarship allowance of \$1,038,750 and \$1,128,750 in 2012 and 2011, respectively	\$ 31,722,867	\$ 32,699,865
Contracts and grants:		
Federal	40,887	50,442
State	1,056,746	262,991
Private	229,511	156,823
Interest on student loans receivable	126,756	121,140
Auxiliary enterprise revenue	529,685	536,162
Miscellaneous-net	<u>271,513</u>	<u>308,851</u>
Total operating revenues	<u>33,977,965</u>	<u>34,136,274</u>
Operating expenses:		
Salaries and wages	16,669,839	15,524,107
Benefits	5,496,320	5,242,536
Supplies and other services	9,031,887	8,570,343
Utilities	799,274	893,473
Student financial aid-scholarships and fellowships	-	1,750
Depreciation	2,046,550	1,775,955
Loan cancellations and write-offs	98,443	181,004
Fees assessed by the Commission for operations	<u>97,670</u>	<u>91,285</u>
Total operating expenses	<u>34,239,983</u>	<u>32,280,453</u>
Operating (loss) income	<u>(262,018)</u>	<u>1,855,821</u>
Nonoperating revenues (expenses):		
State appropriations	8,411,939	7,690,530
State fiscal stabilization funds (federal)	-	809,472
Investment income	66,399	83,344
Loss on disposal of capital assets	<u>(10,112)</u>	<u>(30,969)</u>
Net nonoperating revenues	<u>8,468,226</u>	<u>8,552,377</u>
Income before other revenues, expenses, gains or losses	8,206,208	10,408,198
Capital Bond Proceeds from State	<u>3,384,403</u>	<u>-</u>
Increase in net assets	<u>11,590,611</u>	<u>10,408,198</u>
Net assets-beginning of year	<u>93,103,759</u>	<u>82,695,561</u>
Net assets-end of year	<u>\$ 104,694,370</u>	<u>\$ 93,103,759</u>

The Accompanying Notes Are An Integral
 Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>				
Contributed services and operational expenses revenue	\$ 220,228	\$ -	\$ -	\$ 220,228
Contributions	31,733	311,893	244,169	587,795
Facility rental and function revenue	33,945	-	-	33,945
Investment revenue (losses and expenses)				
Interest and dividends	4,442	10,579	437	15,458
Realized (losses) gains	(32)	271	-	239
Unrealized gains	12,385	2,107	-	14,492
Bank and administrative fees	-	(5,434)	-	(5,434)
Other revenue	2,368	-	-	2,368
Net assets released from restrictions due to expiration of spending purpose restrictions on contributions	<u>72,282</u>	<u>(72,282)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>377,351</u>	<u>247,134</u>	<u>244,606</u>	<u>869,091</u>
<u>Expenses</u>				
School and student support and program activities	309,466	-	-	309,466
Management and general	76,278	-	-	76,278
Fundraising	91,936	-	-	91,936
Non operational (loss on sale of building)	<u>411,710</u>	<u>-</u>	<u>-</u>	<u>411,710</u>
Total Expenses	<u>889,390</u>	<u>-</u>	<u>-</u>	<u>889,390</u>
Excess of (Expenses Over Public Support and Revenue) Public Support and Revenue Over Expenses	(512,039)	247,134	244,606	(20,299)
Net Assets, Beginning of Year	<u>1,812,852</u>	<u>127,050</u>	<u>405,684</u>	<u>2,345,586</u>
Net Assets, End of Year	<u>\$ 1,300,813</u>	<u>\$ 374,184</u>	<u>\$ 650,290</u>	<u>\$ 2,325,287</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2011

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<u>Public Support and Revenue</u>				
Contributed services and operational expenses revenue	\$ 344,767	\$ -	\$ -	\$ 344,767
Contributions	41,381	95,627	63,596	200,604
Continuing education revenue	78,430	-	-	78,430
Facility rental and function revenue	32,334	-	-	32,334
Investment revenue (losses and expenses)				
Interest and dividends	3,363	7,375	658	11,396
Realized gains	-	1,303	-	1,303
Unrealized gains	-	27,192	-	27,192
Bank and administrative fees	-	(4,844)	-	(4,844)
Provision for uncollectible loans	-	-	(1,034)	(1,034)
Other revenue	1,387	520	-	1,907
Net assets released from restrictions due to expiration of spending purpose restrictions on contributions	<u>40,090</u>	<u>(40,090)</u>	<u>-</u>	<u>-</u>
Total Public Support and Revenue	<u>541,752</u>	<u>87,083</u>	<u>63,220</u>	<u>692,055</u>
<u>Expenses</u>				
School and student support and program activities	359,886	-	-	359,886
Management and general	93,186	-	-	93,186
Fundraising	<u>114,185</u>	<u>-</u>	<u>-</u>	<u>114,185</u>
Total Expenses	<u>567,257</u>	<u>-</u>	<u>-</u>	<u>567,257</u>
Excess of (Expenses Over Public Support and Revenue) Public Support and Revenue Over Expenses				
	(25,505)	87,083	63,220	124,798
Reclassification of net asset balances	5,298	(3,418)	(1,880)	-
Prior period adjustment, reclassification of temporarily restricted net assets to custodial liabilities	<u>-</u>	<u>(25,800)</u>	<u>-</u>	<u>(25,800)</u>
(Decrease) increase in net assets	(20,207)	57,865	61,340	98,998
Net Assets, Beginning of Year	<u>1,833,059</u>	<u>69,185</u>	<u>344,344</u>	<u>2,246,588</u>
Net Assets, End of Year	<u>\$ 1,812,852</u>	<u>\$ 127,050</u>	<u>\$ 405,684</u>	<u>\$2,345,586</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2012 AND 2011

17

	<u>2012</u>	<u>2011</u>
Cash flows from operating activities:		
Student tuition and fees	\$ 32,422,277	\$ 31,915,504
Contracts and grants	1,387,599	483,332
Payments to and on behalf of employees	(20,303,844)	(18,952,054)
Payments to suppliers	(8,734,939)	(9,628,962)
Payments to utilities	(800,016)	(962,040)
Payments for scholarships and fellowships	-	(1,750)
Loans issued to students	(757,400)	(305,649)
Collection of loans to students	827,296	551,434
Auxiliary enterprise charges	547,294	526,404
Operation service assessed by Commission	(97,670)	(91,285)
Other receipts-net	<u>398,266</u>	<u>308,851</u>
Net cash provided by operating activities	<u>4,888,863</u>	<u>3,843,785</u>
Cash flows from noncapital financing activities:		
State appropriations	8,312,314	7,590,793
State fiscal stabilization funds (federal)	-	634,472
Graduate Plus loan program receipts	12,529,600	13,287,876
Graduate Plus loan program payments	(12,529,600)	(13,287,876)
Federal Stafford loan program direct lending receipts	27,689,601	28,488,403
Federal Stafford loan program direct lending payments	<u>(27,689,601)</u>	<u>(28,488,403)</u>
Net cash provided by noncapital financing activities	<u>8,312,314</u>	<u>8,225,265</u>
Cash flows from capital financing activities:		
Capital bond proceeds from Commission	2,824,181	-
Purchases of capital assets	<u>(7,789,422)</u>	<u>(2,385,236)</u>
Cash used in capital financing activities	<u>(4,965,241)</u>	<u>(2,385,236)</u>
Cash flows from investing activities:		
Interest on investments	<u>60,242</u>	<u>92,937</u>
Cash provided by investing activities	<u>60,242</u>	<u>92,937</u>
Net increase in cash and cash equivalents	8,296,178	9,776,751
Cash and cash equivalents-beginning of year	<u>55,789,488</u>	<u>46,012,737</u>
Cash and cash equivalents-end of year	<u>\$ 64,085,666</u>	<u>\$ 55,789,488</u>
Reconciliation of operating income (loss) to net cash provided by operating activities:		
Operating (loss) income	\$ (262,018)	\$ 1,855,821
Adjustments to reconcile net operating (loss) income to net cash provided by operating activities:		
Depreciation expense	2,046,550	1,775,955
Loan cancellations and write-offs	98,443	181,004
Changes in assets and liabilities:		
Accounts receivable	(739,225)	(31,609)
Loans to students	69,896	124,645
Prepaid expenses	46,104	(54,250)
Inventories	13,827	(17,662)
Accounts payable	236,274	(1,055,274)
Accrued liabilities	47,977	76,927
Compensated absences	163,666	108,475
Deferred revenue	1,516,696	(749,434)
OPEB liability	<u>1,650,673</u>	<u>1,629,187</u>
Net cash provided by operating activities	<u>\$ 4,888,863</u>	<u>\$ 3,843,785</u>
Non-cash capital financing activities		
Loss on disposal of capital assets	<u>\$ 10,112</u>	<u>\$ 30,969</u>
Purchase of capital assets – accounts payable	<u>\$ 799,130</u>	<u>\$ 509,625</u>

The Accompanying Notes Are An Integral
Part Of These Financial Statements

NOTE 1. ORGANIZATION

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

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

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

As a requirement of Governmental Accounting Standards Board standards (GASB), WVSOM has included information from the West Virginia School of Osteopathic Medicine Foundation, Inc. (the “Foundation”).

Although WVSOM benefits from the activities of the Foundation, the Foundation is independent of WVSOM in all respects. The Foundation is not a subsidiary of WVSOM and is not directly or indirectly controlled by WVSOM. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to WVSOM. WVSOM is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. WVSOM does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to WVSOM. Under State law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to WVSOM. Third parties dealing with WVSOM, the Board, and the State of West Virginia (the “State”) (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WVSOM have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of WVSOM’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity - WVSOM 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. WVSOM is a separate entity which, along with all State institutions of higher education, the West Virginia Council of Community and Technical Colleges, and the Commission (which includes West Virginia Network for Educational Telecomputing), 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 financial statements present all funds under the authority of WVSOM. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM's ability to significantly influence operations and accountability for fiscal matters of related entities. The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the Foundation), The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the Clinic), and the Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI), a consortium, are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of these entities under GASB.

The audited financial statements of the Foundation are presented here as a discrete component unit with WVSOM financial statements in accordance with GASB. The Foundation is a private non-profit 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 also Notes 12, 13 and 15).

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

- *Invested In Capital Assets, net of related debt* - This represents WVSOM'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 investment in capital assets, net of related debt.
- *Restricted Net Assets, Expendable* - These include resources for which WVSOM is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The West Virginia 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 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 WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted Net Assets, Nonexpendable* - These include endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted Net Assets* - Unrestricted net assets represent resources derived from student tuition and fees, State appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The BTI maintains the Consolidated Fund which consists of eight investment pools and participant-directed accounts, three of which WVSOM may invest in. These pools have been structured as multi-participant 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 respective annual report. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, West Virginia 25301 or <http://www.wvbt.com>.

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

Appropriations Due from Primary Government - For financial reporting purposes, appropriations due from the State are presented separately from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

Allowance for Doubtful Accounts - It is WVSOM'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 collectability experienced by WVSOM on such balances and such other factors which, in WVSOM'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, or (3) permanently restricted assets, are classified as noncurrent assets in the accompanying statement of net assets.

Current and Noncurrent Assets and Liabilities - Current assets are expected to be converted to cash, sold, or consumed in the next year or less. Current liabilities are debts that are expected to be paid with cash, goods, or services in the next year or less. Noncurrent assets and liabilities are all other assets and liabilities that are not expected to be extinguished in the next year.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets - Capital assets include property, plant and equipment, and books and materials that are part of a catalogued library. 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, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 4 to 12 years for furniture and equipment. WVSOM's capitalization thresholds are \$15,000 for land and building improvements and \$5,000 for equipment. There was no interest capitalized during 2012 and 2011. The accompanying financial statements reflect all adjustments required by GASB.

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. Financial aid and other deposits are separately classified as deposits.

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

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

Risk Management - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty, and medical malpractice liability coverage to WVSOM and its employees. Such coverage may be provided to WVSOM 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 WVSOM or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVSOM is currently charged by BRIM and the ultimate cost of that insurance based on WVSOM's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVSOM and WVSOM's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

West Virginia had a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to WVSOM. Other private insurance companies began to offer coverage to private-sector employers beginning July 1, 2009 and to government employers July 1, 2010. Nearly every employer in the state who has a payroll must have coverage. The cost of all coverage is paid by employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, WVSOM 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, WVSOM has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classification of Revenues - WVSOM has classified its revenues according to the following criteria:

- ***Operating Revenues*** - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- ***Nonoperating Revenues*** - Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as State appropriations, and investment income, and sale of capital assets (including natural resources).
- ***Other Revenues*** - Other revenues consist primarily of capital grants and gifts.

Use of Restricted Net Assets - WVSOM 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, WVSOM attempts to utilize restricted net assets first, when practicable.

Federal Financial Assistance Programs - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program and Graduate Plus Loan Program. The activity of these programs is not recorded in the accompanying financial statements. WVSOM has awarded \$27,689,601 and \$28,488,403 in 2012 and 2011, respectively, under the Federal Stafford Loan Program and \$12,529,600 and \$13,287,876 in 2012 and 2011, respectively, under the Graduate Plus Loan Program. Both programs are from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2012 and 2011, WVSOM received and disbursed \$355,020 and \$359,744, respectively, under these federal student aid programs.

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

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Government Grants and Contracts - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVSOM 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 - WVSOM is exempt from income taxes, except for unrelated business income, as a governmental instrumentality under federal income tax laws and regulations of the Internal Revenue Service as described in Section 115 of the Internal Revenue Code.

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

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

During 2012, the WVSOM adopted Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both transferors and governmental operators. The adoption of this statement did not have a material impact on the financial statements.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WVSOM also adopted Statement No. 61, *The Financial Reporting Entity: Omnibus — an amendment of GASB Statements No. 14 and No. 34*. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The adoption of this statement did not have a material impact on the financial statements.

WVSOM also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and AICPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The adoption of this statement did not have a material impact on the financial statements.

WVSOM also adopted Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

The Governmental Accounting Standards Board has issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The WVSOM has not yet determined the effect that the adoption of GASB Statement No. 63 may have on its financial statements.

The GASB has also issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, effective for fiscal years beginning after December 15, 2012. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The WVSOM has not yet determined the effect that the adoption of GASB Statement No. 65 may have on its financial statements.

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund*

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Type Definitions, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The WVSOM has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

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

NOTE 3. CASH AND CASH EQUIVALENTS

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

	2012		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 62,905,715	\$ 46,000	\$ 62,951,715
Cash in bank	1,093,321	-	1,093,321
Cash on hand	<u>86,630</u>	<u>-</u>	<u>86,630</u>
	<u>\$ 64,085,666</u>	<u>\$ 46,000</u>	<u>\$ 64,131,666</u>
	2011		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 54,919,684	\$ 46,000	\$ 54,965,684
Cash in bank	738,013	-	738,013
Cash on hand	<u>131,791</u>	<u>-</u>	<u>131,791</u>
	<u>\$ 55,789,488</u>	<u>\$ 46,000</u>	<u>\$ 55,835,488</u>

Cash held by the State Treasurer includes \$3,820,036 in 2012 and \$3,017,280 in 2011 of restricted cash.

The combined carrying amounts of cash in bank at June 30, 2012 and 2011 were \$1,093,321 and \$738,013 respectively, as compared with the combined bank balances of \$1,516,591 and \$668,407 respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing accounts are 100% insured.

Amounts with the State Treasurer as of June 30, 2012 and 2011, are comprised of the following investment pools:

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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 WVSOM invests, all are subject to credit risk.

WV Money Market Pool — 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, 2012 and 2011, 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 P-1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2012 and 2011, the WV Money Market Pool investments had a total carrying value of \$2,786,968,000 and \$3,018,560,000, respectively, of which the WVSOM’s ownership represents 1.98% and 1.60%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2012 and 2011, 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.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

At June 30, 2012 and 2011, the WV Government Money Market Pool investments had a total carrying value of \$299,629,000 and \$262,692,000, respectively, of which WVSOM's ownership represents 0.14% and 0.13%, 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 P-1 by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating*		2012		2011	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	\$ 95,628	18.99 %	\$ 87,197	18.40 %
	Aaa	NR *	38,524	7.64	19,891	4.20
	Aa3	AA+ **			454	0.10
	B1	CCC **	896	0.18	885	0.19
	B3	B **			366	0.08
	B3	BB **	311	0.06		
	B3	BBB **			631	0.13
	B3	BBB- **	53	0.01		
	B3	CCC **	280	0.06		
	Ca	CCC **	586	0.12	664	0.14
	Caa2	CCC **	186	0.04	473	0.10
	Caa3	CCC **	243	0.05	393	0.08
	Caa3	D **	26	0.01	27	0.01
	NR	AA+	3,900	0.77		
	NR	* NR *	3,786	0.75	4,000	0.84
			<u>144,419</u>	<u>28.68</u>	<u>114,981</u>	<u>24.27</u>
Corporate bonds and notes	Aaa	AA			2,043	0.43
	Aa1	A			4,143	0.87
	Aa2	AA+	9,025	1.79		
	Aa2	AA			11,866	2.50
	Aa3	AA			7,064	1.49
	Aa3	AA-	15,666	3.11		
	Aa3	A	23,032	4.57	13,040	2.75
	A1	AA	12,145	2.41	8,107	1.71
	A1	A+	30,684	6.09		
	A1	A			22,731	4.80
	A2	AA			2,555	0.54
	A2	A	39,064	7.76	23,976	5.06
	A3	A			8,770	1.85
	A3	A-	7,755	1.54		
	A3	BBB+	3,006	0.60		
Baa1	A-	4,162	0.83			
Baa2	A-	6,709	1.33			
		<u>151,248</u>	<u>30.03</u>	<u>104,295</u>	<u>22.00</u>	
Commercial paper	P-1	A-1			15,995	3.38
U.S. agency bonds	Aaa	AAA			20,017	4.22
U.S. agency bonds	Aaa	AA+	45,024	8.94		
U.S. Treasury notes***	Aaa	AAA			25,034	5.28
U.S. Treasury notes***	Aaa	AA+	44,251	8.79		
U.S. agency mortgage backed securities**	Aaa	AAA			97,296	20.53
U.S. agency mortgage backed securities**	Aaa	AA+	77,065	15.30		
Money market funds	Aaa	AAAm	41,610	8.26	96,287	20.32
			<u>\$503,617</u>	<u>100 %</u>	<u>\$473,905</u>	<u>100 %</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

- * NR = Not Rated
- ** The securities were not in compliance with BTI Investment Policy at June 30, 2012 and/or 2011. 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 explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2012 and 2011, WVSOM's ownership represents 1.46% and 1.34%, 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, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	2012		2011	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 90,204	3	\$ 84,357	1
U.S. Treasury notes	330,865	122	298,345	137
U.S. Treasury bills	237,978	37	231,051	34
Commercial paper	853,470	35	1,069,576	35
Certificates of deposit	110,000	10	140,000	58
U.S. agency discount notes	738,706	44	697,164	45
Corporate bonds and notes	36,000	48	127,000	20
U.S. agency bonds/notes	189,691	68	170,788	66
Money market funds	200,054	1	200,279	1
	\$ 2,786,968	46	\$ 3,018,560	46

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, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

31

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

Security Type	2012		2011	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
Repurchase agreements	\$ 91,900	3	\$ 98,400	1
U.S. Treasury notes	103,324	111	45,811	131
U.S. Treasury bills	4,999	62		
U.S. agency discount notes	76,397	52	60,852	74
U.S. agency bonds/notes	23,004	9	57,498	22
Money market funds	<u>5</u>	1	<u>131</u>	1
	<u>\$ 299,629</u>	54	<u>\$ 262,692</u>	45

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration 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:

Security Type	2012		2011	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
U. S. Treasury bonds/notes	\$ 44,251	366	\$ 25,034	227
Commercial paper			15,995	55
Corporate notes	151,248	242	104,295	234
Corporate asset backed securities	144,419	250	114,981	268
U.S. agency bonds/notes	45,024	23	20,017	85
U.S. agency mortgage backed securities	77,065	13	97,296	18
Money market funds	<u>41,610</u>	1	<u>96,287</u>	1
	<u>\$ 503,617</u>	180	<u>\$ 473,905</u>	138

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.

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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 a pool managed by the securities lending agent. 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.

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration 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:

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury bonds and notes	\$ 44,251	366
Corporate notes	151,248	242
Corporate asset backed securities	144,419	250
U.S. agency bonds and notes	45,024	23
U.S. agency mortgage backed securities	77,065	13
Money market funds	41,610	1
	\$ 503,617	180

Other Risks of Investing

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the 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 a 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.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 3. CASH AND CASH EQUIVALENTS (Continued)

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. 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 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. The WV Bank Pool contains nonnegotiable certificates of deposit valued at \$52,500,000. The Reserve Pool contains funds totaling approximately \$19,034,000 in a bank depository account. The BTI does not have a deposit policy for custodial credit risk.

NOTE 4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30:

	<u>2012</u>	<u>2011</u>
Third party student tuition and fees	\$ 2,046,799	\$ 1,479,700
Grants and contracts receivable	49,511	30,970
Due from WV Economic Development Authority	560,222	-
Other accounts receivable	<u>178,510</u>	<u>24,927</u>
	<u>\$ 2,835,042</u>	<u>\$ 1,535,597</u>

Pledges receivable were as follows at June 30:

	<u>2012</u>	<u>2011</u>
Current pledges	\$ -	\$ -
Noncurrent pledges	<u>92,882</u>	<u>-</u>
	<u>\$ 92,882</u>	<u>\$ -</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5. CAPITAL ASSETS

The following is a summary of capital asset transactions of WVSOM for the years ended June 30:

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 930,196	\$ 50,000	\$ -	\$ 980,196
Construction in progress	<u>864,107</u>	<u>6,029,460</u>	<u>(2,741,570)</u>	<u>4,151,997</u>
Total capital assets not being depreciated	<u>\$ 1,794,303</u>	<u>\$ 6,079,460</u>	<u>\$ (2,741,570)</u>	<u>\$ 5,132,193</u>
Other capital assets:				
Land improvements	\$ 2,106,521	\$ 594,117	\$ -	\$ 2,700,638
Buildings	51,000,218	3,800,282	-	54,800,500
Equipment	5,401,945	310,125	(458,688)	5,253,382
Library books	<u>175,985</u>	<u>55,669</u>	<u>(2,355)</u>	<u>229,299</u>
Total other capital assets	<u>58,684,669</u>	<u>4,760,193</u>	<u>(461,043)</u>	<u>62,983,819</u>
Less accumulated depreciation for:				
Land improvements	(719,221)	(235,100)	-	(954,321)
Buildings	(9,984,870)	(1,432,861)	-	(11,417,731)
Equipment	(3,707,022)	(361,253)	442,163	(3,626,112)
Library books	<u>(79,887)</u>	<u>(17,336)</u>	<u>1,758</u>	<u>(95,465)</u>
Total accumulated depreciation	<u>(14,491,000)</u>	<u>(2,046,550)</u>	<u>443,921</u>	<u>(16,093,629)</u>
Other capital assets-net	<u>\$ 44,193,669</u>	<u>\$ 2,713,643</u>	<u>\$ (17,122)</u>	<u>\$ 46,890,190</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,794,303	\$ 6,079,460	\$ (2,741,570)	\$ 5,132,193
Other capital assets	<u>58,684,669</u>	<u>4,760,193</u>	<u>(461,043)</u>	<u>62,983,819</u>
Total cost of capital assets	60,478,972	10,839,653	(3,202,613)	68,116,012
Less accumulated depreciation	<u>(14,491,000)</u>	<u>(2,046,550)</u>	<u>443,921</u>	<u>(16,093,629)</u>
Capital assets-net	<u>\$ 45,987,972</u>	<u>\$ 8,793,103</u>	<u>\$ (2,758,692)</u>	<u>\$ 52,022,383</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 5. CAPITAL ASSETS (Continued)

	2011			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 930,196	\$ -	\$ -	\$ 930,196
Construction in progress	<u>130,571</u>	<u>2,115,095</u>	<u>(1,381,559)</u>	<u>864,107</u>
Total capital assets not being depreciated	<u>\$ 1,060,767</u>	<u>\$ 2,115,095</u>	<u>\$ (1,381,559)</u>	<u>\$ 1,794,303</u>
Other capital assets:				
Land improvements	\$ 1,517,622	\$ 588,899	\$ -	\$ 2,106,521
Buildings	49,999,549	1,000,669	-	51,000,218
Equipment	5,588,720	491,153	(677,928)	5,401,945
Library books	<u>115,956</u>	<u>60,239</u>	<u>(210)</u>	<u>175,985</u>
Total other capital assets	<u>57,221,847</u>	<u>2,140,960</u>	<u>(678,138)</u>	<u>58,684,669</u>
Less accumulated depreciation for:				
Land improvements	(609,467)	(109,754)	-	(719,221)
Buildings	(8,738,376)	(1,246,494)	-	(9,984,870)
Equipment	(3,926,332)	(404,149)	623,459	(3,707,022)
Library books	<u>(64,329)</u>	<u>(15,558)</u>	<u>-</u>	<u>(79,887)</u>
Total accumulated depreciation	<u>(13,338,504)</u>	<u>(1,775,955)</u>	<u>623,459</u>	<u>(14,491,000)</u>
Other capital assets-net	<u>\$ 43,883,343</u>	<u>\$ 365,005</u>	<u>\$ (54,679)</u>	<u>\$ 44,193,669</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 1,060,767	\$ 2,115,095	\$ (1,381,559)	\$ 1,794,303
Other capital assets	<u>57,221,847</u>	<u>2,140,960</u>	<u>(678,138)</u>	<u>58,684,669</u>
Total cost of capital assets	58,282,614	4,256,055	(2,059,697)	60,478,972
Less accumulated depreciation	<u>(13,338,504)</u>	<u>(1,775,955)</u>	<u>623,459</u>	<u>(14,491,000)</u>
Capital assets-net	<u>\$ 44,944,110</u>	<u>\$ 2,480,100</u>	<u>\$ (1,436,238)</u>	<u>\$ 45,987,972</u>

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

At June 30, 2012, WVSOM had outstanding contractual commitments of \$799,130 for property, plant, and equipment expenditures.

WVSOM has been approved to receive \$3.5 million of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2011. As of June 30, 2012, \$2,824,181 of such proceeds have been received, and a receivable in the amount of \$560,222 is due to WVSOM. The West Virginia Development Office is responsible for repayment of the debt.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 6. LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of WVSOM for the years ended June 30:

	2012				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,259,222	163,665	-	1,422,887	828,802
Other liabilities	-	92,882	-	92,882	-
Other post employment benefit liability (OPEB)	<u>3,586,578</u>	<u>2,104,650</u>	<u>(453,977)</u>	<u>5,237,251</u>	<u>-</u>
Total long-term liabilities	<u>\$ 6,779,342</u>	<u>\$ 2,361,197</u>	<u>\$ (453,977)</u>	<u>\$ 8,686,562</u>	<u>\$ 828,802</u>
	2011				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,150,747	108,475	-	1,259,222	745,913
Other post employment benefit liability (OPEB)	<u>1,957,391</u>	<u>2,045,332</u>	<u>(416,145)</u>	<u>3,586,578</u>	<u>-</u>
Total long-term liabilities	<u>\$ 5,041,680</u>	<u>\$ 2,153,807</u>	<u>\$ (416,145)</u>	<u>\$ 6,779,342</u>	<u>\$ 745,913</u>

NOTE 7. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2012, 2011, and 2010, the noncurrent liability related to OPEB costs was \$5,237,251, \$3,586,578, and 1,957,391, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$2,104,650 and \$35,809, respectively, during 2012, \$2,045,332 and \$36,185, respectively, during 2011, and \$1,589,834 and \$43,223, respectively, during 2010. As of the years ended June 30, 2012, 2011 and 2010 there were 15, 19 and 20 retirees, respectively, receiving these benefits.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 8. LEASES

WVSOM leases various equipment under agreements reported as operating leases. WVSOM has no non-cancelable leases. As of June 30, 2012, the future annual minimum lease payments are as follows:

2013	\$ 95,453
2014	78,137
2015	27,738
2016	1,926
2017	<u>1,284</u>
	<u>\$ 204,538</u>

The total rent expense for this equipment for the years ended June 30, 2012 and 2011 was \$85,473 and \$116,820 respectively.

NOTE 9. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVSOM receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM'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 colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission 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 (the "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 a 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. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2012 and 2011.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
 NOTES TO FINANCIAL STATEMENTS
 YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 10. UNRESTRICTED NET ASSETS

WVSOM's unrestricted net assets at June 30, 2012 and 2011, include certain designated net assets, as follows:

	<u>2012</u>	<u>2011</u>
Designated for auxiliaries	\$ 156,266	\$ 322,066
Undesignated	<u>49,856,467</u>	<u>43,245,347</u>
 Total unrestricted net assets before OPEB liability	 50,012,733	 43,567,413
 OPEB liability	 <u>(5,237,251)</u>	 <u>(3,586,578)</u>
 Total unrestricted net assets	 <u>\$ 44,775,482</u>	 <u>\$ 39,980,835</u>

NOTE 11. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan. As of June 30, 2012, one employee was enrolled in the Educators Money 401(a) basic retirement plan.

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%. WVSOM accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for the years ended June 30, 2012 and 2011. Required employee contributions were at the rate of six percent of total annual salary for the years ended June 30, 2012 and 2011. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 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. Annual pension benefits are based upon two percent of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the years ended June 30, 2012, 2011, and 2010 were \$0.

NOTE 11. RETIREMENT PLANS (Continued)

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 WVSOM. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, West Virginia 25305.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011, and 2010 were \$1,883,707, \$1,757,962, and \$1,580,018, respectively, which consisted of equal contributions from WVSOM and covered employees of \$941,853, \$878,981, and \$790,009, in 2012, 2011, and 2010, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2012 and 2011 was \$15,920,298 and \$14,884,441, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$0 and \$15,920,298 in 2012, and \$0 and \$14,884,441 in 2011, respectively.

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 (the "Educators Money"). New hires have the choice of either plan.

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

Total contributions to the Educators Money for the years ended June 30, 2012, 2011, and 2010, were approximately \$240, \$240, and \$240, respectively, which consisted of approximately \$0, \$0, and \$0 from the WVSOM in 2012, 2011, and 2010, respectively, and approximately \$240, \$240, and \$240 from covered employees in 2012, 2011, and 2010, respectively.

NOTE 12. FOUNDATION

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the "Foundation") is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although WVSOM does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of WVSOM by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, WVSOM, the Foundation is considered a component unit of WVSOM and therefore, is discretely presented in accordance with GASB. Complete financial statements of the Foundation can be obtained by writing to 400 North Lee Street, Lewisburg, West Virginia 24901.

Gifts, grants, pledges, bequests and other revenue contributed to the Foundation totaled \$587,795 and \$200,604 for the years ended June 30, 2012 and 2011, respectively. On December 13, 2011, WVSOM purchased the Alumni Building, which was owned by the Foundation, for \$995,000.

WVSOM provided direct financial support of \$309,466 and \$359,886 for the years ended June 30, 2012 and 2011, respectively.

NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED)

The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the "Clinic") operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy, and maintains fiscal accountability over the financial affairs of the Clinic. The financial statements of the Clinic are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB.

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic under which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

NOTE 13. AFFILIATED ORGANIZATIONS (UNAUDITED) (Continued)

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2012 and 2011, the amount paid by WVSOM for instruction, office expenses, and equipment rental totaled approximately \$530,000 and approximately \$550,000, respectively. WVSOM made payments totaling approximately \$100,000 and approximately \$100,000 for the years ended June 30, 2012 and 2011, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are available at www.guidestar.org.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. ("MSOPTI") is a medical education consortium formed in 1998 through affiliation agreements among MSOPTI, WVSOM (central partner), and partner training institutions (hospitals, teaching health centers) in the States of West Virginia, Ohio and Kentucky which provides postdoctoral training to osteopathic interns, residents and fellows. The affiliation agreements are renewed annually and are executed among each training institution, WVSOM and MSOPTI. As of June 30, 2012 MSOPTI had eleven Full Partner members, paying Full Partner membership dues, in addition to the Central Partner. MSOPTI also had one Associate Partner member which paid partial membership dues. Only Full Partners and the Central Partner have voting privileges on the MSOPTI Governing Board of Directors.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate 501(c)(3) non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Governing Board of Directors, as specified in the MSOPTI by-laws. The MSOPTI Governing Board of Directors is made up of three voting members from WVSOM and one voting member from each of the eleven Full Partner training institutions. In carrying out its responsibilities, the MSOPTI Governing Board of Directors directs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. MSOPTI is audited annually by an independent CPA through a written letter of engagement. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements. For the years ended June 30, 2012 and 2011, WVSOM contributed \$50,000 each year to MSOPTI. In addition, WVSOM incurred \$199,662 and \$136,440 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2012 and 2011, respectively.

NOTE 14. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against educational institutions 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 WVSOM would not impact seriously on the financial status of the institution.

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

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state, or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM 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 conditions become known. WVSOM 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.

NOTE 15. COMPONENT UNIT'S DISCLOSURES

On the following pages are the notes taken directly from the audited financial statements of the Foundation:

Note 1 — Description of the Organization

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (**“the Organization”**) is a non-profit West Virginia corporation organized to promote educational and fraternal opportunities for current students, faculty, staff, and alumni of the West Virginia School of Osteopathic Medicine (**“WVSOM”**), located in Lewisburg, West Virginia. The mission statement of the Organization states, “the mission of the Organization is to serve WVSOM, its faculty, staff, students and alumni as an additional financing source through fundraising, managing funds, and overseeing the distribution of these funds.” The Organization accomplishes this by engaging in the following principal activities:

- Rental of and services provided at a conference/meeting facility located on the campus of WVSOM.
- Solicitation of restricted and unrestricted charitable contributions.
- Investment of available liquid assets.
- Awarding to qualified students, faculty or staff of WVSOM certain grants, scholarships or enhancements to their job performance.

Note 2 — Summary of Significant Accounting Policies

Basis of Accounting: The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Presentation: The Organization has implemented the financial statement presentation required by the Financial Accounting Standards Board Codification of Accounting Standard No. 958. The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted, described as follows:

- **Unrestricted:** Resources over which the Board of Directors has discretionary control as a result of not being restricted by donors or for which the restrictions have been satisfied or expired.
- **Temporarily Restricted:** Resources resulting from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. Temporarily restricted net assets consist principally of donor-imposed stipulations related to student financial aid or capital projects.
- **Permanently restricted:** Resources resulting from contributions whose use is limited by donor stipulations that neither expire through the passage of time nor by actions of the Organization. Such net assets consist of endowments which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity; spending of the related investment income is limited to the actual income earned.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the net assets released from restrictions.

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

Cash and Equivalents: Cash and equivalents include cash, demand deposits with a financial institution and other short-term investments with original maturities of three months or less.

Unconditional Promises to Give: Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional (**See Note 3**).

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

Note 2 — Summary of Significant Accounting Policies (continued)

Loans Receivable: Loans receivable amounting to \$12,775 and \$18,000 at June 30, 2012 and 2011, respectively represent loans made to current students, faculty and staff of WVSOM which are payable within 90 days of their issuance and accrue interest at the rate of 6 percent per annum. If the loans remain unpaid in excess of 90 days, the rate of interest payable on the loan increases to 10 percent per annum. The majority of these loans are typically made in order to provide certain students with a “funding bridge” until such time as their respective long-term tuition or other living expenses funding becomes available. No interest accrual has been reflected in the accompanying financial statements as it is undeterminable as to the ultimate amount collectible.

Beneficial Interest In Assets Held By Community Foundation: The Organization has placed with The Greater Greenbrier Valley Community Foundation, Inc. (“GGVCF”) certain restricted assets in the form of a “Donor Designated Sub-Fund Agreements” (“the Agreements”). The substance of these agreements provides for the investment returns resulting from the investment of the assets to be distributed to the Organization. It further provides for the Organization to have at its discretion the ability to invade 100% of the principal (corpus) placed with GGCF. Notwithstanding this, GGVCF does have variance power with respect to these funds whereby the Board of GGVCF by majority vote has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations, if in the sole judgment of this Board (without the approval of any trustee, custodian or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with charitable needs of the area served by the GGVCF.

Applicable accounting standards require that if a community foundation accepts a contribution from an Agency and agrees to transfer those assets, the return on investment of those assets or both back to the Agency, then these contributions are presented as an asset in financial statements of the agency (in this case the Organization). Accordingly, the value of the assets held by GGVCF as of June 30, 2012 and 2011 is presented in the accompanying statement of financial position in the amount of \$593,968 and \$318,093, respectively.

As of December 31, 2011, the latest reviewed financial statements of GGVCF reflect total investment assets, at market value of \$3,868,654 comprised of the following:

	Market Value
Fixed income securities	\$ 1,456,624
Mutual funds	829,438
Commons stocks	1,503,963
Preferred stocks	78,629
	\$ 3,868,654

Note 2 — Summary of Significant Accounting Policies (continued)

Beneficial Interest In Assets Held By Community Foundation (continued): A condensed statement of financial position as of December 31, 2011, the most recent reviewed financial statements of GGVCF is as follows:

<u>Assets</u>	
Cash and equivalents	\$ 251,576
Accrued interest and dividends	18,205
Marketable securities	3,868,654
Office equipment, net	877
Total Assets	\$ 4,139,312
 <u>Liabilities and Net Assets</u>	
Funds held for benefit of others	\$ 3,341,816
Accounts payable and accrued expenses	7,012
Net assets	790,484
Total Liabilities and Net Assets	\$ 4,139,312

These assets essentially represent the fair value of the underlying assets held by GGVCF for the benefit of the Organization.

Building, Equipment and Vehicles: Building, equipment and vehicles are carried at cost, or if donated, at estimated fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful life of the respective assets ranging from five to forty years using the straight-line method. The significant components of recorded value of these assets are as follows at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Building	\$ -	\$ 2,285,211
Equipment	32,322	32,322
Total Cost or Donated Value	32,322	2,317,533
Less Accumulated Depreciation	(28,997)	(782,148)
Building and Equipment, Net	\$ 3,325	\$ 1,535,385

Depreciation expense for the years ended June 30, 2012 and 2011 amounted to \$20,350 and \$58,436, respectively.

Donated Goods, Facilities and Services: Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received as donations revenues with a corresponding expense (See Note 5).

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**Note 2 — Summary of Significant Accounting Policies (continued)**

Income Taxes: There is no provision for federal or state income taxes on income since the Organization is an exempt nonprofit association under Internal Revenue Code Section 501(c)(3). Management believes there is no unrelated business taxable income associated with the Organization. The Organization adopted Financial Accounting Standards Codification Topic “Accounting for Uncertainty in Income Taxes”, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has greater than 50% likelihood of being realized upon ultimate settlement.

The Organization is generally no longer subject to examination by income taxing authorities for years ending prior to June 30, 2008.

Concentrations: The Organization places its cash and cash equivalents with high credit quality financial institutions and brokerage firms. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk.

Investment Risk: The Organization’s investments subject it to various levels of risk associated with economic, operating, and political events beyond management’s control. Consequently, management’s judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Organization’s investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks could materially impact the amounts reflected in the accompanying financial statements.

Economic, Geographic and Other Dependencies: The Organization generates a significant amount of its support and revenue (including fundraising activities) from the state of West Virginia. Its economy is largely dependent upon the mineral extraction (coal), timbering, farming, and recreation/resort industries. Changes in economies of these industries could significantly influence the Organization’s ability to provide its services.

Economic, Geographic and Other Dependencies (continued): The Organization is also dependent upon significant amounts of support in the form of salaries, wages and employee benefits and other operating costs provided by WVSOM. The ability or desire of WVSOM to continue to provide this support could significantly influence the Organization’s ability to provide its services (See Note 5).

Functional Reporting: The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based on management’s estimates among program services and supporting services benefited. A brief description of each of the functional classifications is as follows:

Note 2 — Summary of Significant Accounting Policies (continued)

- School and Student Support and Program Activities – Funds expended primarily to provide support services for West Virginia School of Osteopathic Medicine. It includes scholarships awarded to the students and the provision of services that directly assist the academic functions, such as faculty development, as well a capital projects.
- Management and General – Expenses incurred principally for (1) central executive-level activities concerned with management of day-to-day operations and long-range planning, (2) legal and fiscal operations, and administrative data processing.
- Fundraising – Expenses related to community and alumni relations, including development and fundraising.
- Non operational – Loss on sale of building (See Note 10).

Restricted Cash Equivalent, Certificate of Deposit and Investment: Restricted cash equivalent, certificate of deposit and investment amounting \$15,994, \$25,055 and \$23,424, respectively at June 30, 2011 were restricted for the sole usage of the WVSOM Alumni Association. The restricted investment represented Xerox Corporation Medium Term Notes with a maturity date of April 1, 2016 and bearing a 7.2 percent interest rate.

Custodial Liabilities: Custodial liabilities represent funds held for and disbursed at the discretion of various WVSOM student, faculty and alumni organizations. These liabilities amounted to \$175,011 and \$248,222 at June 30, 2012 and 2011, respectively.

Risks and Uncertainties: A substantial portion of the Organization's assets consist of beneficial interest in assets held by community foundation, which is supported by investment securities of the respective community foundation (See Note 2) and to a lesser degree investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect investments reported in the statements of financial position, and the realized and unrealized losses in the statements of activities.

Compensated Absences: Compensated absences are not provided for in the accompanying statement of financial position as WVSOM provides all compensation and benefits for employees who serve/operate the Organization (See Note 5).

Date of Management Review: Subsequent events (events or transactions that have occurred which may have a material effect on the financial statements and that require adjustment to or disclosure in the financial statements) have been evaluated through September 13, 2012, which is the date the financial statements were available to be issued.

Note 3 — Unconditional Promises to Give

Unconditional promises to give at June 30, 2012 and 2011 were comprised of the following:

	<u>2012</u>	<u>2011</u>
Gross unconditional promises to give	\$ 249,644	\$ 94,321
Less gross allowance for doubtful accounts	(49,402)	(26,600)
Less unamortized discounts	<u>(13,290)</u>	<u>(3,622)</u>
Net unconditional promises to give	<u>\$ 186,952</u>	<u>\$ 64,099</u>

These gross amounts are expected to be collected as follows:

<u>Year ended June 30th</u>	
2013	\$126,368
2014	80,192
2015	37,584
2016	<u>5,500</u>
Totals	<u>\$249,644</u>

An annual rate of four percent was used to discount unconditional promises to give expected to be collected at June 30, 2012.

Note 4 — Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following or are available for the following purposes as of June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Unconditional promises to give	\$186,952	\$64,099
Capital campaign	93,475	-
Scholarships	8,941	8,710
Endowments	48,711	46,688
School accounts	<u>36,105</u>	<u>7,553</u>
Totals	<u>\$374,184</u>	<u>\$127,050</u>

Note 5 — Related Party Transactions

Until November 12, 2011, WVSOM provided a land lease and right of way to the land on which the Organization's building was situated (**See Note 10**). This was provided under the terms of lease/right-of-way agreement dated May 24, 1994. The agreement provided for the leasing of approximately 1.4 acres on the campus of WVSOM until June 17, 2092. The lease payment due each year was one dollar. The value of this arrangement has not been recorded in the accompanying financial statements, as there is no objective basis to determine its value.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011**Note 5 — Related Party Transactions (continued)**

WVSOM also provides all the pay and employee benefits for the personnel who operate the Organization as well as assistance with certain operating costs and since November 12, 2011 provision of office space (See Note 10). These are recorded as contributed services and operational expenses revenue and applicable expenses in the accompanying statement of activities. The total amount of the services and operating costs provided were \$220,228 and \$344,767 for the years ended June 30, 2012 and 2011, respectively. In addition, as a result of the sale of the building to WVSOM and as a part of a Memorandum of Understanding with WVSOM signed concurrent with the sale of the building, the Organization will be able to continue to collect revenues from the rental of conference/meeting facility contained in the facility sold. As the fair value of this arrangement is not readily determinable, no reflection of it has been recorded in the accompanying financial statements.

Note 6 — Endowments

Permanent endowments consist of thirteen individual funds established for a variety of specific purposes. Endowments include donor-restricted endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the State of West Virginia Uniform Prudent Management of Institutional Funds Act (WVUPMIFA) 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 Organization classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by WVUPMIFA.

In accordance with WVUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Organization and donor-restricted endowment fund
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 Organization
7. The investment policies of the Organization.

Note 6 — Endowments (continued)

These permanently restricted scholarship funds are largely held and invested by the Greater Greenbrier Valley Community Foundation, Inc. in the form of Donor Designated Sub-Fund Agreements (See Note 2). Only the distributions/disbursements received from GGVCF for these funds have been used to pay scholarships/grants during the year, which management believes have been determined in accordance with the provisions of the WVUPMIFA.

The endowment net assets consisted of the following types of funds as of June 30, 2012 and 2011:

<u>June 30, 2012</u>	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Donor restricted endowment funds	<u>\$ 48,711</u>	<u>\$ 650,290</u>
 <u>June 30, 2011</u>	 Temporarily <u>Restricted</u>	 Permanently <u>Restricted</u>
Donor restricted endowment funds	 <u>\$ 46,688</u>	 <u>\$ 380,489</u>

Changes in endowment net assets for the years ended June 30, 2012 and 2011 were as follows:

	Temporarily <u>Restricted</u>	Permanently <u>Restricted</u>
Endowment net assets, July 1, 2010	<u>\$ 20,579</u>	<u>\$ 318,773</u>
Contributions	-	63,596
Investment return:		
Interest and dividends	7,354	-
Net realized and unrealized gains	<u>28,495</u>	<u>-</u>
Total additions	<u>35,849</u>	<u>63,596</u>
Scholarship awards	4,916	-
Administrative fees	4,844	-
Reclassifications of net assets balances	<u>-</u>	<u>1,880</u>
Total reductions	<u>9,760</u>	<u>1,880</u>
Endowment net assets, June 30, 2011	<u>\$ 46,668</u>	<u>\$ 380,489</u>
Contributions	-	244,169
Investment return:		
Interest and dividends	10,599	-
Net realized and unrealized gains	<u>2,378</u>	<u>-</u>
Total additions	<u>12,977</u>	<u>244,169</u>
Scholarship awards	5,500	-
Administrative fees	<u>5,434</u>	<u>-</u>
Total reductions	<u>10,934</u>	<u>-</u>
Endowment net assets, June 30, 2012	<u>\$ 48,711</u>	<u>\$ 624,658</u>

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

Note 6 — Endowments (continued)

From time to time and more specifically during recent years, the fair value of assets associated with individual donor restricted endowment funds have fallen below the level that the individual donor or WVUPMIFA requires the Organization to retain as a fund of perpetual duration. The amount of this deficiency at June 30, 2012 amounted to approximately \$31,000. These deficiencies have resulted from unfavorable market fluctuations in recent years.

Note 7 — Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer as liability in an orderly transaction between market participants at the measurement date. Generally Accepted Accounting Principles (**GAAP**) require the Organization to disclose fair value of all financial instruments for which it is practicable to estimate fair value, including those which are not reported at fair value in the statements of financial position. At June 30, 2012 and 2011, the fair values of all financial instruments were substantially equal to the carrying values.

The carrying value of certain financial assets and liabilities such as cash, cash equivalents, loans receivable, accounts payable, accrued expenses, custodial liabilities is a reasonable estimate of fair value due to the short term nature of these instruments. Following is a description of the techniques used for the fair values of all other financial instruments. There have been no changes in the techniques used during the year ended June 30, 2012 and 2011.

Marketable Investments: The fair value of equity and fixed income investments is determined by the investment custodian based on recent sales in the open market of same or similar investments,

Beneficial Interest in Assets Held by Community Foundation: This is determined by the community foundation based on the Organization's representative share of the underlying investment assets of the community foundation (**See Note 2**).

Financial Instruments Recorded at Fair Value

For financial instruments recorded at fair value on a recurring basis, GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements.

Note 7 — Fair Value Measurements (continued)

The inputs are summarized in the three broad levels listed below:

- **Level 1:** Unadjusted quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- **Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- **Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The estimated fair value amounts of financial instruments have been determined by the Organization using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Organization could realize in current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

**Fair Value Measurement at Reporting
 Date of June 30, 2012 Using**

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Beneficial interest in assets held by community foundation	\$ 593,968	\$ -	\$ 593,968
Marketable investments (all common stocks)	\$ 563,869	\$ 563,869	\$ -

**Fair Value Measurement at Reporting
 Date of June 30, 2011 Using**

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Beneficial interest in assets held by community foundation	\$ 318,093	\$ -	\$ 318,093
Restricted investments	\$ 23,424	\$ 23,424	\$ -

Note 8 — Prior Period Adjustment

During the year ended June 30, 2011 management conducted a review utilizing the current accounting standards regarding contributions and designation of net assets of its relationships with donors as well as those items that have been considered to be custodial liabilities (**See Note 2**). The result of this review is that certain items previously considered to be custodial liabilities are more appropriately classified as temporarily restricted net assets. Accordingly this correction is presented in the accompanying 2011 statement of changes in net assets as a “prior period adjustment, reclassification of custodial liability to temporarily restricted net assets” in the amount of \$25,800. This adjustment was determined as of July 1, 2010.

Note 9 — Separation of Continuing Education Operations

Effective March 1, 2011, the operations of continuing education were removed from the control of the Organization by WVSOM. These operations along with alumni relations operations were transferred to the control of the West Virginia School of Osteopathic Medicine Alumni Association, Inc. which was incorporated in the State of West Virginia effective May 17, 2011.

Note 10 — Sale of Building to West Virginia School of Osteopathic Medicine

On November 12, 2011 the Organization sold its building to WVSOM in consideration for \$995,000. At the time of the sale the building had a book value (depreciated value) of \$1,511,710. Concurrent with this, a fair market value appraisal was obtained which indicated that the value of the building was \$1,100,000. In the accompanying 2012 statement of functional expenses the excess of the book value over the purchase price of \$516,710 is bifurcated into two components as follows:

- The excess of the book value over the fair market value is reflected as a loss on sale of sale of building in the amount of \$411,710.
- The remainder of \$105,000 is presented as fair value of non cash contribution to school (this also represents the excess of the fair market value over the selling price).

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2012 AND 2011

NOTE 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

	2012								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 8,556,179	\$ 2,391,651	\$ 3,665,256	\$ -	\$ -	\$ -	\$ -	\$ -	\$14,613,086
Research	390,469	129,545	248,829	5,996	-	-	-	-	774,839
Public service	75,365	26,289	55,790	-	-	-	-	-	157,444
Academic support	1,914,233	660,713	939,368	-	-	-	-	-	3,514,314
Student services	1,251,380	440,345	1,000,343	628	-	-	-	-	2,692,696
General institutional support	3,378,554	1,152,876	1,547,103	242	-	-	-	-	6,078,775
Operations and maintenance of plant	1,035,541	683,098	1,151,157	792,408	-	-	-	-	3,662,204
Student financial aid	-	-	-	-	-	-	-	-	-
Auxiliary enterprises	68,118	11,803	423,556	-	-	-	-	-	503,477
Depreciation	-	-	-	-	-	2,046,550	-	-	2,046,550
Other	-	-	485	-	-	-	98,443	97,670	196,598
Total	\$ 16,669,839	\$ 5,496,320	\$ 9,031,887	\$ 799,274	\$ -	\$ 2,046,550	\$ 98,443	\$ 97,670	\$34,239,983

	2011								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 8,019,609	\$ 2,350,583	\$ 3,113,922	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13,484,114
Research	184,378	71,839	252,290	-	-	-	-	-	508,507
Public service	68,265	14,085	23,922	-	-	-	-	-	106,272
Academic support	1,511,052	552,534	852,914	-	-	-	-	-	2,916,500
Student services	1,274,194	441,682	791,688	-	-	-	-	-	2,507,564
General institutional support	3,416,871	1,127,025	1,888,326	-	-	-	-	-	6,432,222
Operations and maintenance of plant	979,209	672,020	1,230,945	893,473	-	-	-	-	3,775,647
Student financial aid	-	-	-	-	1,750	-	-	-	1,750
Auxiliary enterprises	70,529	12,768	416,336	-	-	-	-	-	499,633
Depreciation	-	-	-	-	-	1,775,955	-	-	1,775,955
Other	-	-	-	-	-	-	181,004	91,285	272,289
Total	\$ 15,524,107	\$ 5,242,536	\$ 8,570,343	\$ 893,473	\$ 1,750	\$ 1,775,955	\$ 181,004	\$ 91,285	\$32,280,453



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*

Board of Governors
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

We have audited the financial statements of West Virginia School of Osteopathic Medicine (WVSOM) as of and for the year ended June 30, 2012, and have issued our report thereon dated October 23, 2012, which states reliance on other auditors for the discretely presented component unit. Our report was modified to include a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Other auditors' audited the financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. as described in our report on WVSOM's financial statements. The financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of WVSOM in a separate letter dated October 23, 2012.

This report is intended solely for the information and use of WVSOM Governing Board, management of WVSOM, and 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 those specified parties.

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia
October 23, 2012