West Virginia State University

Combined Financial Statements as of and for the Years Ended June 30, 2012 and 2011, and Independent Auditors' Reports

WEST VIRGINIA STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Virginia State University:

We have audited the accompanying combined statements of net assets of West Virginia State University (the "University") as of June 30, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These combined financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of the West Virginia State University Research Coproration (the "Corporation) for the year ended June 30, 2012, which statements reflect total assets and total revenues constituting approximately 7% and 43%, respectively of the University in 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it related to the amounts of the Corporation included in the University as of and for the year ended June 30, 2012, is based solely on the report of such other auditors. We also did not audit the financial statements of the West Virginia State University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the Foundation, is solely based on the report of such auditors.

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

In our opinion, based on our audits and the reports of the other auditors, such combined financial statements present fairly, in all material respects, the respective financial position of the University, and the discretely presented component unit of the University, as of June 30, 2012 and 2011, and changes in their net assets and their cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 11 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 combined financial statements, and other knowledge we obtained during our audit of the combined 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 24, 2013, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

January 24, 2013

West Virginia State University

Management's Discussion and Analysis (Unaudited)

For the Year Ended June 30, 2012

HISTORY

West Virginia State University was founded under the provisions of the Second Morrill Act of 1890 as the West Virginia Colored Institute, one of seventeen land-grant institutions authorized by Congress and designated by the states to provide for the education of black citizens in agriculture and the mechanical arts. West Virginia was one of the states that maintained segregated educational systems at that time.

From 1891 to 1915, the original Institute offered the equivalent of a high school education, vocational training, and teacher preparation. In 1915 the West Virginia Collegiate Institute began to offer college degrees. Under the leadership of President John W. Davis, the academic program was expanded and new buildings were constructed, and in 1927 the institution was accredited by the North Central Association. In 1929 it became West Virginia State College (WVSC). Over the next decades WVSC became recognized as one of the leading public institutions of higher education for blacks.

In 1954 the United States Supreme Court gave its historic decision in Brown vs. Board of Education outlawing school segregation. The consequence of this decision for West Virginia State College was a rapid transition from a black college to an integrated institution serving a multiracial, multi-generational commuting student population. This shift in student population and mission occurred in part due to demographics and in part due to efforts made by the college administration to reverse a decline in enrollment during the early 1950's. Enrollment quadrupled during the following decades.

Meanwhile, by a decision of the West Virginia Board of Education, WVSC was compelled to surrender its land-grant status, the only one of the 1890 institutions to do so. Only after a twelve-year quest was the college's land-grant status fully restored, in 2001 by act of Congress signed by President Bill Clinton.

In 2004, WVSC was granted university status by the West Virginia state legislature along with three other public four-year colleges and renamed West Virginia State University. The same piece of legislation (SB 448) also called for re-organization of community and technical colleges throughout the state which eventually led to WVSC's community and technical college component becoming a separate institution, Kanawha Valley Community and Technical College, co-located on the same campus.

The first half-century of the history of WVSU epitomizes the long struggle of African-Americans for educational opportunity and political, social, and economic equality. While desegregation changed the racial proportions of the student body, faculty, and staff, WVSU still emphasizes the diversity of its people and derives important values and elements of its mission from its tradition as a historically black college. The motto "A Living Laboratory of Human Relations" is still a relevant depiction of West Virginia State University.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

West Virginia State University (the “University”) is pleased to present the combined financial statements for the year ended June 30, 2012. The combined information also includes the West Virginia State University Research and Development Corporation (the “Corporation”). The West Virginia State University Foundation is included as a discretely presented component unit.

There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows.

The required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2012.

The Governmental Accounting Standards Board (GASB) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously, the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University. The University has adopted the new standards as of July 1, 2001.

STATEMENTS OF NET ASSETS

The purpose of the University’s Combined Statements of Net Assets is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net assets of the University as of June 30, 2012.

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

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

Net assets are divided into three major types:

- Invested in Capital Assets, Net of Debt: net book value of the University’s capital assets less any related debt.
- Restricted Net Assets: restricted assets categorized as:
    a. Nonexpendable — Nonexpendable Restricted Net Assets are permanently restricted, and only the income from such net assets can be used. The University does not have such net assets as of June 30, 2012.
    b. Expendable — Expendable Restricted Net Assets are net assets which are available for expenditures as determined by donors and/or external entities in regard to time or purpose.
- Unrestricted Net Assets: assets available to the institution to utilize for any lawful purpose.

Condensed Combined Schedules of Net Assets

	FY 2012	FY 2011	Difference	FY 2010
Assets				
Total current assets	$9,255,626	$9,118,312	$ 137,314	$9,602,097
Total non-current assets	30,414,102	28,746,998	1,667,104	28,898,882
Total assets	**$39,669,728**	**$37,865,310**	**$1,804,418**	**$38,500,979**
Liabilities				
Total current liabilities	$5,047,877	$5,226,354	$(178,477)	$5,106,200
Total non-current liabilities	17,940,641	14,991,986	2,948,655	11,860,320
Total liabilities	**$22,988,518**	**$20,218,340**	**$2,770,178**	**$16,966,520**
Net Assets				
Invested in capital assets, net of related debt	$23,905,020	$21,631,402	$2,273,618	$21,124,105
Restricted expendable	607,253	642,976	(35,723)	674,823
Unrestricted (deficit)	(7,831,063)	(4,627,407)	(3,203,656)	(246,469)
Total net assets	**$16,681,210**	**$17,646,971**	**$(965,761)**	**$21,534,459**
Total liabilities and net assets	**$39,669,728**	**$37,865,311**	**$1,804,417**	**$38,500,979**

Assets:

Total assets increased over the previous fiscal year by $1,804,418. This was caused by the increase in noncurrent assets, specifically capital assets. Total current assets of $9 million exceeded total current liabilities of $5 million, for a net working capital of $4 million.

Liabilities:

Total liabilities increased by $2.7 million over the prior fiscal year. Most of the difference is an increase in noncurrent liabilities of $2.9 million, which is due to an increase in other post-employment benefits liability of $3.3 million and a decrease in bonds and notes payable of ($0.4) million.

Net Assets:

Net assets' largest differences from the prior fiscal year are investment in capital assets — net of related debt of $2.2 million, and to a decrease in unrestricted net assets of ($3.2) million.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

The purpose of the Combined Statements of Revenues, Expenses and Changes in Net Assets is to present the operating and nonoperating revenues earned and expenses incurred by the University and any other revenues, expenses, gains and losses of the University.

Operating revenues are earned by providing goods and services to the various customers and constituencies of the University. Operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the University.

Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State of West Virginia (the "State") appropriations are nonoperating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

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

	FY 2012	**FY 2011**	**Difference**	**FY 2010**
Operating Revenues	$34,399,425	$33,650,929	$748,496	$35,405,930
Operating Expenses	55,102,452	57,829,427	(2,726,975)	54,411,458
Operating Loss	(20,703,027)	(24,178,498)	3,475,471	(19,005,528)
Nonoperating Revenues Net	18,409,680	18,775,518	(365,838)	18,594,223
Income before other revenue, expenses, gains or losses	**(2,293,347)**	**(5,402,980)**	**3,109,633**	**(411,305)**
Capital Projects proceeds from the commission	889,839	662,687	226,972	382,501
Capital gifts and Grants	414,619	710,805	(296,186)	456,849
State Capital Grants	23,128	141,820	(118,692)	135,053
(Decrease) Increase in Net Assets	(965,761)	(3,887,488)	2,921,727	563,098
Net Assets, beginning of year	17,646,971	21,534,459	(3,887,488)	20,971,361
Net assets, end of year	**$16,681,210**	**$17,646,971**	**$(965,761)**	**$21,534,459**

Operating Revenues:

Student tuition and fees decreased by ($0.8) million for fiscal year 2012, federal contracts and grants increased by $2 million, state contracts and grants changed minimally, and auxiliary revenue decreased by $0.4 million.

Operating Expenses:

The decrease in supplies and other services of $1 million, salaries and wages of $0.3 million and depreciation of $0.3 million were the significant changes for operating expenses.

Operating revenues of $34.3 million compared to operating expenses of $55.1 million resulted in an operating loss of $20.7 million. Although State Appropriations of $12.8 million are counted as nonoperating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

STATEMENTS OF CASH FLOWS

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

Condensed Combined Schedules of Cash Flows

	FY 2012	**FY 2011**	**Difference**	**FY 2010**
Cash provided by (used in):				
Operating activities	$(16,099,535)	$(19,042,041)	$2,942,506	$(14,558,215)
Noncapital financing activities	19,059,704	19,741,907	(682,203)	18,948,704
Capital financing activities	(2,745,970)	(1,659,967)	(1,086,003)	(2,994,591)
Interest on investments	20,946	19,027	1,919	20,542
Increase (decrease) in cash and cash equivalents	**235,145**	**(941,074)**	**1,204,644**	**1,416,440**
Cash — beginning of year	6,624,846	7,565,920	(941,074)	6,149,480
Cash — end of year	**$6,859,991**	**$6,624,846**	**$263,570**	**$7,565,920**

The major difference included in operating activities consists of tuition and fees of ($1.3) million, grants and contracts of $2.4 million, payment to suppliers of $0.7 million, and payment for scholarships and fellowships of ($0.7) million.

The change in funding mechanism per mandate of the US Department of Education is the switch from FFELP to William D. Ford Direct Lending.

Major differences in funding included in noncapital financing include the William D. Ford Direct Lending receipts of $11.5 million compared to last year's receipts of $12.1 million, for a difference of ($0.6) million.

Purchases and construction of capital assets was the major difference in capital finance activities that amounted to $0.9 million.

CAPITAL ASSET AND DEBT ADMINISTRATION

West Virginia State University cautiously and positively accomplished capital and renovation activity during fiscal year 2012. There was frugal management in regard to capital improvements. The purchase, renovation, and restoration of capital assets, such as land and/or buildings, educational and scientific equipment, renovation of classroom and research facilities, and replacement of motor vehicles remain essential for the forward movement of the University, as any higher education institution.

In some instances, versatile resources made the infrastructure work possible and allowable. For instance, the 50/50 Energy Projects matching funding with the West Virginia Higher Education Policy Commission was helpful with lighting, HVAC, and other necessary upgrades, and funding from the American Recovery and Reinvestment Act (ARRA) further helped to continue to preserve, restore, and improve the facilities of the University. Similarly, allowable funding from grants, contracts, and sponsored agreements held within the University and its Corporation made possible some of the needed improvements to capital assets.

The WVSU main campus is situated between the major West Virginia cities of Huntington and Charleston, West Virginia. Nontraditional and Traditional students are attracted to the well-maintained and beautiful campus that continues in an attractive and functional condition. It is a researched fact that the third important reason that students select a higher education institution is the attractiveness of its campus. As mentioned, versatile and various funding sources are used in the capital management of the institution. Some of the projects for 2011-2012 included:

> **Building Improvements**: A broad-brush, low cost approach to building improvements was accomplished. This is part of a philosophy of keeping buildings in reputable repair and service. Any upgrading was on a small scale and mostly done with small grant funded projects, though there was some improvement done as part of the yearly work to keep the facilities in good condition.
>
> **Facilities Development**: The academic facility development at the south end of campus via The Fleming Hall Renovation & Addition will add to the capital assets as it is finished in 2013. The $15,000,000 Education, Arts, Science, and Tourism (EAST) bond funded project will result in an academic facility that serves every college of West Virginia State University. Through several months of FY 2011, architects have worked with representatives of a large planning committee to ready for bidding and construction to occur in 2011-12 and 2012-13.
>
> The WVSU Booker T. Washington Complex in Malden, West Virginia has benefitted from a $123,000 federal grant to help with the restoration of The African Zion Church historic building that is connected to the reconstructed cabins. The historic architectural plans were approved in FY 2011, the bidding was completed, and the contract was awarded for construction. The project was completed in FY 2012.
>
> The Economic Development Center is being upgraded via grant funding. This downtown facility that is part of the Land-Grant programming is hoped to create a more attractive presence as an off-campus site to serve the community.
>
> **Infrastructure**: Maintenance and upgrading of campus infrastructure is paramount to good managing of capital assets. Work was completed in FY 2012 to further improve the Sullivan Hall elevator controls.
>
> The 50/50 Energy Project funding was used to complete infrastructure projects mentioned in FY 2010; for instance, the Drain Jordan Library boilers and the Wilson University Union boilers. The Ferrell Hall chillers were inspected and deemed completed. Utility savings have already been realized as a result of continuing the lighting change-out project.

There have also been HVAC units replaced in Hill Hall with funding provided by Federal ARRA dollars and the roof replacement on Wallace Hall is in progress. This funding was provided by HEPC Revenue Bonds.

Technology Infrastructure: A cooperative technology infrastructure upgrade project between the three institutions of West Virginia State University, Marshall University, and West Virginia University is proceeding well and helping the institution move forward. The EPSCORE grant project to increase bandwidth for the Internet, allowing additional shared research information between institutions with similar research project capabilities, continued. This upgrading will occur for two to four more years, as year one has been completed. Also, WVSU is making progress in implementing a campus-wide “Voice-over Internet” Telephone System replacement of the antiquated phone system for the University. There are two years left if funding permits the project to proceed according to planned time frame.

West Virginia State University has been frugal with debt administration. As with other public higher education institutions, the Higher Education Policy Commission assesses each public higher education institution for funds to address the payment of debt service on revenue bonds that have been previously issued for financing of academic and other facilities of the State’s universities and colleges. The debt service for the University is listed as an amount on all institutional reports, though the bonds remain a capital obligation of the Commission. The University and the Corporation’s debt activity during fiscal year 2012 was related solely to the repayment of bonds, leases, and notes payable according to agreements.

Good efforts have insured that the campus of West Virginia State University remains well-maintained, and some modest improvements to campus facilities also serve the University well. The aforementioned capital and infrastructure improvements will continue to ensure that the University properties are well-maintained. This is an important asset for the University in maintaining significant value.

Economic Outlook

WVSU is proactively increasing recruitment efforts and strategically attempting to develop centers of academic excellence that will attract the well-prepared students who want to aim for a University degree. In addition, more efforts are being put into program offerings that will generate revenue and develop a student base.

WVSU has begun its $12.5 million capital campaign, and revenues from these efforts should help with projects and scholarships to attract and retain students, thus increasing the University’s revenue base over time. Additional advertising has also begun in an additional effort to attract more students.

Since the general economic climate of the Kanawha Valley continues to hold its own during the transitional stages of this economy, it is believed that WVSU will continue to be a dynamic higher education force in West Virginia. The plans are at implementation stages rather than preliminary stages, and it is thought that there can be increased revenue as early as next year.

Efficiency measures have been implemented by WVSU for several years; some further efforts will continue. The University is committed to anticipated progress accomplished in an affordable way. The dynamic planning already completed will result in fundraising successes and recruitment and retention successes.

In addition, legislatively mandated higher entry level scores of students are already showing some measurable improvement in retention this should continue to have a positive impact tuition revenue and state funding. Over the next year or two, the results are projected to build in the form of higher retention and graduation rates. Plans for a new residence hall may also result in attracting additional students to live on campus.

The quest to obtain replacement funding lost from the University state appropriations due to the KVCTC (service revenue and student tuition and fees) being legislatively withdrawn continues. Two institutions in similar circumstances have been made whole, and the remaining institutions, to include WVSU, are still are actively attempting to garner the same amount.

The $15,000,000 Fleming Hall Renovation and Addition project funded by Education, Arts, Science, and Tourism (EAST) bond funding will result in a major improvement to the academic facility at the south end of campus. Though the facility is largely used by the College of Professional Studies, all of the colleges of the University will benefit from the facility. The updated facility will attract and retain students to serve and who generate revenue.

Optimistically, there are two new hotel/motels being constructed within a mile of the institution, in proximity to the Mardi Gras Gaming Center. This situates Institute, West Virginia in a positive location to host tourists and groups from the Mardi Gras Gaming Center (restaurant, hotel, and gaming activities), as well as their employees and families needing to further their education.

Plans have been published to potentially improve the chemical facilities adjacent to WVSU to be part of the Marcellus Shale processing work. There has been reported interest in “cracking plants” that would convert some of the compounds from Marcellus drilling in West Virginia into the raw material used to manufacture plastics and other chemical products. Just one such plant could mean the creation of construction jobs in the short run and permanent jobs to staff it once built.

The State Museum and the Clay Center are also facilities that boost the economic climate locally and help develop a cosmopolitan environment to help the local economic picture, attracting a workforce traditionally seeking higher education.

In conclusion, the future of West Virginia State University continues to be positive. Though there has been an adjustment in net assets as a result of legislated changes for the institution, the overall outlook remains good. Steps the University is taking in regard to construction of a new academic facility, continual maintenance and good upkeep of the campus facilities and infrastructure, and expanded technology possibilities will bode well for years to come.

The emphasis on academic programs that are successful, as well as academic centers of excellence, will be attractions as the University recruitment, retention, and graduation rates increase. After over 120 years of service, the economic outlook should prove to offer slow, yet positive gains as WVSU continues into the future. Research efforts and program developments are being conducted and planned with Land-Grant funding sources. Being one of West Virginia's three research institutions helps with the attraction of faculty and students and serves as an attraction to help the University develop.

There is an optimistic outlook for WVSU as the future unfolds and the university attempts to map of legislative driven changes for higher education in West Virginia. The future continues to be welcoming as West Virginia State University moves forward.

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011

ASSETS	2012	2011
CURRENT ASSETS:		
Cash and cash equivalents	$ 6,859,991	$ 6,624,846
Accounts receivable — net	1,770,056	1,729,862
Loans to students — current portion	109,824	110,513
Inventories	387,755	471,247
Prepaid expenses	128,000	181,844
Total current assets	9,255,626	9,118,312
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	593,938	593,485
Loans to students — net of allowance of $332,090 and $271,555 in 2012 and 2011, respectively	197,494	329,086
Deferred finance costs — net	22,452	27,441
Capital assets — net	29,600,218	27,796,986
Total noncurrent assets	30,414,102	28,746,998
TOTAL	$ 39,669,728	$ 37,865,310

(Continued)

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011

LIABILITIES AND NET ASSETS	2012	2011
CURRENT LIABILITIES:		
Accounts payable	$ 931,874	$ 1,305,070
Due to Commission	77,084	5,075
Accrued liabilities	2,075,463	2,036,099
Compensated absences — current portion	857,530	902,008
Deferred revenue	724,732	503,638
Debt obligation to the Commission — current portion		111,805
Bonds payable — current portion	265,000	255,000
Notes payable — current portion	116,194	107,659
Total current liabilities	5,047,877	5,226,354
NONCURRENT LIABILITIES:		
Deposits	146,944	143,643
Compensated absences	420,472	431,128
Bonds payable	3,042,306	3,300,037
Notes payable	2,302,418	2,418,524
Advances from federal sponsors	579,122	579,122
Other post employment benefits liability	11,449,379	8,119,531
Total noncurrent liabilities	17,940,641	14,991,985
Total liabilities	22,988,518	20,218,339
NET ASSETS:		
Invested in capital assets — net of related debt	23,905,020	21,631,402
Restricted for — expendable:		
Loans	13,315	49,493
Debt service	593,938	593,483
Total restricted	607,253	642,976
Unrestricted net assets (deficit)	(7,831,063)	(4,627,407)
Total net assets	16,681,210	17,646,971
TOTAL	$39,669,728	$37,865,310

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
STATEMENTS OF NET ASSETS
AS OF JUNE 20, 2012 AND 2011

	2012	2011
ASSETS		
ASSETS		
Cash and cash equivalents (includes restricted funds of $1,009,788and $1,058,166, respectively)	$ 1,445,280	$ 1,565,578
Unconditional promises to give	141,744	15,733
Investments	4,225,484	4,331,936
Beneficial interest in trusts	210,814	34,860
Other assets	68,984	58,042
Property and equipment, net	867	895
TOTAL ASSETS	$ 6,958,929	$ 6,901
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 11,433	$ 15,492
NET ASSETS		
Unrestricted	510,665	575,579
Temporarily restricted	2,403,946	2,562,195
Permanently restricted	4,032,885	3,748
Total net assets	6,947,496	6,885,677
	$ 6,958,929	$ 6,901,169

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $3,462,253 and $3,181,997, in 2012 and 2011, respectively	$ 8,751,219	$ 9,581,221
Contracts and grants:		
Federal	13,305,666	11,358,748
State	3,139,842	3,131,469
Private	544,719	870,015
Sales and services of educational activities	68,483	79,231
Auxiliary enterprise revenue — net of scholarship allowance of $2,176,839 and $2,102,460 in 2012 and 2011, respectively	5,502,198	6,025,503
Miscellaneous — net	664,441	155,950
Fees charged to the students of Kanawha Valley Community and Technical College	822,857	848,792
Charges to Kanawha Valley Community and Technical College	1,600,000	1,600,000
Total operating revenues	34,399,425	33,650,929
OPERATING EXPENSES:		
Salaries and wages	23,910,730	24,258,024
Benefits	8,511,148	8,569,224
Supplies and other services	14,767,572	15,897,977
Utilities	1,818,032	2,060,589
Student financial aid — scholarships and fellowships	4,422,696	5,127,077
Depreciation and amortization	1,489,801	1,756,751
Loan cancellations and write-offs	60,535	24,890
Fees assessed by the Commission for operations	121,938	134,895
Total operating expenses	55,102,452	57,829,427
OPERATING LOSS	(20,703,027)	(24,178,498)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	12,835,589	11,630,159
State fiscal stabilization funds (federal)		1,026,811
Federal Pell Grants	5,923,572	6,432,670
Investment income	20,946	19,027
Miscellaneous income		105,491
Interest on indebtedness	(334,284)	(321,971)
Loss on capital asset disposals	(12,610)	(84,323)
Fees assessed by the Commission	(23,533)	(32,346)
Net nonoperating revenues	18,409,680	18,775,518
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(2,293,347)	(5,402,980)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	889,839	662,867
CAPITAL GRANTS AND GIFTS	414,619	710,805
STATE CAPITAL GRANTS (FEDERAL)	23,128	141,820
DECREASE IN NET ASSETS	(965,761)	(3,887,488)
NET ASSETS — Beginning of year	17,646,971	21,534,459
NET ASSETS — End of year	$ 16,681,210	$ 17,646,971

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	$ 111,425	$ 540,222	$ 159,950	$ 811,597
Gifts in kind		270,401		270,401
Administrative fees (expenses)	100,592	(100,592)		-
Rental income	5,324			5,324
Investment income	34	177,012		177,046
Net assets released from restrictions	829,348	(829,348)		-
	1,046,723	57,695	159,950	1,264,368
EXPENSES				
Salaries and wages	123,317			123,317
Taxes and licenses	28,701			28,701
Professional fees	23,089			23,089
Supplies	16,115			16,115
Maintenance	11,989			11,989
Travel	11,374			11,374
Telephone and utilities	1,911			1,911
Office expense	8,238			8,238
Printing	6,859			6,859
Meeting expense	36,210			36,210
Conference/seminar fees	4,343			4,343
Scholarships and grants	2,755			2,755
Depreciation		34,325		34,325
Miscellaneous	4,089			4,089
Program expenses	829,348			829,348
	1,108,338	34,325	-	1,142,663
NET INCREASE (DECREASE)	(61,615)	23,370	159,950	121,705
CHANGE IN VALUE OF PERPETUAL TRUSTS			175,954	175,954
UNREALIZED LOSS ON INVESTMENTS		(235,840)		(235,840)
RECLASSIFICATIONS	(3,299)	54,221	(50,922)	-
INCREASE (DECREASE) IN NET ASSETS	(64,914)	(158,249)	284,982	61,819
NET ASSETS AT BEGINNING OF YEAR	575,579	2,562,195	3,747,903	6,885,677
NET ASSETS AT END OF YEAR	$ 510,665	$ 2,403,946	$ 4,032,885	$ 6,947,496

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	$301,215	$ 818,941	$ 65,652	$ 1,185,808
Gifts in kind				-
Administrative fees (expenses)	93,787	(93,787)		-
Rental income	16,752			16,752
Investment income	42,615	376,497		419,112
Net assets released from restrictions	243,949	(243,949)		-
	698,318	857,702	65,652	1,621,672
EXPENSES				
Salaries and wages	108,833			108,833
Taxes and licenses	25,546			25,546
Professional fees	23,400			23,400
Supplies	9,449			9,449
Maintenance	19,209			19,209
Travel	10,277			10,277
Telephone and utilities	1,701			1,701
Office expense	3,802			3,802
Printing	10,250			10,250
Meeting expense	55,216			55,216
Conference/seminar fees	6,497			6,497
Scholarships and grants	1,000			1,000
Depreciation	561	34,187		34,748
Miscellaneous	5,904			5,904
Program expenses	243,949			243,949
	525,594	34,187	-	559,781
NET INCREASE	172,724	823,515	65,652	1,061,891
CHANGE IN VALUE OF PERPETUAL TRUSTS			(80,825)	(80,825)
UNREALIZED GAIN ON INVESTMENTS		325,406		325,406
RECLASSIFICATIONS	3,162	49,142	(52,304)	-
INCREASE (DECREASE) IN NET ASSETS	175,886	1,198,063	(67,477)	1,306,472
NET ASSETS AT BEGINNING OF YEAR	399,693	1,364,132	3,815,380	5,579,205
NET ASSETS AT END OF YEAR	$575,579	$ 2,562,195	$ 3,747,903	$ 6,885,677

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 8,073,001	$ 9,350,736
Contracts and grants	17,495,850	15,021,614
Payments to and on behalf of employees	(29,107,800)	(29,130,493)
Payments to suppliers	(14,930,717)	(15,726,257)
Payments to utilities	(1,818,032)	(2,060,589)
Payments for scholarships and fellowships	(4,422,696)	(5,127,077)
Loans issued to students	(15,900)	(26,616)
Collection of loans to students	87,417	79,496
Sales and service of educational activities	68,483	79,231
Auxiliary enterprise charges	5,505,499	6,026,642
Fees retained by the Commission	(121,938)	(134,895)
Fees charged to Kanawha Valley Community and Technical College students	822,857	848,792
Fees charged to Kanawha Valley Community and Technical College	1,600,000	1,600,000
Other receipts — net	664,441	157,376
Net cash used in operating activities	(16,099,535)	(19,042,040)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	12,835,589	11,837,960
State fiscal stabilization funds (federal)		1,026,811
Other financing activities	579,122	579,122
William D. Ford direct lending receipts	11,488,316	12,179,780
William D. Ford direct lending payments	(11,739,322)	(12,381,026)
FFELP lending receipts	164,996	142,935
FFELP lending payments	(169,036)	(149,490)
Miscellaneous income		105,491
Federal Pell grants	5,923,572	6,432,670
Fees assessed by the Commission	(23,533)	(32,346)
Net cash provided by noncapital financing activities	19,059,704	19,741,907
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State capital grants (federal) received	23,128	141,819
Capital grants and gifts received	414,619	710,805
Capital projects proceeds from the Commission	889,839	662,867
Purchases of capital assets	(3,295,879)	(2,327,908)
Principal paid on payable to the Commission	(111,805)	(243,527)
Credit issued by Huntington Bank for Union Bond	28,250	36,868
Principal paid on notes and bonds	(360,292)	(327,004)
Interest paid on notes, bonds, and leases	(334,284)	(321,971)
Withdrawals from non-current cash and cash equivalents	454	8,083
Net cash used in capital financing activities	(2,745,970)	(1,659,968)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	20,946	19,027
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	235,145	(941,074)
CASH AND CASH EQUIVALENTS — Beginning of year	6,624,846	7,565,920
CASH AND CASH EQUIVALENTS — End of year	$ 6,859,991	$ 6,624,846

(Continued)

WEST VIRGINIA STATE UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011

	2012	2011
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (20,703,027)	$ (24,178,498)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,489,801	1,756,751
Loss on disposal of assets	(12,610)	
Changes in assets and liabilities:		
Receivables — net	(80,648)	(458,176)
Loans to students — net	(689)	3,866
Prepaid expenses	53,844	7,651
Inventories	(83,492)	2,898
Accounts payable and accrued liabilities	3,068,025	3,832,573
Compensated absences	(55,134)	33,379
Deferred revenue	221,094	(43,623)
Deposits held in custody for others	3,301	1,139
NET CASH USED IN OPERATING ACTIVITIES	$ (16,099,535)	$ (19,042,040)

See notes to combined financial statements. (Concluded)

1. ORGANIZATION

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

The accompanying combined financial statements present all funds under the authority of the University, including its component unit, the West Virginia State University Research and Development Corporation (the "Research and Development Corporation"), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation. Their related organizations, West Virginia State University Foundation, Incorporated (the "Foundation") and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements, as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB.

In accordance with GASB, the audited financial statements of the "Foundation" are discretely presented here with the University's combined financial statements. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information, as it is presented herein (see also Note 21).

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

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

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

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

- *Restricted Net Assets — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any nonexpendable funds or net assets of this type as of June 30, 2012 and 2011.

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

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

Cash and Cash Equivalents — For purposes of the statements of net assets, the University 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, provisions of bond indentures, and the trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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

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

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

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

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

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

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

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 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 on the statement of revenues, expenses, and changes in net assets.

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

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

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

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

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

- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell Grants, investment income, and sale of capital assets (including natural resources). Nonoperating revenues also exclude student fees which were billed for capital improvements.

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

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

Federal Financial Assistance Programs — The University makes loans to students under the Federal Family Education Loan Program (FFELP). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. FFELP student loan receivables are not included in the University's combined statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2012 and 2011, the University received and disbursed approximately $165,000 and $143,000, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense in the combined statement of revenues, expenses, and changes in net assets.

Direct Lending — Effective in FY 2011, the University makes loans to students under Direct Lending (DL). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Direct Lending student loan receivables are not included in the University's combined statements of net assets, as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2012 and 2011, the University received and disbursed approximately $11.5 million and $12.2 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense in the combined statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the years ended June 30, 2012 and 2011, the University received and disbursed approximately $6.3 million and $6.9 million, respectively, under these federal student aid programs.

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

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

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

Service Concession Arrangements – The University has a service concession arrangement for the operation of food services.

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

Cash Flows — Any cash and cash equivalents escrowed, restricted, or in funded reserves have not been included as cash and cash equivalents for the purpose of the combined 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2011, the University 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. See related disclosures in Note 23.

The University also adopted issued 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.

The University also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. This statement incorporates 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 improves 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.

The University also adopted Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*. This statement improves 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 University 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 University 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 Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The University 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. The University has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2012 and 2011, was held as follows:

	2012		
	Current	Noncurrent	Total
State Treasurer	$ 5,940,038	$	$ 5,940,038
In escrow		593,939	593,939
In bank	919,953		919,953
	$ 6,859,991	$ 593,939	$ 7,453,930

	2011		
	Current	Noncurrent	Total
State Treasurer	$ 6,033,514	$ -	$ 6,033,514
In escrow		593,485	593,485
In bank	591,332		591,332
	$ 6,624,846	$ 593,485	$ 7,218,331

Cash shown above as cash in escrow consists of two accounts. One is required by the Educational Direct Loan Mortgage Corporation to be held in escrow until the loan described in Note 9 is paid in full. The second is the Wilson Student Union Bond escrow account through Huntington National Bank and it will be held until the bond is paid in full as described in Note 8.

The combined carrying amounts of cash in the bank at June 30, 2012 and 2011, were $919,953 and $591,332, respectively compared with the combined bank balance of $1,333,127 and $985,045, 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 through December 31, 2012.

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

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the University 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 University's ownership represents 0.19% and 0.18%, 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.

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 the University's ownership represents 0.01% and 0.01%, respectively.

WV Short Term Bond Pool:

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

	Credit Rating*		2012		2011	
Security Type	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
			144,419	28.68	114,981	24.27
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		
			151,248	30.03	104,295	22.00
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
			$503,617	100 %	$473,905	100 %

* 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, the University's ownership represents 0.14% and 0.15%, 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:

	2012		2011	
Security Type	**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:

	2012		2011	
Security Type	**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	5	1	131	1
	$ 299,629	54	$ 262,692	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:

	2012		2011	
Security Type	**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	41,610	1	96,287	1
	$ 503,617	180	$ 473,905	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.

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.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2012 and 2011, are as follows:

	2012	2011
Student tuition and fees — net of allowance for doubtful accounts of $728,991 and $710,335, in 2012 and 2011, respectively	$ 398,640	$ 348,598
Grants and contracts receivable	787,495	1,252,008
Due from the Commission	222,955	114
Due from other State agencies	326,868	93,018
Other accounts receivable	34,098	36,124
	$ 1,770,056	$ 1,729,862

5. DEFERRED FINANCE COSTS

A summation of deferred finance costs transactions for the years ended June 30, 2012 and 2011, is as follows:

2012	Beginning Balance	Additions	Reductions	Ending Balance
Deferred finance costs	$ 49,894	$ -	$ -	$ 49,894
Less accumulated amortization	22,453	4,990		27,443
Deferred finance costs — net	$ 27,441	$ (4,990)	$	$ 22,451

2011	Beginning Balance	Additions	Reductions	Ending Balance
Deferred finance costs	$ 49,894	$ -	$ -	$ 49,894
Less accumulated amortization	19,959	2,494		22,453
Deferred finance costs — net	$ 29,935	$ (2,494)	$ -	$ 27,441

6. CAPITAL ASSETS

Summary of capital asset transactions for the University for the years ended June 30, 2012 and 2011, are as follows:

	2012			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	$ 1,538,075	$ 110,244	$ -	$ 1,648,319
Land — purchase in progress	8,900	101,344	(110,244)	
Construction in progress	1,114,061	2,424,232	(1,128,634)	2,409,659
Equipment in progress		31,378		31,378
Total capital assets not being depreciated	$ 2,661,036	$2,667,198	$(1,238,878)	$ 4,089,356
Other capital assets:				
Land improvements	$ 1,526,510	$ 52,420	$ -	$ 1,578,930
Infrastructure	4,149,923			4,149,923
Buildings	41,065,163	1,128,634		42,193,797
Equipment	7,259,561	415,177	(556,555)	7,118,183
Motor vehicles	486,292	115,284	(99,972)	501,604
Software	358,819			358,819
Library books	4,490,696	156,044	(62,041)	4,584,699
Total other capital assets	59,336,964	1,867,559	(718,568)	60,485,955
Less accumulated depreciation for:				
Land improvements	747,687	35,629		783,316
Infrastructure	3,197,605	56,704		3,254,309
Buildings	19,750,848	815,243		20,566,091
Equipment	5,733,472	399,700	(543,945)	5,589,227
Motor vehicles	350,498	63,574	(99,972)	314,100
Software	358,819			358,819
Library books	4,062,085	109,187	(62,041)	4,109,231
Total accumulated depreciation	34,201,014	1,480,037	(705,958)	34,975,093
Other capital assets — net	$25,135,950	$ 387,522	$ (12,610)	$25,510,862
Capital asset summary:				
Capital assets not being depreciated	$ 2,661,036	$2,667,198	$(1,238,878)	$ 4,089,356
Other capital assets	59,336,964	1,867,559	(718,568)	60,485,955
Total cost of capital assets	61,998,000	4,534,757	(1,957,446)	64,575,311
Less accumulated depreciation	34,201,014	1,480,037	(705,958)	34,975,093
Capital assets — net	$27,796,986	$3,054,720	$(1,251,488)	$29,600,218

	2011			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	$ 1,538,075	$ -	$ -	$ 1,538,075
Land — purchase in progress		8,900		8,900
Construction in progress	734,721	934,183	(554,843)	1,114,061
Total capital assets not being depreciated	$ 2,272,796	$ 943,083	$ (554,843)	$ 2,661,036
Other capital assets:				
Land improvements	$ 1,526,510	$ -	$ -	$ 1,526,510
Infrastructure	4,149,923			4,149,923
Buildings	40,494,284	570,879		41,065,163
Equipment	7,749,051	693,640	(1,183,130)	7,259,561
Motor vehicles	415,072	71,220		486,292
Software	358,819			358,819
Library books	4,526,716	49,086	(85,106)	4,490,696
Total other capital assets	59,220,375	1,384,825	(1,268,236)	59,336,964
Less accumulated depreciation for:				
Land improvements	711,306	36,381		747,687
Infrastructure	3,140,901	56,704		3,197,605
Buildings	18,669,604	1,081,244		19,750,848
Equipment	6,430,460	401,819	(1,098,807)	5,733,472
Motor vehicles	296,983	53,515		350,498
Software	358,819			358,819
Library books	4,029,866	117,325	(85,106)	4,062,085
Total accumulated depreciation	33,637,939	1,746,988	(1,183,913)	34,201,014
Other capital assets — net	$25,582,436	$ (362,163)	$ (84,323)	$25,135,950
Capital asset summary:				
Capital assets not being depreciated	$ 2,272,796	$ 943,083	$ (554,843)	$ 2,661,036
Other capital assets	59,220,375	1,384,825	(1,268,236)	59,336,964
Total cost of capital assets	61,493,171	2,327,908	(1,823,079)	61,998,000
Less accumulated depreciation	33,637,939	1,746,988	(1,183,913)	34,201,014
Capital assets — net	$27,855,232	$ 580,920	$ (639,166)	$27,796,986

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

7. NONCURRENT LIABILITIES

Summary of noncurrent obligation transactions for the University for the years ended June 30, 2012 and 2011, are as follows:

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$ 2,526,183	$ -	$107,571	$ 2,418,612	$116,194
Bonds payable	3,555,037	7,269	255,000	3,307,306	265,000
Payable to the Commission	111,805		111,805		
Other noncurrent liabilities:					
Deposits held in custody for others	143,643	3,301		146,944	
Accrued compensated absences	1,333,136	10,826	65,958	1,278,002	857,530
Advances from Federal Sponsors	579,122			579,122	
Other post employment benefits liability	8,119,531	3,329,848		11,449,379	
Total noncurrent liabilities	$ 16,368,459	$ 3,351,244	$540,334	$ 19,179,365	

	2011				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$ 2,612,962	$ -	$ 86,778	$ 2,526,183	$107,659
Bonds payable	3,792,768	7,269	245,000	3,555,037	255,000
Payable to the Commission	355,332		243,527	111,805	111,805
Other noncurrent liabilities:					
Deposits held in custody for others	142,505	1,139		143,643	
Accrued compensated absences	1,299,757	33,379		1,333,136	902,008
Advances from Federal Sponsors	579,122			579,122	
Other post employment benefits liability	4,514,669	3,604,862		8,119,531	
Total noncurrent liabilities	$ 13,297,115	$ 3,646,649	$575,305	$ 16,368,459	

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

8. BONDS PAYABLE

On August 1, 2002, the University issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of $5,500,000. The bonds mature in intervals through June 1, 2022, and bear interest ranging from 4% to 5.125%. As of June 30, 2012 and 2011, the University had outstanding $3,307,306 and $3,555,037, respectively net of an unamortized discount of $72,694 and $79,963, respectively.

Principal maturities for the year ending after June 30, 2012, are as follows:

Years Ending June 30	
2013	$ 265,000
2014	280,000
2015	295,000
2016	310,000
2017	325,000
2018–2022	1,905,000
	3,380,000
Less unamortized discount	(72,694)
Total	$ 3,307,306

9. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3,500,000 to be used to renovate dormitories. As of June 30, 2012 and 2011, the University had outstanding $2,418,612 and $2,526,183, respectively. At an interest rate of approximately 6.3%, current monthly principal and interest payments of $21,068 are payable through 2026. Eddie Mac has a security interest for this loan on the net revenues from the dormitories and receives a monthly service fee. The University is also subject to certain operating covenants and restrictions on incurrence of additional debt per the loan document.

Principal maturities for the year ending after June 30, 2012, are as follows:

Years Ending June 30	**Principal**	**Interest**	**Total**
2013	$ 116,194	$ 141,970	$ 258,164
2014	120,982	136,942	257,924
2015	128,426	129,205	257,631
2016	135,390	121,934	257,324
2017	143,539	113,459	256,998
2018–2022	853,970	425,423	1,279,393
2023–2027	920,111	133,982	1,054,093
Total	$ 2,418,612	$ 1,202,915	$ 3,621,527

10. 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 $11,449,379, $8,119,531 and $4,514,669, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $4,027,917 and $698,069, respectively, during 2012 and $3,743,987 and $677,933, respectively, during 2011 and $3,266,978 and $579,296, respectively, during 2010. At June 30, 2012, 2011 and 2010, there were 23, 47 and 35 retirees receiving these benefits, respectively.

11. OPERATING LEASES

Future scheduled annual lease payments for year subsequent to June 30, 2012, are as follows:

Years Ending June 30	
2013	$ 200,278
2014	174,970
2015	102,450
Total	$ 477,698

Total rental expense for the years ended June 30, 2012 and 2011, was $192,298 and $234,162, respectively. The University does not have any non-cancelable leases.

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligations of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2011, the University paid $243,527, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2012 and 2011, is $0 and $111,805, respectively.

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

During December 2010, the West Virginia Higher Education Policy Commission (HEPC) issued $76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue Series 2010 Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive $1,135,000 of these proceeds to be specifically used for upgrades to Wallace Hall roof, windows and HVAC system. As of June 30, 2012, $25,578 of such proceeds have been received. The University will begin drawing the bond proceeds for this project in FY 2012; eighty-five percent of these bond proceeds must be spent by December 2013. The West Virginia Higher Education Policy Commission is responsible for repayment of this debt.

13. UNRESTRICTED NET ASSETS (DEFICIT)

At June 30, 2012 and 2011, the University has no designated net assets.

	2012	2011
Total unrestricted net assets before OPEB liability	$ 3,618,316	$ 3,492,124
Less: OPEB liability	11,449,379	8,119,531
Total unrestricted net assets (deficit)	$ (7,831,063)	$ (4,627,407)

14. RETIREMENT PLANS

Substantially, all full-time employees of the University participate in either the West Virginia 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 University employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2011, five employees were enrolled in the Educator's Money 401(a) basic retirement plan.

Total contributions to the Educators Money 401(a) for the years ended June 30, 2012, 2011 and 2010, were $28,430, $18,042 and $16,889, respectively, which consisted of $14,215, $9,021 and $8,445, respectively from the University, and $14,215, $9,021 and $8,445, respectively from the covered employees for 2012, 2011 and 2010.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2012 and 2011. Required employee contributions were at the rate of 6% 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 five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2012, 2011 and 2010, were $281,431, $304,253 and $312,393, respectively, which consisted of $201,022, $217,324 and $223,138, respectively, from the University and $80,409, $86,929 and $89,255, respectively, from the covered employees.

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2012, 2011 and 2010, were $2,302,795, $2,275,876 and $2,240,562, respectively which consisted of contributions of $1,151,397, $1,137,927 and $1,120,281, respectively, from the University and $1,151,397, $1,137,927 and $1,120,281, respectively from the covered employees in 2012, 2011 and 2010.

The University's total payroll for the years ended June 30, 2012, 2011 and 2010, was $23,333,910, $21,552,823 and $21,213,515, respectively; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were $1,340,144, $236,981, and $19,189,956; $1,448,822, $150,715, and $18,965,628; and $1,487,583, $140,743, and $18,671,342, respectively, in 2012, 2011 and 2010.

15. COOPERATIVE AGREEMENT

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal year 2012 were $22,437 and $22,437 and during fiscal year 2011 were $35,947 and $37,132, respectively. FY12 funding is only state-funding as this program is no longer federally funded.

16. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "…to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations…" Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employ management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's combined financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2012 and 2011, the Foundation's net assets (including unrealized gains) totaled $6,947,496 and $6,885,677, respectively on the accrual basis of accounting.

During the years ended June 30, 2012 and 2011, the Foundation contributed $2,755 and $1,000, respectively to the University for scholarships.

17. AFFILIATED ORGANIZATION

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

18. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2012 and 2011.

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

19. SEGMENT INFORMATION

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

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

Condensed financial information for the University's segment as of June 30, 2012 and 2011, is as follows:

	State of West Virginia Board of Governors of West Virginia State University, Student Union Revenue Bonds	
Condensed Schedules of Net Assets	**2012**	**2011**
Assets:		
Current assets	$	$ 86,941
Noncurrent assets	5,555,601	5,715,514
Total	$ 5,555,601	$ 5,802,455
Liabilities:		
Current	$ 313,135	$ 277,538
Noncurrent assets	3,045,273	3,303,761
Total liabilities	3,358,408	3,581,299
Net assets:		
Invested in capital assets	1,768,642	1,681,218
Restricted — debt service	479,651	479,259
Unrestricted	(51,100)	60,679
Total net assets	2,197,193	2,221,156
Total	$ 5,555,601	$ 5,802,455

Condensed Schedules of Revenues, Expenses, and Changes in Net Assets	West Virginia State University, Student Union Revenue Bonds 2012	2011
Operating:		
Operating revenues	$ 843,364	$ 872,565
Operating expenses	(688,367)	(682,186)
Net operating income	154,997	190,379
Nonoperating:		
Nonoperating revenues	651	80
Nonoperating expenses	(183,425)	(193,225)
Decrease in net assets	(27,777)	(2,766)
Net assets — beginning of year	2,221,156	2,223,922
Net assets — end of year	$ 2,193,379	$ 2,221,156

Condensed Schedules of Cash Flows

	2012	2011
Net cash provided by operating activities	$ 321,053	$ 369,324
Net cash used in capital and related financing	(431,755)	(435,970)
(Decrease) increase in cash and cash equivalents	(110,702)	(66,646)
Cash and cash equivalents — beginning of year	86,941	153,587
Cash and cash equivalents — end of year	$ (23,761)	$ 86,941

20. EAST BONDS

The University has been approved to receive $15,000,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2012, $794,261 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

21. COMPONENT UNIT DISCLOSURES

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

Summary of Significant Accounting Policies:

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

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

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

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

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

- Unrestricted Net Assets — Net assets not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

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

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

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

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

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

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

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

In-Kind Contributions — The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the Consolidated Statement of Activities.

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

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

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

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

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

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

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

Accounting for Uncertain Tax Positions — The Foundation has adopted the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Foundation is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Foundation believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2012 and 2011.

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

The Foundation maintains cash balances at a local financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. Cash and cash equivalents exceeding federally insured limits totaled $70,006 at June 30, 2012.

Unconditional Promises to Give — Unconditional promises to give at June 30, 2012 and 2011 consist of the following:

	2012	**2011**
Pledge receivable — unrestricted — current	$ 1,138	$ 210
Pledge receivable — temporarily restricted		
Receivable in less than one year	70,609	15,523
Receivable in one to five years	65,000	
Pledge receivable — restricted	10,001	
Total unconditional promises to give	146,748	15,733
Less discounts to net present value	(5,004)	
Net unconditional promises to give	$ 141,744	$ 15,733

Investments — Investments are carried at market value at June 30, 2012 as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
U.S. government obligations and agencies	$ 78,378	$ 94,350	$ 15,972
Common stock	107,156	137,501	30,345
Mutual funds	3,111,658	3,164,171	52,513
Corporate obligations	765,380	776,853	11,473
Cash equivalents	147,964	147,964	-
Less administrative fees in transit	(95,355)	(95,355)	-
	$4,115,181	$4,225,484	$110,303

Investments are carried at market value at June 30, 2011 as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
U.S. government obligations and agencies	$ 78,513	$ 78,719	$ 206
Common stock	99,462	124,332	24,870
Mutual funds	3,042,342	3,369,265	326,923
Corporate obligations	765,505	759,649	(5,856)
Cash equivalents	87,845	87,845	-
Less administrative fees in transit	(87,874)	(87,874)	-
	$3,985,793	$4,331,936	$346,143

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

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors determined that the Foundation's permanently restricted net assets met the definition of endowment funds under UPMIFA and adopted FSP FAS 117-1.

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

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

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

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

Fair Value Measurements — Fair values of assets measured on a recurring basis at June 30, 2012 and 2011 are as follows:

		Fair Value Measurements at Reporting Date Using:		
June 30, 2012	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. government obligations and agencies	$ 94,350	$ 94,350	$ -	$ -
Common stock	137,501	137,501		
Mutual funds	3,164,171	3,164,171		
Corporate obligations	776,853	776,853		
Cash equivalents	147,964	147,964		
Less administrative fees in transit	(95,355)	(95,355)		
Contribution receivable — beneficial interest in charitable trusts	210,814	175,073		35,741
Total	$ 4,436,298	$ 4,400,557	$ -	$ 35,741
June 30, 2011				
U.S. government obligations and agencies	$ 78,719	$ 78,719	$ -	$ -
Common stock	124,332	124,332		
Mutual funds	3,369,265	3,369,265		
Corporate obligations	759,649	759,649		
Cash equivalents	87,845	87,845		
Less administrative fees in transit	(87,874)	(87,874)		
Contribution receivable — beneficial interest in charitable trusts	34,860			34,860
Total	$ 4,366,796	$ 4,331,936	$ -	$ 34,860

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

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) Contribution Receivable - Beneficial Interest in Charitable Remainder Trust
July 1, 2011	$ 34,860
Beneficial interest in charitable trust	175,073
Total gains or losses (realized/unrealized)	881
June 30, 2012	$ 210,814

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

Beneficial Interest in Trusts — The Foundation was the beneficiary of certain charitable trusts. The value of such trusts at June 30, 2012 and 2011 are as follows:

	2012	2011
Charitable remainder trust	$ 35,741	$ 34,860
Charitable trust	175,073	
	$ 210,814	$ 34,860

Property and Equipment, Net — A summary of property and equipment as of June 30, 2012 and 2011 is as follows:

	2012	2011
Land	$ 166,000	$ 166,000
Buildings and improvements	1,282,353	1,276,425
Furniture and equipment	46,448	46,448
	1,494,801	1,488,873
Less accumulated depreciation	628,178	593,853
	$ 866,623	$ 895,020

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

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

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

Restrictions and Limitations on Net Asset Balances:

Temporarily Restricted:

Temporarily restricted net assets at June 30, 2012 and 2011 consisted of the following:

	2012	**2011**
Athletic participation	$ 138,070	$ 26,359
Students' special projects	20,184	8,133
Academic programs	73,370	174,949
General scholarships	1,126,783	1,031,189
WVSU Foundation programs	91,308	146,355
Investment income and net appreciation	439,370	626,024
Properties	514,861	549,186
	$2,403,946	$2,562,195

Permanently Restricted:

Permanently restricted net assets at June 30, 2012 and 2011 consisted of the following:

	2012	**2011**
Scholarship endowments principal	$4,032,885	$3,747,903

Gifts In Kind — The amounts reflected in the accompanying financial statements as Gifts in kind contributions are offset by like amounts included in additions to various program expense accounts. The Organization received contributions of equipment during the year ended June 30, 2012, with a fair value on the date of donation of $270,401.

Subsequent Events — The Foundation has evaluated all subsequent events through September 26, 2012, the date the financial statements were available to be issued.

22. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2012 and 2011, the following table represents operating expenses within both natural and functional classifications:

2012

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	$ 8,537,435	$3,040,574	$ 1,047,227	$ (26,558)	$ 112,580	$ -	$ -	$ -	$12,711,258
Research	2,036,553	441,201	1,325,440	19,979	15,000				3,838,173
Public service	1,627,305	455,489	2,644,296	17,002	1,628				4,745,720
Academic support	1,023,087	414,252	520,405	9,562					1,967,306
Student services	1,647,743	724,837	845,818	6,799	18,806				3,244,003
General institutional support	5,587,894	1,561,779	4,679,567	24,099	641,292				12,494,631
Operations maintenance of plant	1,268,687	1,214,543	(252,159)	1,126,179					3,357,250
Scholarship and fellowship			(146,361)		3,613,549				3,467,188
Auxiliary enterprises	2,182,026	658,473	4,103,339	640,970	19,841				7,604,649
Loan cancellations and write-off							60,535		60,535
Depreciation and amortization expense						1,489,801			1,489,801
Fees assessed by the Commission								121,938	121,938
Total	$23,910,730	$8,511,148	$14,767,572	$1,818,032	$4,422,696	$1,489,801	$60,535	$121,938	$55,102,452

2011

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	$ 8,273,163	$3,019,682	$ 1,103,112	$ 4,398	$ 132,505	$ -	$ -	$ -	$12,532,860
Research	1,960,854	408,882	1,575,976	18,434	14,700				3,978,846
Public service	757,521	185,652	1,262,138	17,690					2,223,001
Academic support	1,008,216	399,635	339,667	8,591					1,756,110
Student services	1,602,485	723,639	880,948	5,260	7,327				3,219,660
General institutional support	7,007,476	1,875,270	4,252,868	26,834	626,844				13,789,292
Operations maintenance of plant	1,511,893	1,317,310	1,594,929	1,283,650	7,000				5,714,782
Scholarship and fellowship					4,337,633				4,337,633
Auxiliary enterprises	2,136,415	639,153	4,888,339	695,732	1,067				8,360,707
Loan cancellations and write-off							24,890		24,890
Depreciation and amortization expense						1,756,751			1,756,751
Fees assessed by the Commission								134,895	134,895
Total	$24,258,024	$8,569,224	$15,897,977	$2,060,589	$5,127,077	$1,756,751	$24,890	$134,895	$57,829,427

23. SERVICE CONCESSION ARRANGEMENTS

The University has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The University has identified one contract for services that meets the four criteria of a service concession arrangement (SCA). SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided and the government retains ownership of the assets at the end of the contract.

The University has a contract with AVI Foodsystems, Inc. (AVI) who manages its dining services. The current contract began on August 1, 2003 and allows for nine annual renewals. AVI provides meal plans to students through the University as well as offering cash sales to the University community. The University receives annual commission payments from AVI calculated as a contractually agreed percentage of cash sales and the University pays AVI for the meal plans from fees collected by the University from students. In FY 2012 and 2011, the University received $49,361 and $53,317, respectively, in commissions. There were no major renovations of the facilities during FY 2012 or 2011.

24. SUBSEQUENT EVENTS

On September 20, 2012, the West Virginia State University Board of Governors adopted a resolution authorizing University administration to (1) the refunding and redemption of the outstanding Board of Governors of West Virginia State College Student Union Revenue Bonds (Janes C. Wilson College Union Project), 2002 Series A, and the outstanding note issued on behalf of West Virginia State College in connection with the Educational Direct Loan Mortgage Corporation project funding bonds, Series A 1996-1 (West Virginia State College Project), (2) the design, acquisition, construction and equipping of proposed capital improvement projects for West Virginia State University, and (3) the financing of the costs of such refunding and such projects through the issuance by the West Virginia State University Board of Governors of refunding and improvement revenue bonds in an aggregate principal amount of not more than $12,000,000.

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

To the West Virginia State
University Governing Board:

We have audited the combined financial statements of West Virginia State University (the "University") as of and for the year ended June 30, 2012, and have issued our report thereon dated January 24, 2013, which states reliance on 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. The audits of the University's discretely presented component units were conducted in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

January 24, 2013