WEST VIRGINIA UNIVERSITY

Combined Financial Statements
for the Years Ended June 30, 2011 and 2010
and Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined statements of net assets of West Virginia University (the "University") as of June 30, 2011 and 2010 and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the combined financial position of the University at June 30, 2011 and 2010, and the combined changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 18, which is the responsibility of the University's management, is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 19, 2011, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 19, 2011

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2011

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board ("GASB"). This section of West Virginia University's (the "University" or "WVU") annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2011 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2010 compared to fiscal year 2009.

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

Financial Highlights

At June 30, 2011, the University's total net assets increased from the previous year-end by $22.9 million. This increase is primarily attributable to a significant increase in capital assets, net of depreciation and decreases in leases payable, debt service assessment payable to the Higher Education Policy Commission ("HEPC") and bonds payable. This increase in net assets was partially offset by increases in the other post-employment benefits ("OPEB") liability resulting from accruing the annual required contribution ("ARC") allocated to the University by the West Virginia Retiree Health Benefit Trust Fund (the "Trust"), accrued liabilities and accrued payroll as well as decreases in restricted cash and cash equivalents, investments and net accounts receivable.

Total revenues experienced an increase of 7.3% over the prior year. Federal and non-governmental grants and contracts revenue increased significantly compared to last year's. Capital bond proceeds from the State, net tuition and fees, investment income and revenues from auxiliary enterprises and federal Pell grants all were higher compared to prior years. These increases were partially offset by decreases in capital grants and gifts. Total expenses increased 3.5% from prior year mainly because of increased salaries and benefits, scholarship and fellowship expense, and supplies and other services expense.

During fiscal year 2011, the University would have achieved income before other revenues, expenses, gains, or losses after adjusting for the effect of OPEB liability and unrealized gains on investments.

Total net assets had decreased from fiscal year 2009 to fiscal year 2010 by $9.9 million primarily due to a significant increase in the OPEB liability, increases in leases payable, deferred revenue and accrued payroll and also due to the growth in total expenses outpacing the growth in total revenues from fiscal year 2009 to 2010.

Net Assets

The statements of net assets present the assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities) of the University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors, employees and lenders. Net assets measure the equity or the availability of funds of the University for future periods.

Net Assets are displayed in three major categories:

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

Restricted net assets. This category includes net assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted net assets** include endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. **Expendable restricted net assets** include resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Condensed Combined Statements of Net Assets (in thousands)

	As of June 30		
	2011	**2010**	**2009**
Assets			
Current Assets	$ 186,868	$ 172,011	$ 165,202
Noncurrent Assets	1,227,193	1,190,688	1,126,127
Total Assets	$ 1,414,061	$ 1,362,699	$ 1,291,329
Liabilities			
Current Liabilities	$ 150,979	$ 151,009	$ 135,772
Noncurrent Liabilities	497,979	469,517	403,498
Total Liabilities	$ 648,958	$ 620,526	$ 539,270
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 741,302	$ 700,345	$ 651,253
Restricted for:			
Nonexpendable	5,131	4,299	3,996
Expendable	20,784	24,897	24,699
Unrestricted (Deficit) Net Assets	(2,114)	12,632	72,111
Total Net Assets	$ 765,103	$ 742,173	$ 752,059

Total assets of the University increased by $51.4 million, or 3.8%, to a total of $1,414.1 million as of June 30, 2011. The increase was primarily due to an increase in net capital assets and net loans receivable. These increases were partially offset by decreases in net accounts receivable, investments, and cash and cash equivalents. Capital assets followed an upward trend from prior years.

- Capital assets, net increased by $61.7 million primarily due to acquisition and completion of buildings and building improvements during fiscal year 2011, including: purchase and improvement of certain floors in Marina Tower in the Wharf District for WVU administrative office space; purchase and renovation of a building to house the WVU Department of Public Safety and the WVU Office of Information Technology's data center; construction of the intermodal transportation facility and parking garage (Mountaineer Station); construction of the HSC Biomedical Science Research Center; campus wide renovations of classrooms; and a full exterior restoration of Woodburn Hall, WVU's second oldest academic building. An additional increase was due to the completion of capital projects under Phase III of the Energy Performance Contract. The increase is also attributable to acquisition of equipment and library holdings during fiscal year 2011. This increase in capital assets is consistent with the increase of $48.3 million noted in this category from fiscal year 2009 to fiscal year 2010.

- Loans receivable, net increased by $1.1 million from prior year due to increased activity in the Perkins loan program. Net loans receivable balances had decreased from fiscal year 2009 to fiscal year 2010 due to an increase in the allowance for doubtful accounts resulting from an increase in the volume of delinquent loans in collection.

- Accounts receivable, net decreased by $5.5 million primarily due to a decrease in amounts due at year-end from the University Health Associates for mission support of the WVU School of Medicine and from the WVU Hospital for resident salaries and benefit reimbursement. These decreases were partially offset by an increase in amounts due from the State for capital bond reimbursement requisitions related to the EAST bonds. Net accounts receivable had increased by $4.8 million from fiscal year 2009 to fiscal year 2010.

- Investments decreased by $3.3 million primarily due to a partial liquidation of the investments held with the WVU Foundation to fund some strategic operating needs of the WVU Research Corporation as well as due to the redemption of some Auction Rate Certificates held by the Corporation. The decrease was partially offset by an increase in the fair value of the investments. Investments had experienced a substantial increase from fiscal year 2009 to fiscal year 2010 of $8.5 million primarily due to an increase in the fair value of the investments and additional cash invested with the Foundation.

- Cash and cash equivalents decreased by $2.1 million primarily due to spend down of bond and lease financing proceeds with the Trustees for construction, renovations and life safety improvements of University buildings. An additional decrease was caused by the repayment of $10.9 million of lease financing proceeds in escrow, for the construction of the Mountaineer Station garage. This decrease was partially offset by an increase in cash from operating activities – cash inflows from tuition and fees, grants and contracts, and auxiliary operations. Cash and cash equivalents had increased by $10.6 million from fiscal year 2009 to fiscal year 2010 primarily due to proceeds received from a lease financing agreement with BB&T to finance certain capital construction expenditures.

Total liabilities for the year increased by $28.4 million (or 4.6%). Excluding the OPEB liability, total liabilities would have decreased by $19.6 million or a 3.5% decrease compared to the prior year. The increase in total liabilities during fiscal year 2011 is primarily attributable to a significant increase in the OPEB liability accrued liabilities, and accrued payroll. This increase was partially offset by a decrease in leases payable, the reported debt service assessment payable to the Commission, bonds payable, accounts payable, deferred revenue and notes payable.

- OPEB liability increased by $48.1 million due to the accrual of the fiscal year 2011 ARC allocated to WVU by the Trust. The OPEB liability represents WVU's accumulated unpaid ARC to the Trust. The OPEB liability had increased by $51.4 million from fiscal year 2009 to fiscal year 2010 and is expected to continue this upward trend in the future.

- Real estate purchase agreement payable of $3.3 million represents the balance of the net present value of installment payments to be made on the purchase of a building on Elmer Prince Drive in Morgantown, WV, to house the WVU Department of Public Safety and the WVU Office of Information Technology's data center. No such liability was reported in fiscal year 2010.

- Accrued liabilities increased by approximately $2.0 million primarily because of amounts escrowed and due to vendors at the end of fiscal year 2011 for PEIA premiums pertaining to less than 12 month employees. This was a result of a business process change in vendor payments. No such liability was reported in fiscal year 2010.

- Accrued payroll increased by approximately $1.6 million mainly due to an increase in number of employees paid in arrears. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. The increase in accrued payroll is also partly attributable to an increase in the number of employees participating in the summer deferred payment program that allows employees with a less than twelve month contract to spread their pay over twelve months. The increase in accrued payroll is consistent with the increase in accrued payroll from fiscal year 2009 to fiscal year 2010 of $1.2 million.

- Leases payable decreased by $12.2 million primarily due to repayment of $10.9 million of lease financing proceeds received in fiscal year 2010 for the construction of the Mountaineer Station garage. These funds were placed in escrow, pending approval from the federal government, which was subsequently denied. Leases payable had increased by $35.7 million from fiscal year 2009 to fiscal year 2010 primarily due to significant leases executed in fiscal year 2010 with BB&T for capital construction and renovation of University buildings.

- Debt service assessment payable to the Commission decreased by $5.4 million due to scheduled debt service (principal) payments in fiscal year 2011. This decrease is consistent with the decrease in such liability from fiscal year 2009 to fiscal year 2010 of $5.1 million.

- Bonds payable decreased by $3.7 million due to scheduled bond principal payments and amortization of net original issue bond premium related to the 2004 revenue refunding and improvement bonds during fiscal year 2011, as well as amortization of the loss on refunding related to the 1997 refunded bonds. Bonds payable had experienced a similar decrease from fiscal year 2009 to fiscal year 2010 of $3.5 million.

- Accounts payable decreased by $2.1 million primarily due to a lower number of grants and construction related invoices payable to vendors at the end of fiscal year 2011. No significant change in this category was noted from fiscal year 2009 to fiscal year 2010.

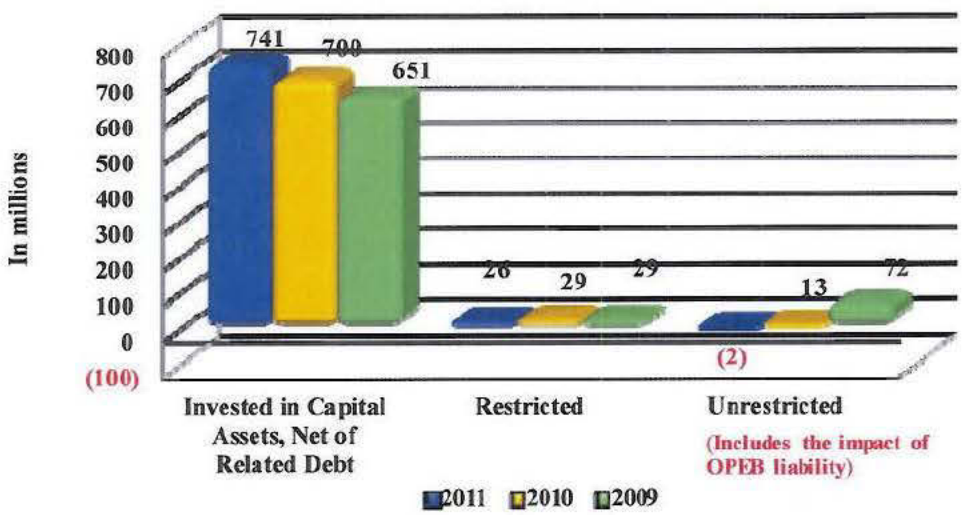
- Deferred revenue decreased by $1.1 million primarily attributable to several scheduled or advance payment sponsored awards being completed in fiscal year 2011 and a reduction in deferred revenue on existing awards. Deferred revenue had increased by $2.9 million from fiscal year 2009 to fiscal year 2010.

- Notes payable decreased by $1.0 million due to scheduled debt service (principal) payments in fiscal year 2011. No significant change was noted in this category from fiscal year 2009 to fiscal year 2010.

The University's current assets of $186.9 million were sufficient to cover current liabilities of $150.9 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2011. This is an improvement from the excess of current assets over current liabilities of $21.0 million at June 30, 2010.

The following is a comparative illustration of net assets.

COMPARISON OF NET ASSETS
June 30, 2011, 2010 and 2009



Invested in capital assets, net of related debt increased by $40.9 million primarily due to an increase in capital assets, net, and decreases in debt service assessment payable to the Commission and bonds payable. This increase is comparable to the increase of $49.1 million in this category from fiscal year 2009 to fiscal year 2010.

Restricted net assets decreased by $3.3 million primarily due to a decrease in the restricted for capital projects category resulting from a decrease in cash balances related to the Mountaineer Station garage and White Hall construction and renovation projects. Additionally, cash balances decreased in several deferred maintenance projects due to significant capital expenditures. This increase was partially offset by a decrease in the restricted for loans category as a result of an increase in the allowance for doubtful loans receivable. Restricted net assets had experienced an increase of approximately $500,000 from fiscal year 2009 to fiscal year 2010.

Unrestricted net assets decreased by $14.7 million primarily due to an increase in the OPEB liability as well as increases in accrued payroll and accrued liabilities and a decrease in net accounts receivable. An increase in unrestricted cash and cash equivalents partially offset this increase. This net asset category had experienced a significant decrease from fiscal year 2009 to fiscal year 2010 of $59.5 million due to increases in the OPEB liability.

Excluding the OPEB liability, unrestricted net assets would have experienced an increase of $33.3 million over the previous year.

Revenues, Expenses and Changes in Net Assets

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

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

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

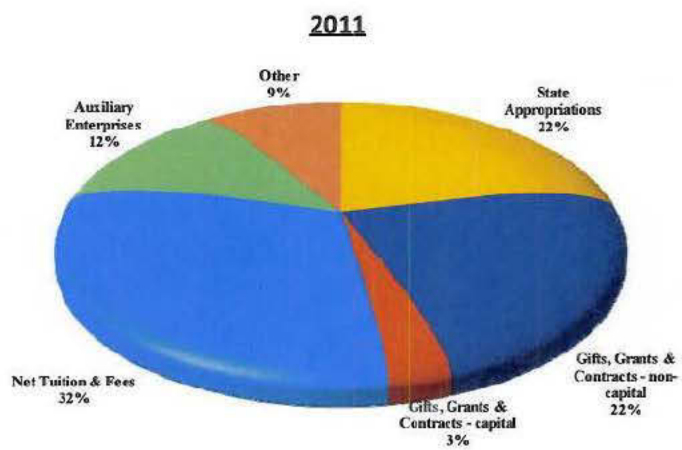
	Years Ended June 30		
	2011	**2010**	**2009**
Operating Revenues	$ 630,544	$ 593,541	$ 574,754
Operating Expenses	914,164	881,326	816,077
Operating Loss	(283,620)	(287,785)	(241,323)
Net Nonoperating Revenues	254,434	241,746	226,510
Loss before Other Revenues, Expenses, Gains or Losses	(29,186)	(46,039)	(14,813)
Capital grants and gifts	30,266	34,511	36,509
Capital grants (federal)	2,879	961	-
Capital bond proceeds from the State	18,707	-	-
Bond proceeds/capital projects proceeds from the Commission	264	681	2,647
(Decrease) Increase in Net Assets Before Transfers and Cumulative Effect	22,930	(9,886)	24,343
Transfer of net assets to Bridgemont CTC	-	-	(2,017)
Transfer of net assets to WVU Parkersburg	-	-	(13,429)
Cumulative Effect of Adoption of Accounting Principle	-	-	477
(Decrease) Increase in Net Assets	22,930	(9,886)	9,374
Net Assets at Beginning of Year	742,173	752,059	742,685
Net Assets at End of Year	$ 765,103	$ 742,173	$ 752,059

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

	Year Ended June 30, 2011	
Loss before other revenues, expenses, gains or losses	$	(29,186)
OPEB added to liability		48,065
Unrealized gains		(6,439)
Modified Amount	**$**	**12,440**

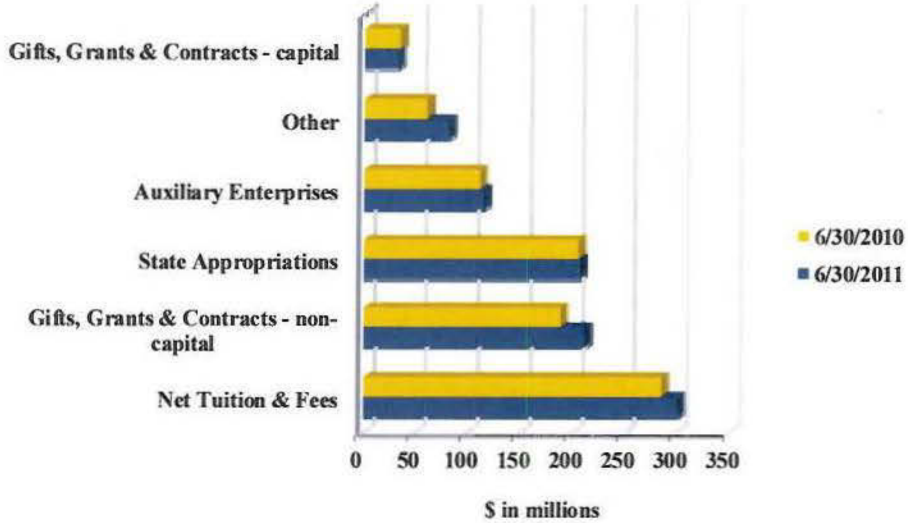
Revenues:

The following chart illustrates the composition of revenues by source for fiscal year 2011.



Total fiscal year 2011 revenues continued the positive trend of exceeding those of the prior year. In addition, the University continued to experience annual growth in all but one of its significant revenue sources, with capital gifts, grants and contracts being the only source that did not experience growth from fiscal year 2010 as illustrated below.

Trend in Revenues



Specifically, total revenues for fiscal year 2011 were $954.6 million which represented an increase of $64.6 million or 7.3% over the prior year. The most significant sources of revenue for the University are tuition and fees, grants and contracts, and State appropriations. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Capital bond proceeds from the State in the amount of $18.7 million were recorded for the first time during fiscal year 2011 for the reimbursement of construction expenditures from the Education, Arts, Science and Tourism (EAST) bonds issued by the WV Economic Development Authority.

- Grants and contracts revenue (non-capital related) increased by $16.8 million mainly due to increased revenues from new federal and State awards, activity in existing awards, new and existing ARRA awards, as well as increased facilities and administrative overhead revenues. An increase of $6.9 million was noted in this revenue category from fiscal year 2009 to fiscal year 2010.

- Tuition and fees, net increased by $15.5 million primarily due to an increase in the fee rate and an increase in non-resident student enrollment. A portion of the growth in fee revenues is also attributable to an increase in Extended Learning revenues. This increase was partially offset by an increase in the scholarship allowance due to more institutional resources used for awarding financial aid. This increase is double the increase of $7.7 million in the prior year.

- Pell grant revenue increased by $6.3 million attributable to an increase in the number of students applying for and receiving the grant as well as an increase in the grant awarded per student. Pell Grant revenue had increased by $9.0 million from fiscal year 2009 to fiscal year 2010.

- Auxiliary revenue increased by $3.5 million primarily due to an increase in room and dining services revenue, auxiliary fee revenue and athletics revenue. Room and dining services revenue increased primarily due to an increase in room and board fees, an increase in occupancy and number of meal plans purchased, as well as the operation of Greek housing on campus. Auxiliary fee revenue increased due to increases in both the transportation and Recreation Center fees. Athletics revenue increased mainly because of increases in revenues from single football game tickets sales, advertising revenues, and parking and parking fine fees. This increase in auxiliary revenue is consistent with the increase in this category from fiscal year 2009 to fiscal year 2010 of $5.9 million.

- Investment income increased by $2.3 million primarily due to higher return and an increase in the fair value of investments with the Foundation. Investment income had experienced an increase of $12.7 million from fiscal year 2009 to fiscal year 2010 due to significant gains in market value of investments.

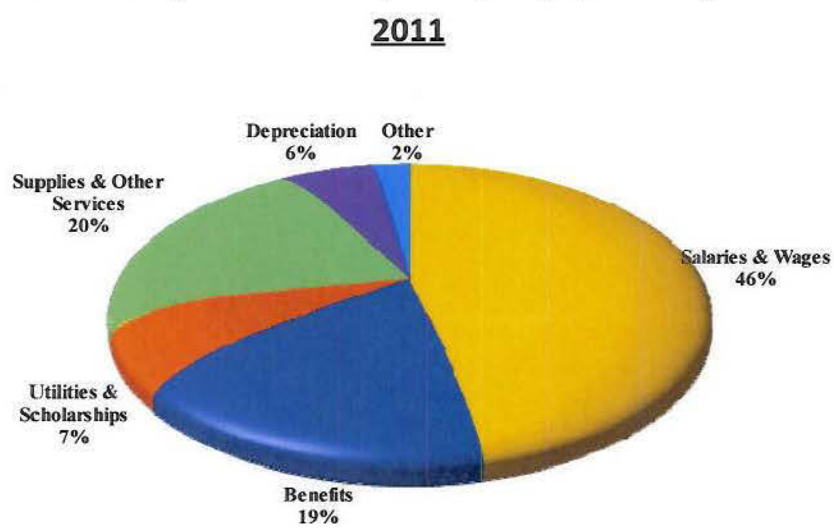
- Total State support increased by approximately $1.2 million from the previous year. Although budget appropriations from the State decreased by $1.4 million from the prior year, the legislature allocated an additional $2.6 million of federal ARRA funds to replace the reduction in State appropriations. State appropriations, including the stabilization funds, had experienced a slight decrease from fiscal year 2009 to fiscal year 2010.

- Revenues from sales and services of educational activities increased by approximately $940,000 over prior year primarily due to an increase in royalties generated from University's trademark licensing, an increase in the attendance at the activities and programs offered by the Arts & Entertainment office and an increase in health insurance fees as a result of a new mandatory requirement for international students implemented in fiscal year 2011. This category had experienced a similar increase from fiscal year 2009 to fiscal year 2010 due to increased revenues from study abroad programs and conferences and events at WVU Jacksons Mills and the Fire Service Academy.

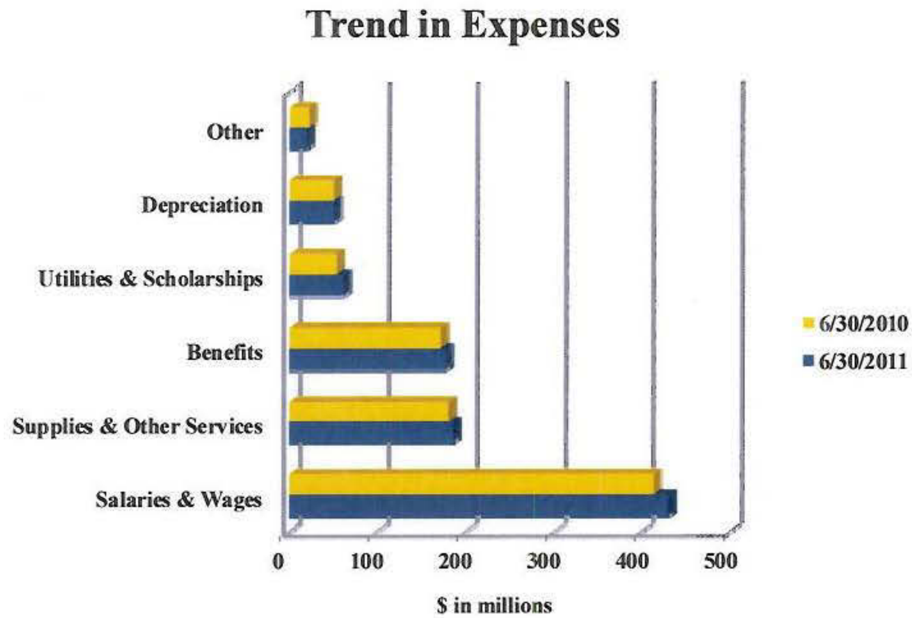
- Capital grants & gifts decreased by approximately $2.3 million compared to prior year primarily due to reduced revenues from existing capital grants, notably a capital grant from the Department of Transportation for the PRT vehicle propulsion, as well as reduced revenues from donated right-to-use software from Schlumberger and Landmark Graphics. This decrease was partially offset by an increase in assets donated to the WVU Foundation on the University's behalf including scoreboards at the Coliseum and football stadium, a farm in Mineral county and land in Monongalia county and dentistry, pediatrics and Cancer Center equipment. Capital grants and gifts had experienced a similar decrease of approximately $2.0 million from fiscal year 2009 to fiscal year 2010 attributable to reduced revenues from capital grants during fiscal year 2010.

- Gift revenue decreased by approximately $990,000 from prior year mainly attributable to a decrease in WVU Foundation funds to pay for salaries, benefits and Athletics' share of debt service payments. No significant change was noted in this category from fiscal year 2009 to fiscal year 2010.

Expenses:
The following graph shows the composition of total expenses by category for fiscal year 2011.



The following chart provides a comparison of expenses by significant category between fiscal years 2011 and 2010.



Total fiscal year 2011 expenses of $931.7 million exceeded those of the prior year by $31.8 million (or 3.5%) in the individual expenditure categories continue to reflect the University's commitment to invest in its facilities, employees and students. Increases in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by $16.5 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty and academic professionals' salaries. This increase is in alignment with one of the five goals of WVU's strategic plan for 2020 - an investment in hiring and retaining high-quality faculty and researchers. The increase is also attributable to a temporary salary enhancement program made available to all eligible employees during the latter six months of fiscal year 2011 and end-of-contract compensation paid in Athletics. An additional increase in salaries and wages was caused by an increase in the Research Corporation payroll mainly attributable to an annual merit raise program implemented during fiscal year 2011. A similar increase was noted in salaries and wages from fiscal year 2009 to fiscal year 2010 of $19.8 million.

- Scholarship and fellowship expenses increased by $6.2 million over the prior year primarily due to an increase in the amount of financial aid awarded to students during fiscal year 2011, including Pell grants and institutional awards, as well as an increase in tuition and fee merit waivers. This category had similarly increased from fiscal year 2009 to fiscal year 2010 by $3.7 million.

- Supplies and other services increased by approximately $5.7 million mainly attributable to an increase in sponsored awards and a corresponding increase in related expenses. An additional increase was caused by improvement projects undertaken across campus as well as increases in insurance and advertising expense, general repairs and maintenance and legal fees. Supplies and other services had experienced a lower increase from fiscal year 2009 to fiscal year 2010.

- Benefits expense increased by approximately $5.0 million in correspondence with an increase in the salary expense and also attributable to an increase in service related tuition waivers to faculty, staff and graduate assistants; an increase in the accrual for compensated absences representing active employees' leave balances, resulting from an additional "floating" vacation day granted by the State of WV for gubernatorial primary elections; and an increase in the University's share of employment taxes and pension and retirement contributions. Benefits expense had experienced a significant increase of $40.5 million from fiscal year 2009 to fiscal year 2010 due to a large increase in OPEB expense.

- Other net non-operating revenues of $2.7 million were reported in fiscal year 2011 compared to a net non-operating expense of approximately $844,000, an increase of $1.9 million. This change is attributable to a gain realized on sale of University owned property to the Monongalia County Board of Education during fiscal year 2011. There was a decrease in net non-operating expense from fiscal year 2009 to fiscal year 2010 of $1.9 million.

- Utilities expense increased by $1.4 million over prior year attributable to an increase in electricity expense resulting from rate increases and increased usage due to completion of several buildings on the main campus. No significant change was noticed in this category from fiscal year 2009 to fiscal year 2010.

- Expense related to loan cancellations and write-offs decreased by $1.9 million over prior year due to a decrease in the allowance for doubtful loans. During fiscal year 2010 a higher allowance was reported as a result of an increase in the volume of delinquent loans in collection compared to fiscal year 2011. This category had experienced an increase from fiscal year 2009 to fiscal year 2010, as previously discussed.

Cash Flows

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

The statement of cash flows is divided into five sections:

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

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

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

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

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

Condensed Statements of Cash Flows (in thousands)

	Years Ended June 30		
	2011	**2010**	**2009**
Cash Provided By (Used In):			
Operating Activities	$ (170,951)	$ (184,414)	$ (168,536)
Noncapital Financing Activities	255,589	247,725	231,230
Capital Financing Activities	(100,064)	(51,783)	(86,339)
Investing Activities	13,286	(942)	(5,151)
Increase (Decrease) in Cash and Cash Equivalents	(2,140)	10,586	(28,796)
Cash and Cash Equivalents, Beginning of Year	134,933	124,347	153,143
Cash and Cash Equivalents, End of Year	$ 132,793	$ 134,933	$ 124,347

Total cash and cash equivalents decreased by $2.1 million during fiscal year 2011 to $132.8 million.

- Net cash used in operating activities decreased by $13.5 million primarily due to increases in cash inflows from tuition and fees, grants and contracts and Auxiliary enterprises. These increases in inflows were partially offset by increases in payments to suppliers, employees, for benefits and for scholarships and fellowships. Cash used in operating activities had experienced an increase from fiscal year 2009 to fiscal year 2010.

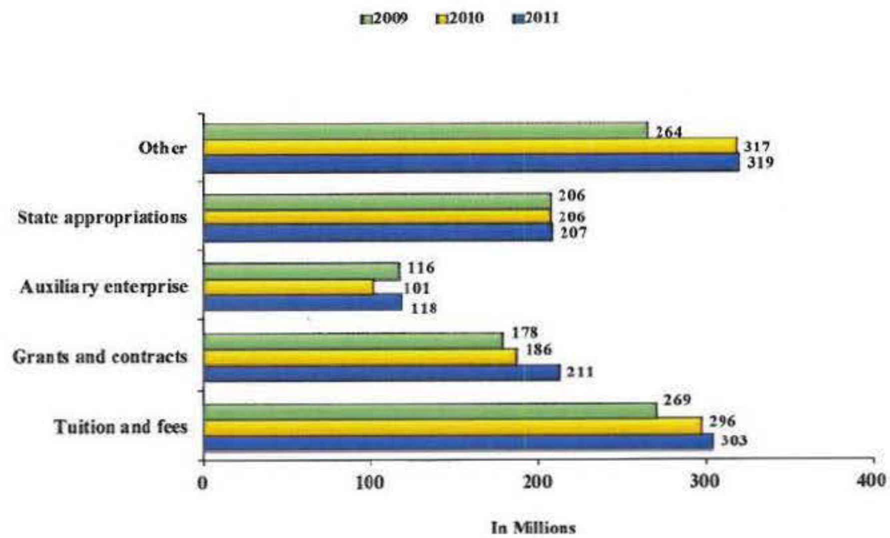
- Net cash provided by noncapital financing activities increased by $7.9 million primarily due to increased cash inflows from Pell grants and State fiscal stabilization funds. This category had experienced a similar, but slightly higher, increase from fiscal year 2009 to fiscal year 2010.

- Net cash used in capital financing activities increased by $48.3 million primarily due to increase in cash outflows for purchase of capital assets and debt service payments on capital debt and leases. An additional factor was a decrease in cash inflows from lease financing. The increases in cash outflows were partially offset by an increase in cash inflows from bond/capital projects from the Commission and Capital ARRA awards. This category had experienced a decrease of $34.6 million from fiscal year 2009 to fiscal year 2010.

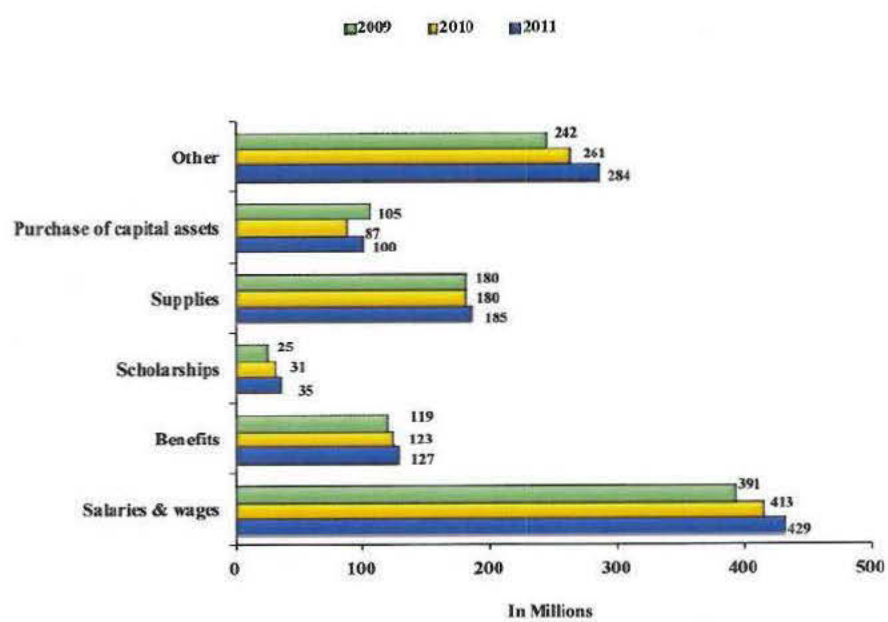
- Investing activities provided cash in the net amount of $13.3 million in fiscal year 2011, primarily due to redemption of some Auction Rate Certificates held by the Foundation. In contrast, cash was used in investing activities during fiscal year 2010. Net cash used in investing activities had decreased from fiscal year 2009 to fiscal year 2010 due to a decrease in purchase of Research Corporation investments.

The following graphs illustrate the sources and uses of cash –

SOURCES OF CASH



USES OF CASH



Capital Asset and Long Term Debt Activity

The University had significant construction and capital activity in fiscal year 2011, financed by bond proceeds, loan proceeds, leases, grants, gifts and other University funds.

- The University completed construction of the intermodal transportation facility and parking garage (Mountaineer Station); the HSC Biomedical Science Research Center; campus wide renovations of classrooms; and a full exterior restoration of Woodburn Hall, WVU's second oldest academic building. Other on-going capital activity included: construction of a basketball practice facility to be used by both the men's and women's basketball teams; construction of a women's soccer practice facility; redevelopment and construction of student recreation fields on the Evansdale campus; renovation and life safety improvements to the White Hall, an academic building; refurbishment of the PRT guide way heating system and repairs to the PRT system facility; and replacement of the cooling tower serving the Health Sciences Center.

- During fiscal year 2011, the University acquired a floor of the Marina Tower in the Wharf District of Morgantown to provide expanded office space for University administrative offices. The University also received, through the WVU Foundation, gifts of land, buildings and equipment including property located near Route 705, a farm and related buildings in Mineral County, and scoreboard systems that were installed at the Milan Puskar football stadium and the Coliseum.

- During fiscal year 2011 the University completed and capitalized costs associated with the development of MyTime, a time and leave management system, that will record hours worked by non-exempt employees in a more accurate and reliable manner. The University also capitalized on-going costs related to the implementation of an identity management system.

- The University completed upgrade of facilities under phase III of a performance energy contract with Siemens Building Technologies, Inc. and funded by a lease financing agreement with the Banc of America Public Capital Corp. The performance energy contract is designed to reduce energy consumption, reduce deferred maintenance, implement life safety improvements, and advance operational enhancements throughout the University. Under phase III, energy performance projects were undertaken at the Health Sciences Center of the University.

- The University executed a property use agreement with the Mylan Park Foundation, Inc. for the use of their community center and baseball, softball and recreational fields by our students for student club, intramural and recreational activities. The University also executed a facility use agreement with Pro Performance, Inc. for the use of their indoor field turf arena for student related activities.

The University, including the Health Sciences Center and its regional campuses, has planned capital expenditures of approximately $288.7 million for an on-going capital plan and approximately $6.2 million for annual repairs and maintenance. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University campuses including a student health facility, an advanced engineering research building, and agricultural sciences building, and a College of Physical Activity and Sports Sciences building. These capital projects are being financed through bond proceeds, grants, and other sources of revenues available to the University including internal financing, operational revenue and other financing sources.

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

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however $82.6 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2011.

The University maintains an A+ and Aa3 credit ratings from Standard and Poor's and Moody's respectively, with a stable outlook. These ratings were reaffirmed in the Fall of 2011.

On August 1, 2011, the University issued improvement revenue bonds ("2011 A Bonds") in the amount of $12.7 million to finance the purchase of real and personal property, consisting of a multi-story apartment complex, known as "The Augusta on the Square" and the related costs of issuance. The 2011 A Bonds are payable from the same pledged revenues as the 2004 revenue bonds.

The Board of Governors of the University and the HEPC approved separate resolutions at their June 3, 2011 and August 5, 2011 meetings, respectively to issue improvement revenue bonds (the "2011 bonds"), in the aggregate principal amount of $250.0 million. The proceeds from the 2011 Bonds are intended to finance a portion of the costs of certain improvements at the University including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2011 Bonds and refinance certain tax-exempt lease purchase agreements entered into by the University. The 2011 bonds will be equally secured by the same pledged revenues as the 2004 revenue bonds.

Economic Outlook

The University administration realizes that the University will face significant challenges that will require careful financial planning and management in future periods.

The University's financial position is closely tied to that of the State of West Virginia. As such, the University is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. However, the economic condition of the State of WV has remained relatively strong through the recent national downturn due to the strong demand for its natural resources, with revenue collections exceeding budget in fiscal year 2011 and a similarly positive outlook for fiscal year 2012. While the State reduced the general revenue budget appropriations to the University between fiscal years 2009 and 2011, those reductions were restored by granting the University State fiscal stabilization funds under the federal ARRA for educational and general expenditures. The University received $10.6 million and $13.2 million in stabilization funds in fiscal years 2010 and 2011, respectively. For fiscal year 2012, the State provided funding to replace the ARRA funds and to increase the overall levels of its appropriations to WVU.

However, the possibility of changing financial conditions and a subsequent reduction in State appropriations still exists. The Board of Governors and the senior management team at WVU have developed a financial plan that addresses such a possibility and can accommodate changes in State funding. Any impact of reductions in State appropriations could be compounded by the need for additional funds for strategic investments related to the instructional, service and research missions. This need compels the University to constantly focus on cost control and revenue generation strategies.

During fiscal year 2011, the University created and began implementing a *WVU 2020 strategic plan for the future*. The plan focuses on five main goals namely: research excellence, educational attainment, diversity, globalization and the well-being of the people of WV. The University aspires to attain and maintain the highest Carnegie research ranking, double the number of its nationally ranked programs and propel its graduates at the forefront of career readiness. Realization of the Plan's strategic goals and aspirations will require resources to fund the appropriate infrastructure and facilities, hire and retain high quality faculty, allocate faculty lines to strategic research areas, improve and invest in programs and initiatives that improve student retention and graduation rates. With its financially stable outlook, the University is committed and well-positioned to implement its 2020 strategic plan. Accordingly, the strategic plan will be aligned with other major plans including the financial plan, the capital plan, the research plan and the fundraising campaign.

For the fiscal year 2012, WVU-Main Campus tuition and fees were increased by approximately 4.95% for both resident and non-resident students. Additionally, its opening day enrollment of 29,617 for fiscal year 2012 exceeded fiscal year 2011's level of nearly 29,300, with growth experienced in the out-of-state enrollment compared to the prior year. The University's strategic plan calls for expanding out-of-state enrollment and growing Main Campus headcount to 32,000 by the year 2020 with a special emphasis on graduate level enrollment. As the main campus incoming freshman class size exceeds 5,000, the University maintains a high quality academic profile for the admitted freshman students. Divisional campus Potomac State College (PSC) continues its robust enrollment with an increase in the number of incoming freshmen students beginning their education at the PSC campus. The entering class profile of divisional campus West Virginia University Institute of Technology has improved notably along with an expected increase in enrollment in fall 2012.

The University's research programs represent an important component of its mission as well. As federal deficits increase and funding becomes scarce, an increased competition for limited funds is making funded research grants more difficult to secure. The University has also been adversely impacted by the loss of Congressionally-directed "ear-mark" funding to its energy and agriculture related activities. The University is attempting to meet the challenges of loss of earmarks and increased competition for sponsor funds by strategically aligning its research strengths with agency priorities; expanding its research focus to include national security technology, environmental sciences, health and biomedical sciences, biometrics, biotechnology and nanotechnology; fostering relationships with external partners to identify potential funding opportunities; and making significant investments in hiring new faculty, related infrastructure, and interdisciplinary programs. The University remains optimistic that those investments are producing positive results as total sponsored funding for fiscal year 2011 totaled $173.8 million – only $4 million lower than the previous year's all-time high for sponsored funding of $177 million (which included over $40 million in ARRA funds).

While the administration strives to pursue and increase critical revenue sources, it is faced with future cost increases related to employer health insurance, general operating costs, facility upkeep/upgrade and maintaining competitive faculty and staff salary plans. For the fiscal year 2012, the University's Board of Governors approved an average salary increase program of 4.2% effective September 1, 2011, which is part of the University's $938.0 million fiscal year 2012 operating budget. The budget also fully funds the classified staff salary schedule. This investment reflects the University's intent to move salaries in a competitive direction, especially when many states are reducing education budgets. The budget also includes an increase in financial aid to students and significant investment in facilities.

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

In fiscal years 2010 and 2011, the State provided no funding at all for the Fund's annual required contribution, which stands at $816.3 million for the plan year 2011. On an aggregate basis, this will require the University to accrue a liability to the Trust fund of approximately $50 million for fiscal year 2012. At this point, none of the higher education institutions within the State are planning to fund this liability. Although there is no commitment of any additional funding from the State in the ensuing years, in the 2011 legislative session, the legislature did consider several pieces of legislation that would provide another source of funding for the Statewide OPEB liability. The University remains hopeful that there will be legislative action to address this issue.

Despite the challenges facing the University, its administration remains confident of the institution's financial stability and its ability to fulfill its mission as the state's flagship institution. University administration also believes that WVU represents an unparalleled value for a quality educational experience. WVU's continued significant growth in non-resident freshmen, in this time of continuing economic uncertainty, demonstrates that students and parents from beyond West Virginia share this perspective.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2011 AND 2010
(Dollars in Thousands)

		2011		2010
ASSETS				
Current Assets:				
Cash and cash equivalents	$	128,844	$	109,354
Accounts receivable, net of allowances for doubtful accounts of $5,188 and $4,776		48,744		53,588
Due from the Commission		938		1,255
Service agreement receivable from Bridgemont CTC and Parkersburg		-		81
Loans receivable, current portion		4,706		4,135
Inventories		1,635		1,705
Prepaid expenses		1,829		1,721
Notes receivable from Bridgemont CTC, current portion		40		40
Bond issuance cost, current portion		132		132
Total current assets		186,868		172,011
Noncurrent Assets:				
Restricted cash and cash equivalents		3,949		25,579
Investments		81,935		85,238
Accounts receivable		-		652
Loans receivable, net of allowances for doubtful accounts of $6,618 and $6,440		33,991		33,487
Notes receivable from Bridgemont CTC		160		200
Bond issuance cost, net		992		1,123
Capital assets, net		1,106,166		1,044,409
Total noncurrent assets		1,227,193		1,190,688
TOTAL ASSETS	$	1,414,061	$	1,362,699

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED)
AS OF JUNE 30, 2011 AND 2010
(Dollars in Thousands)

	2011	2010
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 29,129	$ 31,244
Accrued liabilities	5,346	3,358
Accrued payroll	18,121	16,529
Deposits	3,105	3,109
Deferred revenue	50,415	51,539
Due to the Commission	75	213
Compensated absences	22,409	22,238
Real estate purchase agreement payable, current portion	369	-
College system debt owed to the Commission, current portion	75	162
Debt service assessment payable to the Commission, current portion	5,546	5,411
Leases payable, current portion	10,681	12,419
Bonds payable, current portion	4,456	3,690
Notes payable, current portion	1,252	1,097
Total current liabilities	150,979	151,009
Noncurrent Liabilities:		
Real estate purchase agreement payable	2,919	-
Other post employment benefits liability	114,019	65,954
Advances from federal government	26,741	26,741
College system debt owed to the Commission	-	75
Debt service assessment payable to the Commission	77,066	82,612
Leases payable	40,241	50,708
Bonds payable	195,031	199,486
Notes payable	23,351	24,527
Other noncurrent liabilities	18,611	19,414
Total noncurrent liabilities	497,979	469,517
TOTAL LIABILITIES	$ 648,958	$ 620,526
NET ASSETS		
Invested in capital assets, net of related debt	$ 741,302	$ 700,345
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	4,571	3,739
Other	475	475
Total nonexpendable	5,131	4,299
Expendable:		
Scholarships and fellowships	224	189
Sponsored programs	140	591
Loans	17,807	17,992
Capital projects	-	4,628
Debt service	1,373	1,497
Other	1,240	-
Total expendable	20,784	24,897
Unrestricted net assets (deficit)	(2,114)	12,632
TOTAL NET ASSETS	$ 765,103	$ 742,173

See notes to combined financial statements.

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2011 AND 2010
(Dollars in Thousands)

	2011	2010
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $41,928 and $35,866	$ 301,936	$ 286,455
Federal land grants	8,572	8,723
Local land grants	1,156	1,037
Federal grants and contracts	93,921	80,997
State grants and contracts	38,251	37,238
Local grants and contracts	300	500
Nongovernmental grants and contracts	45,818	42,705
Sales and services of educational departments	17,257	16,320
Auxiliary enterprises, net of scholarship allowances of $8,669 and $7,364	115,435	111,950
Interest on student loans receivable	740	715
Net service agreement revenue from Bridgemont CTC and Parkersburg	734	752
Other operating revenues (including revenue from outsourced enterprise of $1,575 and $1,575)	6,424	6,149
Total operating revenues	630,544	593,541
OPERATING EXPENSES		
Salaries and wages	430,934	414,451
Benefits	177,701	172,720
Scholarships and fellowships	36,188	30,012
Utilities	26,609	25,242
Supplies and other services	187,188	181,525
Depreciation and amortization	52,109	51,937
Loan cancellations and write-offs	632	2,517
Assessments by the Commission for operations	2,621	2,589
Waivers in support of other State institutions	-	161
Other operating expenses	182	172
Total operating expenses	914,164	881,326
OPERATING LOSS	(283,620)	(287,785)

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010

(Dollars in Thousands)

	2011	2010
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 193,857	$ 195,300
State fiscal stabilization funds	13,227	10,630
Payments on behalf of the University	344	145
Gifts	18,000	18,986
Federal Pell grants	33,918	27,635
Investment income (including unrealized gains of $6,439 and $4,985)	9,858	7,579
Interest on capital asset-related debt	(12,808)	(12,714)
Assessments by the Commission for debt service	(4,705)	(4,971)
Other nonoperating revenues (expenses) - net	2,743	(844)
Net nonoperating revenues	254,434	241,746
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(29,186)	(46,039)
Capital grants and gifts	30,266	34,511
Capital grants (federal)	2,879	961
Capital bond proceeds from State	18,707	-
Bond/capital projects proceeds from the Commission	264	681
INCREASE (DECREASE) IN NET ASSETS	22,930	(9,886)
NET ASSETS - BEGINNING OF YEAR	742,173	752,059
NET ASSETS - END OF YEAR	$ 765,103	$ 742,173

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2011 AND 2010
(Dollars in Thousands)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 303,129	$ 296,178
Federal and local land grants	9,728	9,760
Grants and contracts	176,716	157,888
Payments to suppliers	(185,415)	(179,688)
Payments to employees	(429,343)	(413,208)
Payments for benefits	(126,803)	(123,181)
Payments for utilities	(25,803)	(24,369)
Payments for scholarships and fellowships	(35,026)	(31,425)
Loan advances from (returned to) federal government	1	(35)
Disbursements of loans to students	(1,707)	(499)
Interest earned on loans to students	735	675
Auxiliary enterprise charges	117,739	100,843
Sales and service of educational departments	16,879	15,889
Payments of net operating expenses from Bridgemont CTC and Parkersburg	842	690
Other receipts	7,377	6,068
Net cash used in operating activities	(170,951)	(184,414)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	193,857	195,300
State fiscal stabilization funds	13,227	10,630
Gifts	17,871	18,986
Federal Pell grants	33,918	27,635
Assessments by the Commission for debt service	(4,705)	(4,971)
William D. Ford direct lending receipts	212,591	200,594
William D. Ford direct lending payments	(214,017)	(200,583)
Other nonoperating receipts	2,847	134
Net cash provided by noncapital financing activities	255,589	247,725
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(5,573)	(5,299)
Bond/capital projects proceeds from the Commission	533	63
Capital bond proceeds from State	15,519	-
Capital gifts and grants received	17,015	21,043
Capital grants - federal received	2,879	961
Purchases of capital assets	(99,985)	(87,020)
Capital projects proceeds from lease trustees	-	36,864
Principal paid on capital debt and leases	(17,849)	(6,162)
Interest paid on capital debt and leases	(12,603)	(12,233)
Net cash used in capital financing activities	(100,064)	(51,783)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	3,542	2,562
Purchase of investments	(2,121)	(6,680)
Redemption of matured investments	11,911	3,806
Purchase of Research Corporation investments	(46)	(630)
Net cash provided by (used in) investing activities	13,286	(942)
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,140)	10,586
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	134,933	124,347
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 132,793	$ 134,933

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2011 AND 2010
(Dollars in Thousands)

		2011		2010
Reconciliation of operating loss to net cash used in operating activities:				
Operating loss	$	(283,620)	$	(287,785)
Adjustments to reconcile operating loss to netcash used in operating activities:				
Depreciation and amortization expense		52,109		51,937
Donated/noncapitalized expense		2,610		2,430
Expenses paid on behalf of the University		344		145
Changes in assets and liabilities:				
Accounts receivable, net		16,608		(4,998)
Due from the Commission		317		248
Loans receivable, net		(1,075)		2,017
Prepaid expenses		(107)		(946)
Inventories		70		-
Accounts payable		(7,952)		(2,024)
Accrued liabilities		50,841		53,256
Deposits		(4)		322
Deferred revenue		(1,124)		2,906
Due to the Commission		(138)		(291)
Compensated absences		171		(1,596)
Advances from federal government		(1)		(35)
Net cash used in operating activities	$	(170,951)	$	(184,414)
Noncash Transactions:				
Construction in progress additions in accounts payable	$	4,881	$	5,851
Equipment purchased on capital lease	$	-	$	376
Donated capital assets	$	11,602	$	11,038
Unrealized gain on investments	$	6,439	$	4,985
Capitalization of interest	$	859	$	598
Bond discount amortization	$	642	$	642
Loss on dispositions	$	65	$	940
Other post employment benefits liability	$	48,065	$	51,443
Expenses paid on behalf of the University	$	344	$	145
Reconciliation of cash and cash equivalents to the statements of net assets:				
Cash and cash equivalents classified as current assets	$	128,844	$	109,354
Cash and cash equivalents classified as noncurrent assets		3,949		25,579
	$	132,793	$	134,933

See notes to combined financial statements.

1. ORGANIZATION

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

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

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

During fiscal year 2008, House Bill 3215 (H.B. 3215) was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of West Virginia University, including West Virginia University at Parkersburg ("Parkersburg") and Bridgemont Community and Technical College ("Bridgemont') (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University provides Parkersburg and Bridgemont with administrative and academic support services. The University charges Parkersburg and Bridgemont for these services.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

   The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (WVUIT), and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 16 and 17) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB.

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

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

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

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

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

d. *Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. The majority of the assets underlying the alternative investments have a readily determinable market value. Because certain alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

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

f. *Inventories* – Inventories are stated at the lower-of-cost or market, cost primarily determined on the first-in, first-out method and average cost.

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

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

h. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, infrastructure and intangible assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The estimated useful life of intangible assets varies. The University's capitalization threshold for equipment is $5,000. The accompanying combined financial statements reflect all adjustments required by GASB.

i. *Deferred Revenue* – Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as tuition, football ticket sales, orientation fees, room and board, financial aid deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.

j. *Compensated Absences and Other Post Employment Benefits*– The University accounts for compensated absences in accordance with the provisions of GASB.

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

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

The University's full-time employees may earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost sharing plan sponsored by the State (see Note 8).

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and 5 years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire. 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.

k. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the "Severance Plan") to provide incentives for the voluntary severance of the University's classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants that elected the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed $45,000. Participants that elected the January 15, 2004 exit date will receive their fiscal year 2003 base salary less $5,000 not to exceed $40,000. The total payment for either exit date is divided into 96 equal consecutive monthly payments. If the employee was over age 59 at the time his or her payments began, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67th birthday. Any employee age 66 or older at the time his or her benefits began received his or her payment in a lump sum. The University's total liability as of June 30, 2011 and 2010 was $81,000 and $240,000, respectively, which includes approximately $6,000 and $17,000 for employee benefits as of June 30, 2011 and 2010, respectively.

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

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

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

Restricted net assets – expendable: This includes resources which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, "Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature. At June 30, 2011 and 2010, the University had no restricted balances remaining in these funds.

Restricted net assets – nonexpendable: This includes endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

n. *Classification of Revenue* – The University has classified its revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal land grants, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

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

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

o. *Use of Restricted Net Assets* – The University has adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The University attempts to utilize restricted net assets first when practicable. The University did not have any designated net assets as of June 30, 2011 or 2010.

p. *Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

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

q. *Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately $214.0 million in fiscal year 2011 and approximately $200.6 million in fiscal year 2010 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net assets.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal years 2011 and 2010, the University received and disbursed \$37.4 million and \$31.4 million, respectively, under these other federal student aid programs.

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

s. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service. The Corporation has received from the Internal Revenue Service an exemption from taxation under Section 501 (c) (3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

t. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.

u. *Risk Management* – The State's Board of Risk and Insurance Management (BRIM) provides general liability, medical malpractice liability, property, and auto insurance coverage to the University and its employees, including those physicians employed by the University and related to the University's academic medical center hospital. Such coverage is provided to the University through a self-insurance program maintained by BRIM for general liability, medical malpractice liability, and auto insurance coverage. BRIM maintains a self-insurance program to pay the first \$1,000,000 of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1,000,000. The BRIM self-insurance programs may involve experience and exposure related premiums.

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

The University's Health Sciences Center (HSC) established a \$250,000 deductible program under BRIM's professional liability coverage for the University effective July 1, 2005. Prior to this date, the HSC was totally covered by BRIM at a limit of \$1,000,000 per occurrence. Starting July 1, 2005, HSC assumed the risk and responsibility for any and all indemnity amounts up to \$250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance.

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit $3.0 million as of both June 30, 2011 and 2010, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit $19.1 million and $16.7 million as of June 30, 2011 and 2010, respectively, in an investment earnings account with the West Virginia University Foundation, Incorporated (the "Foundation") to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program and premium levels determined by BRIM, the University has recorded a liability of $18.6 million to reflect projected claim payments at both June 30, 2011 and 2010.

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

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

w. *Risks and Uncertainties* – The University utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

x. *Newly Adopted Statements Issued by the GASB* – During 2011, the University adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revised the definitions for governmental fund types. The adoption of this statement did not have a material impact on the financial statements.

The University also adopted GASB Statement No. 59, *Financial Instruments Omnibus*. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The adoption of this statement did not have a material impact on the financial statements.

y. *Recent Statements Issued by the Governmental Accounting Standards Board* – The Governmental Accounting Standards Board has issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, effective for fiscal years beginning after December 15, 2011. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both tranferors and governmental operators. The University has not yet determined the effect that the adoption of GASB Statement No. 60 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. 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 University has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, effective for fiscal years beginning after December 15, 2011. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and ACIPA pronouncements issued on or before November 30, 1989. This statement will improve financial reporting by contribution to the GASB's efforts to codify all sources of generally accepted accounting principles for state and local governments so that they derive from a single source. The University has not yet determined the effect that the adoption of GASB Statement No. 62 may have on its financial statements.

The Governmental Accounting Standards Board has also 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 Governmental Accounting Standards Board has also issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, effective for fiscal years beginning after June 15, 2011. The objective of this statement is to improve financial reporting by clarifying whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The University has not yet determined the effect that the adoption of GASB Statement No. 64 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

2011

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ 71,534	$ 561	$ 72,095
West Virginia University - Auxiliaries	34,332	-	34,332
Cash on deposit with Trustee or MBC	-	387	387
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	22,913	-	22,913
Cash on Hand	60	-	60
Cash in Money Market	5	-	5
	$ 128,844	$ 3,949	$ 132,793

2010

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

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

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

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

Cash in bank. The combined carrying amount of cash in bank at June 30, 2011 and 2010 was $22.9 million and $19.0 million, respectively, as compared with combined bank balances of $23.5 million and $19.0 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Interest bearing bank accounts are FDIC insured up to $250,000. Non-interest bearing accounts are 100% insured by the FDIC through December 31, 2012. Sweep accounts tied to the bank accounts are collateralized with the bank through a Repurchase Agreement in the name of the State or the Corporation.

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

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

4. ACCOUNTS RECEIVABLE

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

	2011	2010
Student tuition and fees, net of allowances for doubtful accounts of $3,114 and $2,418	$ 3,485	$ 5,479
Grants and contracts receivable, net of allowances for doubtful accounts of $874 and $1,548	33,748	35,620
Due from West Virginia University Hospitals, Incorporated	1,347	3,273
Auxiliary services, net of allowances for doubtful accounts of $1,198 and $795	1,792	2,430
Investment earnings receivable	8	76
Other, net of allowances for doubtful accounts of $2 and $15	4,369	5,874
Due from the Foundation	299	587
Due from other State agencies	3,696	901
Total accounts receivable	48,744	54,240
Less noncurrent portion	-	652
Current portion	$ 48,744	$ 53,588

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

5. INVESTMENTS

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

2011 Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:				
Bandywine Global Fixed Income	$ 4,522	$ 80		$ 4,602
BTI Short Term Bond Pool *	13,408			13,408
Fidelity Floating Rate High Income	692	3,045	$ 1	3,738
Harbor Bond Fund	6	2,745	21	2,772
PIMCO Unconstrained Bond Fund	2,135	1,368	241	3,744
Vanguard Bond Index Fund		5		5
Dodge & Cox Income Fund	163	6,513		6,676
Wells Fargo *	4			4
Mutual Money Market Funds:				
State Street Cash - SSGA Money Market		964		964
Mutual Stock Funds:				
Dodge & Cox International Stock Fund	44	1,775		1,819
Dodge & Cox Stock Fund	74	2,966		3,040
Eaton Vance *	591			591
Wells Fargo *	233			233
MFS *	3,266			3,266
Fixed Income Funds:				
Income Research and Management	18	4,516		4,534
Stock Funds:				
Vanguard Total Stock Market EFT	2,205	1		2,206
Other Investments-Commodity:				
SPDR Gold Shares	3,426			3,426
State and Local Government Securities:				
Auction Rate Certificates *		3,325		3,325
Land and Other Real Estate Held as Investments:				
Land - Fred G. and Nannie D. Wood Loan Fund *			477	477
Other Alternative Investments:				
CF Global Absolute Alpha Company		1,211		1,211
CF Multi-Strategy Bond Fund		1,774		1,774
CF Core Equity		4,361		4,361
CFI Multi-Strategy Bond Investors Fund		1,680		1,680
CF Multi-Strategy Equity Fund		8,160		8,160
CFI Multi-Strategy Equity Fund		2,684		2,684
Robeco-Sage Capital International	25	1,821	1,389	3,235
	$ 30,812	$ 48,994	$ 2,129	$ 81,935

2010 Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:				
Bandywine Global Fixed Income	$ 1,102	$ 180		$ 1,282
BTI Short Term Bond Pool *	13,065			13,065
Harbor Bond Fund	9	2,475	$ 8	2,492
Vanguard Bond Index Fund	79	1,797		1,876
Dodge & Cox Income Fund	398	8,385		8,783
Wells Fargo *	3			3
Mutual Money Market Funds:				
State Street Cash - SSGA Money Market		2,400		2,400
Mutual Stock Funds:				
Dodge & Cox International Stock Fund	385	1,000		1,385
Dodge & Cox Stock Fund	2,289	32		2,321
Eaton Vance *	504			504
Wells Fargo *	174			174
MFS *	2,580			2,580
Fixed Income Funds:				
Income Research and Management		5,765		5,765
Other Investments-Commodity:				
SPDR Gold Shares	3,160			3,160
State and Local Government Securities:				
Auction Rate Certificates *		7,475		7,475
Land and Other Real Estate Held as Investments:				
Land - Fred G. and Nannie D. Wood Loan Fund *			477	477
Other Alternative Investments:				0
CF Absolute Return Investors B Blue			127	127
CF Global Absolute Alpha Company			1,131	1,131
CF Multi-Strategy Bond Fund	3	5,524	66	5,593
CF Multi-Strategy Bond Investors Fund	2	4,514		4,516
CF Core Equity Fund	127	7,117		7,244
CF Core Equity	3,527	1,419		4,946
CFI Multi-Strategy Equity Fund	76	4,241		4,317
Robeco-Sage Capital International		1,973	1,649	3,622
	$ 27,483	$ 54,297	$ 3,458	$ 85,238

* Investments not held with the Foundation.

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

As the University invests with the BTI, funds are transferred to the BTI and the BTI invests in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. Balances in the investment pools are recorded at fair value, or amortized cost which approximates fair value. Fair value is determined by a third party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the Legislature and is subject to oversight by the Legislature.

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

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

In 2005, the Legislature passed Senate Bill 603 ("S.B. 603"). S.B. 603 granted the University the ability to invest a limited amount of funds with the Foundation. As allowed by S.B. 603, the University invested $25.0 million with the Foundation in October 2006 and invested an additional $4.0 million in October 2009. In 2011, the Legislature passed Senate Bill 330 ("S.B. 330") which increased the maximum investment amount to $40 million.

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

As of June 30, 2011 and 2010, the University's investments held with the Foundation were $60.6 million and $61.0 million, respectively. The investments held with the Foundation include the S.B. 603 investments, the Corporation's investments, and the BRIM investments as follows:

	S.B. 603	Corporation	BRIM	Total
As of June 30, 2011	$ 32,922	$ 8,591	$ 19,118	$ 60,631
As of June 30, 2010	28,901	15,360	16,699	60,960

The University's investments held with the Foundation are governed by investment policies that determine the permissible investments by category. The holdings include U.S. debt and equity securities, foreign debt and equity securities, commodities and alternative investments. The respective investment policies outline the acceptable exposure to each category of investment and generally outline a liquidity goal. These policies also state that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 5% for the Corporation investments, 10% for the S.B. 603 investments, and 20% for the BRIM investments.

Beginning April 2008, based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and on a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the University's Auction Rate Certificates (ARC). The University, through its Board, issued ARC debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Starting in December 2007, the market for ARCs and other Auction Rate Securities experienced significant turmoil. To address the ARC market's ability to function, the Securities and Exchange Commission (SEC) issued a letter which allowed issuers and/or their affiliates to bid on such ARCs to allow for a more reasonable interest rate relative to the issuers credit rating. Of the $3.4 million of the University's ARCs outstanding at June 30, 2011, the Corporation owned $3.3 million, or 98%. Of the $7.6 million of the University's ARCs outstanding at June 30, 2010, the Corporation owned $7.5 million, or 99%. In October 2010, there was a scheduled redemption of $4.2 million. Future redemptions are scheduled in October 2011 for $2.425 million and October 2012 for $.975 million.

In May 2008, the University invested in the BTI's WV Short Term Bond Pool an amount which represents long-term investment monies of the University. The WV Short Term Bond Pool is a bond mutual fund which was created to invest monies of participants which have a perceived longer term investment horizon. The goal of the portfolio is to earn incremental returns over the WV Money Market Pool with an objective of capital growth rather than current income. The portfolio is restricted to monthly contributions and withdrawals and calculates a per-unit price each month. The risk factor on this portfolio is higher than the WV Money Market Pool. As of June 30, 2011 and 2010, the investment was $13.4 million and $13.1 million, respectively.

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

Credit Risk

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

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

WV Money Market Pool - For the years ended June 30, 2011 and 2010, 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, 2011 and 2010, the WV Money Market Pool investments had a total carrying value of $3,018,560,000 and $2,876,711,000 respectively, of which the University's ownership represents 2.89% and 2.59%, respectively.

WV Short Term Bond Pool - The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating* Moody's	S & P	2011 Value	2011 Percent of Pool Assets	2010 Carrying Value	2010 Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 87,197	18.40%	$ 24,330	5.37%
	Aaa	NR*	19,891	4.20	10,353	2.28
	Aa3	AAA			1,000	0.22
	Aa3	AA+	454	0.10		
	Ba1	CC**			45	0.01
	Ba2	BB**			219	0.05
	B1	BBB**			605	0.13
	B1	CCC**	885	0.19	857	0.19
	B2	CCC**			366	0.08
	B3	B**	366	0.08	442	0.10
	B3	BBB**	631	0.13	247	0.05
	B3	CCC**			554	0.12
	Ca	CCC**	664	0.14		
	Caa1	CCC**			230	0.05
	Caa2	CCC**	473	0.10	779	0.17
	Caa3	CCC**	393	0.08		
	Caa3	D**	27	0.01		
	NR*	AAA			3,538	0.78
	NR*	NR*	4,000	0.84		
			114,981	24.27	43,565	9.60
Corporate bonds and notes	Aaa	AAA			72,549	16.00
	Aaa	AA	2,043	0.43	2,060	0.46
	Aa1	AA			5,430	1.20
	Aa1	A	4,143	0.87		
	Aa2	AAA				
	Aa2	AA	11,866	2.50	6,650	1.47
	Aa3	AA	7,064	1.49	6,722	1.48
	Aa3	A	13,040	2.75	13,850	3.05
	A1	AA	8,107	1.71	15,485	3.41
	A1	A	22,731	4.80	21,098	4.65
	A2	AA	2,555	0.54	-	0.00
	A2	A	23,976	5.06	41,093	9.06
	A3	A	8,770	1.85	4,158	0.92
			104,295	22.00	189,095	41.70
Commercial Paper	P-1	A-1	15,995	3.38		
U.S. agency bonds	Aaa	AAA	20,017	4.22	40,180	8.86
U.S. Treasury notes***	Aaa	AAA	25,034	5.28	158,423	34.93
U.S. agency mortgage backed securities****	Aaa	AAA	97,296	20.53	4,540	1.00
Money Market Funds	Aaa	AAAm	96,287	20.32		0.00
Money Market Funds	Aaa	AAA			17,715	3.91
			$ 473,905	100%	$ 453,518	100%

*NR = Not Rated

**The securities were not in compliance with BTI Investment Policy at June 30, 2011 and/or 2010. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI Management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

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

At June 30, 2011 and 2010, the University's ownership represents 2.80% and 2.80%, respectively, of these amounts held by the BTI.

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

Portfolio	Investment	2011 Rating	2010 Rating
BRIM	Harbor Bond Fund	A	A
S.B. 603	Income Research & Management	AA	AA+
BRIM	Vanguard Bond Index Fund	Baa and higher	Aa1/Aa2
BRIM, S.B. 603, Corporation	State Street Cash - SSGA Money Market	AAAm	Am
BRIM, S.B. 603	CF Multi-Strategy Bond Fund	AA	AA
Corporation	CFI Multi-Strategy Bond Investors Fund	AA	AA
Corporation	Auction Rate Certificates	A+	A+
BRIM, S.B. 603	Brandywine Global Fixed Income	BBB+	A
S.B. 603, Corporation	Dodge and Cox Income Fund	AA-	Aa3

The remaining investments have not been rated. These funds are periodically evaluated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment.

All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

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

Security Type	2011 Carrying Value (In Thousands)		2011 WAM (Days)	2010 Carrying Value (In Thousands)		2010 WAM (Days)
Repurchase agreements	$	84,357	1	$	174,980	1
U.S. Treasury notes		298,345	137		65,153	140
U.S. Treasury bills		231,051	34		476,670	35
Commercial paper		1,069,576	35		855,844	18
Certificates of deposit		140,000	58		281,000	45
U.S. agency discount notes		697,164	45		606,048	52
Corporate bonds and notes		127,000	20		20,000	19
U.S. agency bonds/notes		170,788	66		246,990	55
Money market funds		200,279	1		150,026	1
	$	3,018,560	46	$	2,876,711	33

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

Security Type	2011 Carrying Value (In Thousands)		2011 Effective Duration (Days)	2010 Carrying Value (In Thousands)		2010 WAM (Days)
U.S. Treasury bonds/notes	$	25,034	227	$	158,423	583
Commercial Paper		15,995	55			
Corporate notes		104,295	234		189,095	560
Corporate asset backed securities		114,981	268		43,565	679
U.S. agency bonds/notes		20,017	85		40,180	288
U.S. agency mortgage backed securities		97,296	18		4,540	360
Money market funds		96,287	1		17,715	1
	$	473,905	138	$	453,518	530

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

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer.

The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

At June 30, 2011, more than 5% of the University's investments was in the Income Research & Management fund. At June 30, 2010, more than 5% of the University's investments were in the BTI Short Term Bond Pool, Dodge & Cox Income Fund, Income Research & Management, Auction Rate Certificates, CF Multi-Strategy Bond Fund, CF Multi-Strategy Bond Investors Fund, CF Core Equity Fund, CF Core Equity, and CFI Multi-Strategy Equity Fund.

Custodial Credit Risk

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

For BTI investments, repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in 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.

For other investments, as of June 30, 2011 and 2010, there was custodial credit risk related to the SPDR Gold Shares which are uninsured and registered in State Street's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit.

None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

For the other investments, at June 30, 2011, 57.05% of the Brandywine Global Fixed Income Fund, 6.18% of the Harbor Bond Fund, 0.10% of the Fidelity Floating Rate High Income, and 0.35% of the PIMCO Unconstrained Bond Fund were denominated in a foreign currency. The Dodge and Cox International Stock Fund may enter into forward foreign currency contracts or currency futures contracts to hedge foreign currency exposure. These investments represent 3.43% of the total investments.

At June 30, 2010, 15.08% of the Brandywine Global Fixed Income Fund investment and 0.06% of the Harbor Bond Fund was denominated in foreign currency. Also, the Dodge and Cox International Stock Fund, valued at $1.4 million, may use foreign currency contracts to hedge portfolio positions and facilitate security transactions in foreign currency denominated securities. These investments represent 2.62% of the total investments.

6. CAPITAL ASSETS

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

2011	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 26,900	$ 8,444	$ (3,716)	$ 31,628
Construction in progress	76,485	71,495	(72,480)	75,500
Total capital assets not being depreciated or amortized	$ 103,385	$ 79,939	$ (76,196)	$ 107,128
Other capital assets:				
Land improvements	$ 31,226	$ 3,467	$ -	$ 34,693
Buildings	1,038,259	68,858	(1,461)	1,105,656
Equipment	144,492	24,018	(3,001)	165,509
Library books	114,081	8,381	(22)	122,440
Software	48,869	2,608	(109)	51,368
Infrastructure	253,724	4,409	-	258,133
Other assets	28,519	-	-	28,519
Intangible assets	25	125	-	150
Total other capital assets	1,659,195	111,866	(4,593)	1,766,468
Less accumulated depreciation and amortization for:				
Land improvements	(12,302)	(2,123)	-	(14,425)
Buildings	(258,773)	(20,921)	3	(279,691)
Equipment	(89,084)	(12,778)	2,720	(99,142)
Library books	(88,153)	(7,028)	18	(95,163)
Software	(43,925)	(1,683)	109	(45,499)
Infrastructure	(205,104)	(4,239)	-	(209,343)
Other assets	(20,820)	(3,335)	-	(24,155)
Intangible assets	(10)	(2)	-	(12)
Total accumulated depreciation and amortization	(718,171)	(52,109)	2,850	(767,430)
Other capital assets, net	$ 941,024	$ 59,757	$ (1,743)	$ 999,038
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 103,385	$ 79,939	$ (76,196)	$ 107,128
Other capital assets	1,659,195	111,866	(4,593)	1,766,468
Total cost of capital assets	1,762,580	191,805	(80,789)	1,873,596
Less accumulated depreciation and amortization	(718,171)	(52,109)	2,850	(767,430)
Capital assets, net	$ 1,044,409	$ 139,696	$ (77,939)	$ 1,106,166

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

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

The University has been approved to receive $26,500,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2011, $15,519,000 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

The University capitalized interest on borrowings, net of interest earned on related debt of approximately $859,000 and $598,000 during fiscal years 2011 and 2010, respectively.

7. LONG-TERM LIABILITIES

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

2011	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreement payable	$ -	$ 3,288	$ -	$ 3,288	$ 369
Other post employment benefits liability	65,954	48,065	-	114,019	
College system debt owed to the Commission	237	-	(162)	75	75
Advances from federal government	26,741	-	-	26,741	
Debt service assessment payable to the Commission	88,023	-	(5,411)	82,612	5,546
Leases payable	63,127	347	(12,552)	50,922	10,681
Bonds payable	203,176	-	(3,689)	199,487	4,456
Notes payable	25,624	-	(1,021)	24,603	1,252
Other noncurrent liabilities	19,576	4,044	(4,934)	18,686	75
Total long-term liabilities	$ 492,458	$ 55,744	$ (27,769)	$ 520,433	

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

8. OTHER POST EMPLOYMENT BENEFITS

OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2011 and 2010, the noncurrent liability related to OPEB was $114.0 million and $66.0 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were $60.9 million and $12.0 million, respectively, during 2011, and $62.3 million and $10.8 million, respectively, during 2010. As of the years ended June 30, 2011 and 2010, there were 615 and 568 retirees receiving these benefits.

9. LEASES PAYABLE

a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2011 are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2012	$	6,555
2013		5,217
2014		4,562
2015		4,043
2016		3,520
2017-2021		10,159
2022-2026		9,880
2027-2031		9,880
2032-2036		5
2037-2041		5
2042-2046		5
2047-2051		5
2052-2056		5
2057-2058		2
Total	$	53,843

Total rental expense for both years ended June 30, 2011 and 2010 was $7.2 million. The University leases 6 floors of a seven floor office building from the Foundation. Rental expense under the operating lease is $1,975,000 per year through 2031. The University does not have any non-cancelable leases.

b. *Capital* – The University leases certain property, plant and equipment under capital leases. Net book value of leased assets totaled $65.2 million and $68.3 million at June 30, 2011 and 2010, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2012	$	12,860
2013		3,665
2014		3,739
2015		3,874
2016		3,903
2017-2021		20,178
2022-2026		15,456
2027-2030		5,599
Minimum lease payments		69,274
Less amount representing interest		(18,352)
Present value of minimum lease payments		50,922
Current Portion		10,681
Noncurrent Portion	$	40,241

During fiscal year 2010, the University entered into three lease purchase agreements to finance capital projects, including construction of the Intermodal Transportation Center and the Childcare Center and capital improvements to the Engineering Sciences Building, for total lease payments of $47.9 million. As of June 30, 2010, there was $10.9 million held by the lease trustee for expenditures for completion of the leased projects.

The lease purchase for construction of the Intermodal Transportation Center, totaling $10.9 million, was subject to federal approval and, as such, the proceeds were placed in escrow. Subsequent to the end of fiscal year 2010, the University was informed that the federal government would not approve the funding. As such, the University repaid the $10.9 million in full from the funds in escrow during fiscal year 2011.

10. BONDS PAYABLE

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

	Original Interest Rate	Annual Principal Installment Due	2011 Principal Amount Outstanding	2010 Principal Amount Outstanding
Auction Rate Certificates				
Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2012, variable rate		$ 975 to 4,200	$ 3,400	$ 7,600
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	55,430	55,430
Revenue Improvement Bonds, 2004 Series C, due through 2035	4.3-5.0%	0 to 12,780	138,710	138,710
Unamortized Bond Premium			3,664	3,912
Unamortized Loss on Bond Defeasance			(1,717)	(2,476)
Net Bonds Payable			199,487	203,176
Current Portion			4,456	3,690
Noncurrent Portion			$ 195,031	$ 199,486

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

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

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

Refunded Debt

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

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of $25.9 million. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. The 2004 Subseries A-1 and A-2 Bonds bear interest at an auction rate which was .00% and .00%, respectively, at June 30, 2011 and .098% and .500%, respectively, at June 30, 2010. These bonds were used to advance refund outstanding 1997 Series A Dormitory and Athletics Revenue Bonds with a par amount of $12.4 million and to finance a portion of the costs of certain capital projects at the University.

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

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

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

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

Approximately $4.7 million at June 30 2010 represented unexpended proceeds of bond issuance, and was restricted to expenditures for capital improvements and bond related costs. This included approximately $4.7 million in cash and cash equivalents at June 30, 2010.

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2012	$ 4,395	$ 9,478	$ 13,873
2013	4,550	9,316	13,866
2014	4,585	9,154	13,739
2015	4,785	8,958	13,743
2016	4,990	8,752	13,742
2017-2021	28,840	39,858	68,698
2022-2026	37,000	31,703	68,703
2027-2031	47,470	21,229	68,699
2032-2036	60,925	7,771	68,696
Bonds Payable	197,540	$ 146,219	$ 343,759
Unamortized Bond Premium	3,664		
Loss on Bond Defeasance	(1,717)		
Net Bonds Payable	199,487		
Current Portion	4,456		
Noncurrent Portion	$ 195,031		

11. NOTES PAYABLE

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

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

A note modification agreement dated April 26, 2007 allowed the Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009 and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest is amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2011 and June 30, 2010, was \$5.9 million and \$6.1 million, respectively.

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

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

2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

WVEDA loan. WVEDA made a construction and term loan in the principal amount of \$9.0 million for the purpose of financing a portion of the Blanchette Rockefeller Neurosciences Institute building. The principal balance of the WVEDA loan bears interest at a fixed rate of 5.51% per annum. The note is due 240 months from the closing date of October 24, 2005.

Interest on the loan accrued but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest is amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2011 and June 30, 2010, was \$9.3 million and \$9.7 million, respectively.

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

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

2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

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

The proceeds of the IJDC loan were disbursed on a draw basis as construction progressed. The principal balance of the IJDC loan bears interest at a fixed rate of 3% per annum. The note is due 240 months from the closing date of October 24, 2005.

Interest on the loan accrued but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, such accrued interest is amortized and paid over the remaining term of the loan. Total principal remaining to be paid, including accrued interest, at June 30, 2011 and June 30, 2010, was \$9.5 million and \$9.8 million, respectively. After the expiration of the five year period, the interest rate applicable to \$3.0 million in principal for the balance of the term of the loan will be based on the satisfaction of certain employment criteria.

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

1) 30% of the total HSC facilities and administrative revenues, up to a total of $6.8 million ("threshold amount") received by the Corporation in any single fiscal year.

2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

Total principal and interest payments remaining to be paid at June 30, 2011 and June 30, 2010 were approximately $33.5 million and $35.5 million, respectively. Total facilities and administrative revenues earned by the HSC during fiscal years 2011 and 2010 were $9.2 million and $8.6 million, respectively. Total pledged revenue as of June 30, 2011 and June 30, 2010 was $3.7 million and $3.3 million, respectively.

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

Fiscal Year	WVHDF Loan		WVEDA Loan		WVIJDC Loan		Total
Ending June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal
2012	$ 278	$ 293	$ 435	$ 502	$ 539	$ 281	$ 1,252
2013	292	278	461	476	556	264	1,309
2014	308	263	488	450	573	247	1,369
2015	324	247	515	423	591	229	1,430
2016	341	230	543	394	609	212	1,493
2017-2021	1,990	864	3,221	1,469	3,338	762	8,549
2022-2026	2,327	288	3,608	457	3,266	220	9,201
Notes Payable	5,860	$ 2,463	9,271	$ 4,171	9,472	$ 2,215	24,603
Current Portion	278		435		539		1,252
Noncurrent Portion	$ 5,582		$ 8,836		$ 8,933		$ 23,351

12. REAL ESTATE PURCHASE AGREEMENT PAYABLE

During fiscal year 2011, the University entered into an agreement to finance the purchase of real property at 992 Elmer Prince Drive in Morgantown, WV. The total purchase price of the property was $3,714,800. The University paid $397,400 at closing and agreed to make installment payments of $368,600 per year through November 30, 2019. This liability is classified as a real estate purchase agreement payable on the combined statement of net assets and is recorded at net present value.

13. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by either the former Board of Regents, the former University System of West Virginia, the former State College System of West Virginia or the former Interim Governing Board (collectively, the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

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

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

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

14. UNRESTRICTED NET ASSETS (DEFICIT)

The University did not have any designated unrestricted net assets as of June 30, 2011 or 2010.

	2011	2010
Total unrestricted net assets before OPEB liability	$ 111,905	$ 78,586
Less: OPEB liability	114,019	65,954
Total unrestricted net assets (deficit)	$ (2,114)	$ 12,632

15. RETIREMENT PLANS

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

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

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2011 and 2010. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2011 and 2010. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

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

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

Fiscal Year Ending June 30,	WVU	Employees	Total
2011	$ 1,997	$ 815	$ 2,812
2010	2,143	873	3,016
2009	2,259	901	3,160

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

University simultaneously matches the employees' 3% or 6% contribution. Contributions are immediately and fully vested.

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

Fiscal Year Ending June 30,	WVU	Employees	Total
2011	$ 22,266	$ 22,266	$ 44,532
2010	21,480	21,480	42,960
2009	20,463	20,463	40,926

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

Fiscal Year Ending June 30,	WVU	Employees	Total
2011	$ 308	$ 308	$ 616
2010	290	290	580
2009	246	246	492

The University's total payroll for fiscal years 2011 and 2010 was $430.9 million and $414.4 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were $13.6 million, $373.3 million and $5.1 million in fiscal year 2011 and $14.5 million, $359.9 million and $4.8 million in fiscal year 2010, respectively.

16. COMMITMENTS

a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. The University's total payments for steam purchased under the agreement were $7.7 million and $7.8 million in fiscal years 2011 and 2010, respectively. An additional $533,000 and $155,000 was accrued at June 30, 2011 and 2010, respectively, to record the University's liability to meet the minimum steam purchase requirement for the contract years ended September 30, 2011 and 2010. The University anticipates substantially meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately $22.8 million and $53.6 million at June 30, 2011 and 2010, respectively.

17. AFFILIATED ORGANIZATIONS (Unaudited)

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

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

Related Party Transactions

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

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

   Total funds disbursed to UHA and total funds collected from UHA totaled $601,000 and $9.9 million in fiscal year 2011 and $1.1 million and $10.6 million in fiscal year 2010, respectively. Accounts receivable at June 30, 2011 and 2010 includes $53,000 and $2.9 million, respectively, due from UHA for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. There were no amounts due to UHA at June 30, 2011 and 2010.

b. *West Virginia University Hospitals, Incorporated* - West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the HSC. The Hospital's tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal years 2011 and 2010, $32.3 million and $29.6 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, and rent. Accounts receivable at June 30, 2011 and 2010 include $1.4 million and $3.3 million, respectively, due from WVUH for such items. During fiscal years 2011 and 2010, $12,000 and $228,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2011 and 2010 include $161,000 and $7,000, respectively, due to WVUH for such items.

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

Employees of the Association are paid through the University. The University funds a portion of their salary through State funds and graduate fees. The University funded $423,000 and $276,000 for the years ended June 30, 2011 and 2010, respectively. The remaining payroll is billed to the Association. The Association owed the University $103,000 and $386,000 related to payroll and postage as of June 30, 2011 and 2010, respectively.

The Association reimburses the University for one-third of the alumni magazine. These payments were $41,000 and $55,000 for the years ended June 30, 2011 and 2010, respectively. The Association owed the University $0 and $50,000 for the alumni magazine as of June 30, 2011 and 2010, respectively.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering revenue received from the University was approximately $475,000 and $600,000 for the years ended June 30, 2011 and 2010, respectively.

The University charged the Association $756,000 and $359,000 for catering services for the years ended June 30, 2011 and 2010, respectively. The Association owed the University $60,000 and $283,000 for catering services as of June 30, 2011 and 2010, respectively.

The University owed the Association $122,000 and $0 for reimbursement of utilities as of June 30, 2011 and 2010, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University $150,000 and $115,000 for the years ended June 30, 2011 and 2010, respectively.

During fiscal year 2011, the University made a one-time payment of $300,000 to support alumni during the year.

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

18. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED (Unaudited)

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

The Foundation's assets totaled $1.1 billion and $878.8 million at June 30, 2011 and 2010, respectively, with net assets of $581.8 million and $491.6 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled $76.0 million and $66.9 million in fiscal years 2011 and 2010, respectively.

Total funds expended by the Foundation in support of University activities totaled $50.6 million and $40.6 million in fiscal years 2011 and 2010, respectively. This support is primarily recorded as gifts and capital grants and gifts and the related expenditures are primarily recorded as salaries and wages, benefits and capital assets in the University's combined financial statements.

19. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2011 or 2010.

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

At June 30, 2011 and 2010, the University has recorded a liability of $0 and $143,000, respectively, for asbestos removal in accordance with the provisions of GASB.

20. SUBSEQUENT EVENTS

On August 1, 2011, the University issued improvement revenue bonds ("2011 A Bonds") in the amount of $12.7 million to finance the purchase of real and personal property, consisting of a multi-story apartment complex, known as "The Augusta on the Square" and the related costs of issuance. The 2011 A Bonds are payable from the same pledged revenues as the 2004 revenue bonds.

The Board and the Commission approved separate resolutions at their June 3, 2011 and August 5, 2011 meetings, respectively to issue improvement revenue bonds (the "2011 bonds"), in the aggregate principal amount of $250.0 million. The proceeds from the 2011 Bonds are intended to finance a portion of the costs of certain improvements at the University including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2011 Bonds and refinance certain tax-exempt lease purchase agreements entered into by the University. The 2011 bonds will be equally secured by the same pledged revenues as the 2004 revenue bonds.

21. SEGMENT INFORMATION

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

Descriptive information for the University's segment is shown below:

West Virginia University Board of Governors
Auction Rate Certificates, Federally Taxable University Revenue Refunding and Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B; and University Revenue Improvement Bonds 2004 Series C
(Collectively the "2004 Bonds")

On November 1, 2004 the Board issued $25,900,000 of 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the $13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bonds 1997 Series A, and the $3,250,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds; and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.
On November 1, 2004 the Board also issued 2004 Series B and C Bonds in the amounts of $55,430,000 and $138,710,000, respectively. The 2004 Series B Bonds are being used (1) to advance refund the $4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the $10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the $3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the $38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds. The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs of issuance.

The 2004 Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

Total principal and interest payments remaining to be paid at June 30, 2011 and 2010 were approximately $343.8 million and $357.6 million, respectively. Total gross pledged revenue for fiscal year 2011 and 2010 was $126.1 million and $122.2 million, respectively.

Condensed financial information for each of the University's segments follow:

(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2011	AUXILIARIES As of/Year Ended 2010
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current Assets	$ 39,566	$ 31,203
Noncurrent and Capital Assets *	447,236	437,318
Total Assets	486,802	468,521
Liabilities:		
Current Liabilities	26,717	28,656
Long-Term Liabilities	238,395	211,460
Total Liabilities	265,112	240,116
Net Assets:		
Invested in Capital Assets, net of related debt	247,750	234,125
Restricted	1	8
Unrestricted	(26,061)	(5,728)
Total Net Assets	$ 221,690	$ 228,405
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Auxiliary and Capital Fees	$ 27,700	$ 26,695
Operating Revenues	101,378	98,493
Operating Expenses	(107,599)	(111,076)
Net Operating Income	21,479	14,112
Nonoperating Revenues/Expenses:		
Investment Income	8	118
Net Transfers to Other Funds	(26,226)	(7,257)
Other Nonoperating Income	7,300	6,151
Gifts	6,708	7,166
Other Nonoperating Expenses	(4,427)	(3,656)
Interest Expense*	(11,557)	(10,045)
(Decrease) Increase in Net Assets	(6,715)	6,589
Net Assets - Beginning of Year	228,405	221,816
Net Assets - End of Year	$ 221,690	$ 228,405
CONDENSED STATEMENTS OF CASH FLOWS		
Net Cash Provided by Operating Activities	$ 10,427	$ 10,118
Net Cash Flows Provided by Noncapital Financing Activities	6,708	7,166
Net Cash Flows Used in Capital and Related Financing Activities	(12,424)	(19,829)
Net Cash Flows Provided by Investing Activities	8	118
Increase (Decrease) in Cash	4,719	(2,427)
Cash - Beginning of Year	30,861	33,288
Cash - End of Year	$ 35,580	$ 30,861
Reconciliation of cash		
Cash classified as current assets	$ 35,579	$ 26,140
Cash classified as noncurrent assets	1	4,721
	$ 35,580	$ 30,861

* Interest of $365,000 and $501,000 was capitalized for fiscal year 2011 and 2010, respectively.

22. FUNCTIONAL CLASSIFICATION OF EXPENSES

(Dollars in Thousands)

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

Year Ended June 30, 2011
Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	$ 169,827	$ 71,817	$ -	$ 242	$ 25,521	$ -	$ -	$ -	$ -	$ 6	$ 267,413
Research	68,741	37,355	-	1,057	40,017	-	-	-	-	-	147,170
Public Service	35,815	11,974	-	165	13,411	-	-	-	-	27	61,392
Academic Support	23,826	9,289	-	85	7,825	-	-	-	-	-	41,025
Student Services	19,679	8,100	-	12	7,699	-	-	-	-	-	35,490
Operation and Maintenance of Plant	25,046	12,636	-	18,068	23,123	-	-	-	-	-	78,873
General Institutional Support	46,354	16,578	-	30	27,866	-	-	-	-	59	90,887
Student Financial Aid	-	-	36,188	-	-	-	-	-	-	-	36,188
Auxiliary Enterprises	41,646	9,952	-	6,950	41,726	-	-	-	-	90	100,364
Depreciation and Amortization	-	-	-	-	-	52,109	-	-	-	-	52,109
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,621	-	-	2,621
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	-	-
Loan Cancellations and Write Offs	-	-	-	-	-	-	632	-	-	-	632
Total Expenses	$ 430,934	$ 177,701	$ 36,188	$ 26,609	$ 187,188	$ 52,109	$ 632	$ 2,621	$ -	$ 182	$ 914,164

Year Ended June 30, 2010
Natural Classification

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

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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 University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2011, and have issued our report thereon dated October 19, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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 our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

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

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

Compliance and Other Matters

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

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

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October 19, 2011