WEST VIRGINIA UNIVERSITY

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

WEST VIRGINIA UNIVERSITY

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Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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, 2012 and 2011, and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These combined financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 combined financial statements present fairly, in all material respects, the financial position of the University at June 30, 2012 and 2011, and the combined changes in their net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 2 to 20 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquires, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2012, 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

November 9, 2012

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2012

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, 2012 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2011 compared to fiscal year 2010.

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

During fiscal year 2012, the University experienced several unusual and non-recurring events that had a significant impact on its financial statements as follows –

- The University made a strategic decision to exit the Big East Athletic Conference ("Big East") and become a member of the Big 12 Athletic Conference ("Big 12") effective July 1, 2012. The University paid a $20.0 million fee to exit the Big East that is recorded as a non-operating expense. $3.5 million of that fee was paid by the WVU Foundation on the University's behalf. $9.0 million of it represents the University's share of the Big East revenue withheld in lieu of partial payment of the exit fee. $5.0 million was advanced by the Big 12 and is recorded as deferred revenue to reflect future revenues advanced and to be withheld by the Big 12 starting in fiscal year 2016 as partial payment of the fee. The remaining $2.5 million was paid out of University funds.

- The WVU Benjamin Statler College of Engineering and Mineral Resources received a significantly large ($71.2 million) donation of right-to-use software from Siemens PLM for educational purposes. This in-kind donation is recorded as other asset within capital assets and will be amortized over five years, with $4.7 million of amortization recorded in fiscal year 2012.

- The University reached a settlement with Morgantown Energy Associates ("MEA"), the producer and provider of steam for the University's Morgantown campuses. Under the settlement agreement, MEA agreed to pay WVU $7.2 million to settle a dispute related to calculation of steam price under the steam purchase contract. The settlement amount is recorded as a receivable and other non-operating revenue.

- The University had filed a claim for refund of the Federal Insurance Contributions Act ("FICA") taxes associated with its medical residents' salaries based on the Internal Revenue Service ("IRS") guidance that medical residents qualified for the student exception from FICA taxes before new regulations went into effect in 2005. The IRS approved the claim and accordingly the University has booked a receivable in the amount of $5.7 million for the employer and employee portions of the FICA withheld and paid and interest thereon, as well as corresponding payable to the residents and WVU Hospitals Inc. for their respective share of FICA taxes and related interest, net of administrative expenses incurred by WVU.

- The University also entered into several significant capital and debt related transactions that are detailed in the ensuing sections.

At June 30, 2012, the University's total net assets increased from the previous year-end by $34.7 million. This increase is primarily attributable to a significant increase in investments, capital assets, net of depreciation and cash and cash equivalents. Decreases in leases payable and debt service assessment payable to the Higher Education Policy Commission ("HEPC") further contributed to the increase in net assets. This increase in net assets was partially offset by increases in bonds payable, 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"), accounts payable, notes payable and accrued liabilities.

Total revenues experienced an increase of 7.7% over the prior year. Capital grants and gift revenue increased significantly compared to last year's. Net tuition and fees, revenues from auxiliary enterprises, gifts and other revenues all were higher compared to prior years. These increases were partially offset by decreases in capital bond proceeds from the State, non-capital related grants and contracts revenues and investment income. Total expenses increased 6.7% from prior year mainly because of the conference exit fee and increases in almost all significant expense categories, including: supplies and other services, salaries and benefits, depreciation, utilities, and interest on capital-related debt.

Total net assets had increased from fiscal year 2010 to fiscal year 2011 by $22.9 million primarily due to a significant increase in capital assets, net of depreciation and decreases in leases payable and debt service assessment payable to HEPC as well as due to the growth in total revenues outpacing the growth in total expenses from fiscal year 2010 to 2011.

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 Schedules of Net Assets (in thousands)

	As of June 30		
	2012	**2011**	**2010**
Assets			
Current Assets	$ 197,750	$ 186,868	$ 172,011
Noncurrent Assets	1,568,923	1,227,193	1,190,688
Total Assets	$ 1,766,673	$ 1,414,061	$ 1,362,699
Liabilities			
Current Liabilities	$ 186,931	$ 150,979	$ 151,009
Noncurrent Liabilities	779,921	497,979	469,517
Total Liabilities	$ 966,852	$ 648,958	$ 620,526
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 835,106	$ 741,302	$ 700,345
Restricted for:			
Nonexpendable	5,137	5,131	4,299
Expendable	21,071	20,784	24,897
Unrestricted (Deficit) Net Assets	(61,493)	(2,114)	12,632
Total Net Assets	$ 799,821	$ 765,103	$ 742,173

Total assets of the University increased by $352.6 million, or approximately 25.0%, to a total of $1.8 billion as of June 30, 2012. The increase was primarily due to increases in investments, net capital assets, cash and cash equivalents and net accounts receivable. These increases were partially offset by a decrease in net loans receivable. Capital assets continued to follow an upward trend from prior years.

- Investments increased by $186.5 million primarily due to the investment of proceeds from the 2011 WVU University Improvement Revenue Bonds into U.S. Treasury notes and bonds   The increase was partially offset by the redemption of some 2004 Auction Rate Certificates held by the WVU Research Corporation. Investments had experienced a decrease from fiscal year 2010 to fiscal year 2011 of $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 Corporation.

- Capital assets, net increased by $136.1 million primarily due to acquisition and completion of buildings, building improvements, land and infrastructure projects during fiscal year 2012, including: acquisition of Suncrest Center property and the Augusta on the Square; acquisition of Beechurst, Oakland Street, the Centennial House, and the Potomac Valley Hospital properties; construction, design and renovation of White Hall, Basketball Practice Facility, Agricultural Sciences Greenhouse and other campus wide renovations of classrooms; and renovations to the personal rapid transit (PRT) propulsion and cable systems. An additional increase was due to right-to-use software, valued at $71.2 million, donated by Siemens PLC to the University during fiscal year 2012. This increase in capital assets is consistent with but higher than the increase of $61.7 million noted in this category from fiscal year 2010 to fiscal year 2011.

- Cash and cash equivalents increased by $21.4 million primarily due to 2011 WVU University Improvement Revenue Bond proceeds and Energy performance Contract Phase IIIB lease financing proceeds received during fiscal year 2012 and deposited with the trustees. This increase was partially offset by an increase in cash outflows related to operating activities and payment of debt service, acquisition of capital items and the move to a new Athletic conference. Cash and cash equivalents had decreased by $2.1 million from fiscal year 2010 to fiscal year 2011 primarily due to spend down of bond and lease financing proceeds with the trustees for construction, renovations and life safety improvements of University buildings, as well as the repayment of $10.9 million of lease financing proceeds in escrow for the construction of the Mountaineer Station garage.

- Accounts receivable, net increased by $6.1 million mainly due to amounts receivable from IRS for the refund of both employer and employee portions of FICA taxes withheld and paid and related interest on medical resident salaries between 1998 and 2000. The IRS has agreed that medical residents qualified for the student exception from FICA taxes before new regulations went into effect in 2005. Net accounts receivable had decreased by $5.5 million from fiscal year 2010 to fiscal year 2011 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.

- Notes receivable, net increased by $3.2 million as a result of amounts due from WVU Parkersburg and Bridgemont Community and Technical College for their respective share of the Energy Performance Contract Phase II lease financing. During fiscal year 2012, WVU issued revenue improvement bonds, a portion of which was used to refinance outstanding Energy Performance Phase II lease balance with the Suntrust Leasing Corporation. However, WVU Parkersburg and Bridgemont continue to pay debt service on their respective outstanding lease balances to WVU. No substantial change was noted in this category from fiscal year 2010 to fiscal year 2011.

- Loans receivable, net decreased by $2.5 million from prior year due to reduction in loan activity in the Perkins loan program. Net loans receivable balances had increased from fiscal year 2010 to fiscal year 2011 due to increased activity in the Perkins loan program.

Total liabilities for the year increased by $317.9 million (or 49.0%). The increase in total liabilities during fiscal year 2012 is primarily attributable to increases in bonds payable, OPEB liability, accounts payable, notes payable, accrued liabilities and deferred revenue. This increase was partially offset by decreases in leases payable and the reported debt service assessment payable to the Commission.

- Bonds payable increased by $262.9 million mainly due to the issuance of $250.3 million in revenue improvement bonds during fiscal year 2012, at a net original issue premium of $18.0 million. The 2011 Series B & C bond proceeds and premiums were used to refinance four outstanding leases and to finance new projects. The 2011 Series A bonds in the amount of $12.7 million were used to finance acquisition of a multi-story apartment complex and other associated property. This increase was partially offset by scheduled bond principal payments related to the 2004 revenue refunding bonds. Bonds payable had experienced a decrease of $3.7 million from fiscal year 2010 to fiscal year 2011 due to scheduled bond principal payments related to the 2004 revenue refunding and improvement bonds during fiscal year 2011.

- OPEB liability increased by $47.0 million due to the accrual of the fiscal year 2012 ARC allocated to WVU by the WV Retiree Health Benefit Trust. The OPEB liability represents WVU's accumulated unpaid ARC to the Trust. The OPEB liability had increased by $48.1 million from fiscal year 2010 to fiscal year 2011.

- Real estate purchase agreement payable increased by $26.0 million primarily due to acquisition of the Suncrest Center property subject to a vendor's lien in the amount of $26.4 million, payable to Glenmark Holding LLC. Real estate purchase agreement payable in the amount of $3.3 million was recorded in fiscal year 2011 for purchase of a building on Elmer Prince drive in Morgantown, WV.

- Accounts payable increased by $6.7 million mainly due to $5.4 million payable to medical residents and WVU Hospitals, Inc. for their respective portions of the FICA tax refund plus accrued interest thereon. Accounts payable had decreased from fiscal year 2010 to fiscal year 2011 by $2.1 million due to a lower number of grants and construction related invoices payable to vendors at the end of fiscal year 2011.

- An approximate $3.3 million increase in accrued liabilities reflects accrual of interest expense related to the 2011 revenue bonds; accrual of liability related to pollution remediation activities (asbestos removal); and additional amounts due to the Morgantown Energy Associates under the steam purchase contract. This category had experienced an increase of approximately $2.0 million from fiscal year 2010 to fiscal year 2011 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.

- Deferred revenue increased by $1.9 million primarily due to funds representing future revenues advanced by the Big 12 to satisfy part of WVU's exit fee from the Big East. The advanced funds will be reduced by withholding a portion of WVU's revenue share from the Big 12 starting in fiscal year 2016. An additional increase in this category is attributable to advance 2012 season football tickets and parking revenue that was received during fiscal year 2012 but not yet earned. This increase was partially offset by scheduled or advance payment sponsored awards completed in fiscal year 2012 and a decrease in deferred revenue on existing awards. Deferred revenue had decreased by $1.1 million from fiscal year 2010 to fiscal year 2011.

- Leases payable decreased by $25.6 million primarily because four outstanding leases - Childcare Center, Engineering Sciences Building and Energy Performance Contract Phases II and II - were refinanced from the proceeds of the 2011 revenue bonds issued during fiscal year 2012. This decrease was partially offset by a new Energy Performance Contract Phase IIIB lease executed during fiscal year 2012. Leases payable had decreased by $12.2 million from fiscal year 2010 to fiscal year 2011 primarily due to repayment of $10.9 million of lease financing proceeds related to the construction of the Mountaineer Station garage.

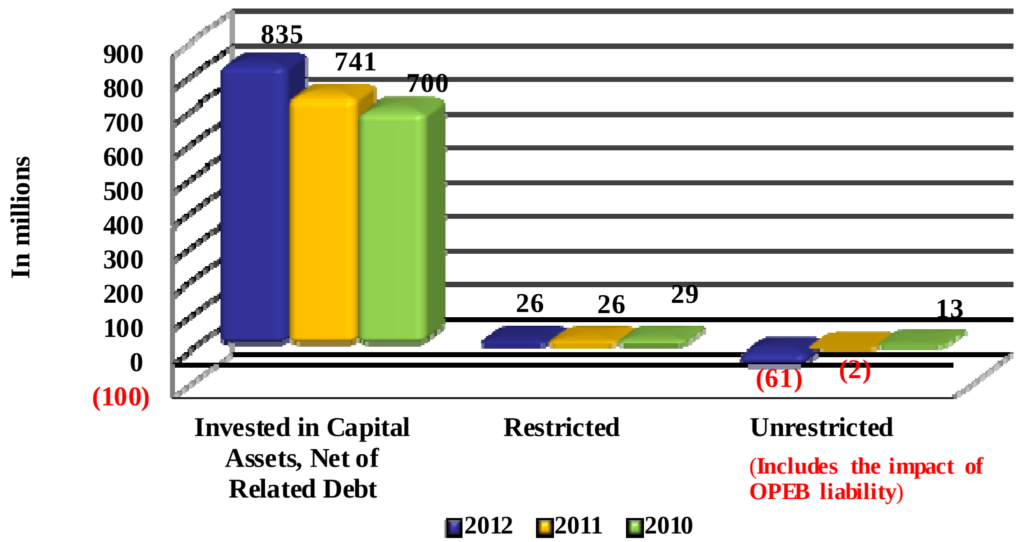
- Debt service assessment payable to the Commission decreased by $5.5 million due to scheduled debt service (principal) payments in fiscal year 2012. This decrease is consistent with the decrease in such liability from fiscal year 2010 to fiscal year 2011 of $5.4 million.

- Notes payable decreased by $1.2 million due to scheduled debt service (principal) payments in fiscal year 2012. Notes payable had experienced a similar decrease from fiscal year 2010 to fiscal year.

The University's current assets of $197.8 million were sufficient to cover current liabilities of $186.9 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2012.

The following is a comparative illustration of net assets.

COMPARISON OF NET ASSETS
June 30, 2012, 2011 and 2010



Invested in capital assets, net of related debt increased by $93.8 million primarily due to an increase in capital assets, net, and decreases in debt service assessment payable to the Commission and leases payable. This increase is consistent with but substantially higher than the increase of $40.9 million in this category from fiscal year 2010 to fiscal year 2011.

No significant change was noted in the restricted net assets from fiscal year 2011 to fiscal year 2012. Restricted net assets had experienced a decrease of $3.3 million from fiscal year 2010 to fiscal year 2011 due to decreases in the restricted for capital projects category and cash balances related to several deferred maintenance projects as a result of significant capital expenditures.

Unrestricted net assets decreased by $59.4 million primarily due to increases in the OPEB liability, other deferred revenue, accrued liabilities and accounts payable. These were partially offset by increase in accounts receivable. This net asset category had experienced a smaller decrease of $14.7 million from fiscal year 2010 to fiscal year 2011 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.

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 Schedules of Revenues, Expenses and Changes in Net Assets (in thousands)

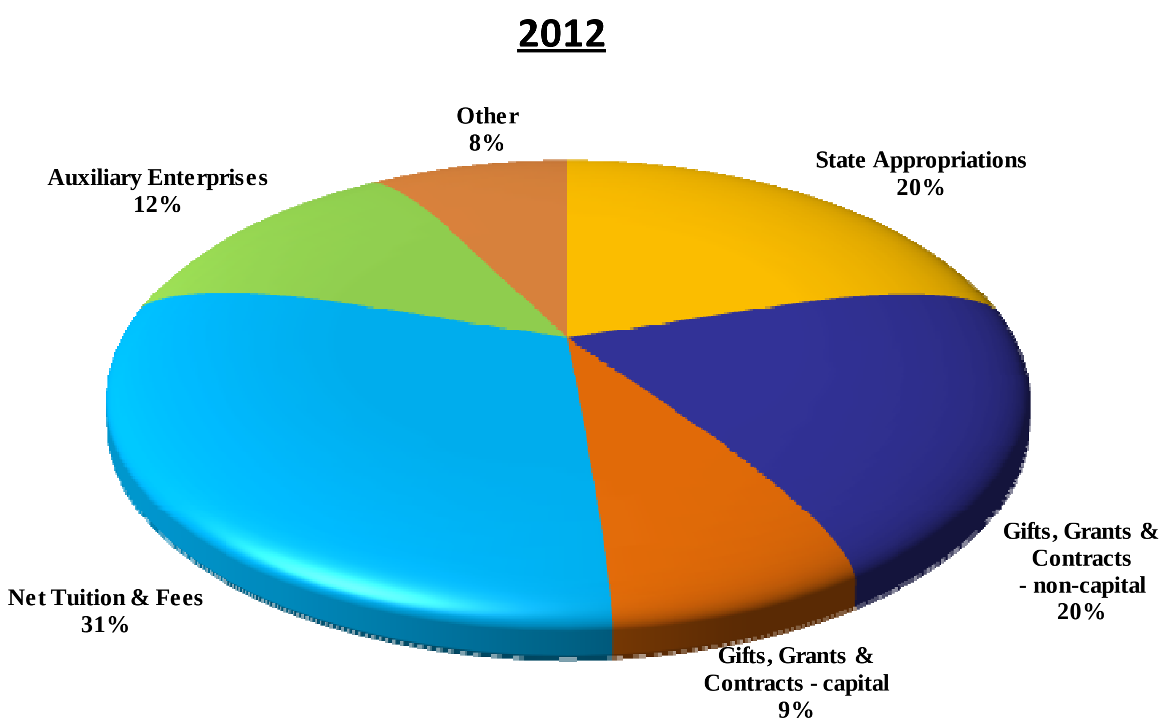
	Years Ended June 30		
	2012	**2011**	**2010**
Operating Revenues	$ 654,576	$ 630,544	$ 593,541
Operating Expenses	951,612	914,164	881,326
Operating Loss	(297,036)	(283,620)	(287,785)
Net Nonoperating Revenues	236,708	254,434	241,746
Loss before Other Revenues, Expenses, Gains or Losses	(60,328)	(29,186)	(46,039)
Capital grants and gifts	87,758	30,266	34,511
Capital grants (federal)	1,253	2,879	961
Capital bond proceeds from the State	5,645	18,707	-
Bond proceeds/capital projects proceeds from the Commission	390	264	681
Increase (Decrease) in Net Assets Before Transfers and Cumulative Effect	34,718	22,930	(9,886)
Net Assets at Beginning of Year	765,103	742,173	752,059
Net Assets at End of Year	$ 799,821	$ 765,103	$ 742,173

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

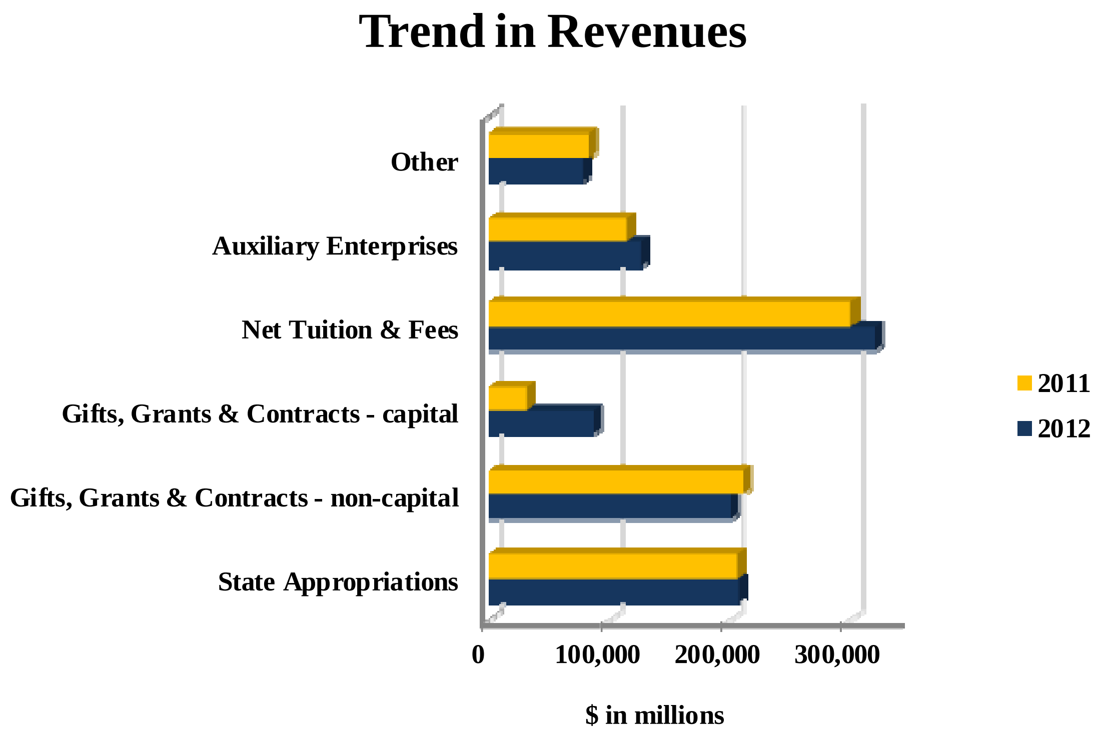
		Year Ended June 30, 2012
Loss before other revenues, expenses, gains or losses	$	(60,328)
OPEB added to liability		47,048
Unrealized loss		1,407
Other Special Items:		
One-time revenues		(10,750)
Conference exit fee		20,000
Modified Amount	**$**	**(2,623)**

Revenues:

The following chart illustrates the composition of revenues by source for fiscal year 2012.



Total fiscal year 2012 revenues continued the positive trend of exceeding those of the prior year. In addition, the University continued to experience annual growth in several of its significant revenue sources.



Total revenues for fiscal year 2012 were $1,028.4 million which represented an increase of $73.8 million or 7.7% 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 grants & gifts increased by approximately $55.9 million compared to prior year primarily due to donation of a master license agreement from Siemens PLM of software to be used for educational purposes by the University. Capital grants and gifts had experienced a decrease of approximately $2.3 million from fiscal year 2010 to fiscal year 2011 attributable to reduced revenues from capital grants during fiscal year 2011.

- Tuition and fees, net increased by $19.9 million primarily due to an increase in the fee rate and an increase in non-resident student enrollment. 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 consistent with but higher than the increase of $15.5 million in the prior year.

- Auxiliary revenue increased by $12.2 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 increase in revenues from men’s football and basketball season game tickets sales, concession receipts, and parking fees. This increase in auxiliary revenue is consistent with but substantially higher than the increase in this category from fiscal year 2010 to fiscal year 2011 of $3.5 million.

- Gift revenue increased by $7.8 million from prior year mainly attributable to an increase in WVU Foundation funds to pay for academic scholarships, salaries, and Athletics’ share of debt service payments and scholarships. Gift revenue had decreased from fiscal year 2010 to fiscal year 2011 by approximately $990,000.

- Payments on behalf of the University increased by $3.6 million primarily due to funds remitted by the WVU Foundation, on the University’s behalf, to the Big East as partial payment of the conference exit fee. No significant change was noted in this category from fiscal year 2010 to fiscal year 2011.

- Other net non-operating revenues increased by $3.2 million compared to prior year as a result of a settlement agreement between the University and MEA in the amount of $7.2 million. The agreement was reached to settle a dispute over the calculation of the steam price under the steam purchase agreement between WVU and MEA, the company that produces steam for WVU’s Morgantown campuses. Other net non-operating revenues of $2.7 million were reported in fiscal year 2011 due to gain realized on sale of University property.

- Total State support increased by approximately $1.5 million from the previous year as a result of increase in base budget appropriations from the State. This increase was partially offset by elimination of federal ARRA stabilization funds and a decrease in soft drink tax revenues. State appropriations, including the stabilization funds, had experienced a similar increase from fiscal year 2010 to fiscal year 2011.

- Other operating revenue increased by $1.1 million from prior year attributable to several factors including: administrative fee charged by the University to coordinate the submission and processing of medical resident FICA refund claims with the IRS; an increase in the Coca-Cola pouring rights sponsorship revenues; an increase in facility rental receipts; and final settlement payments received from Coaches Rodriguez and Beilein. No significant change was noted in this category from fiscal year 2010 to fiscal year 2011.

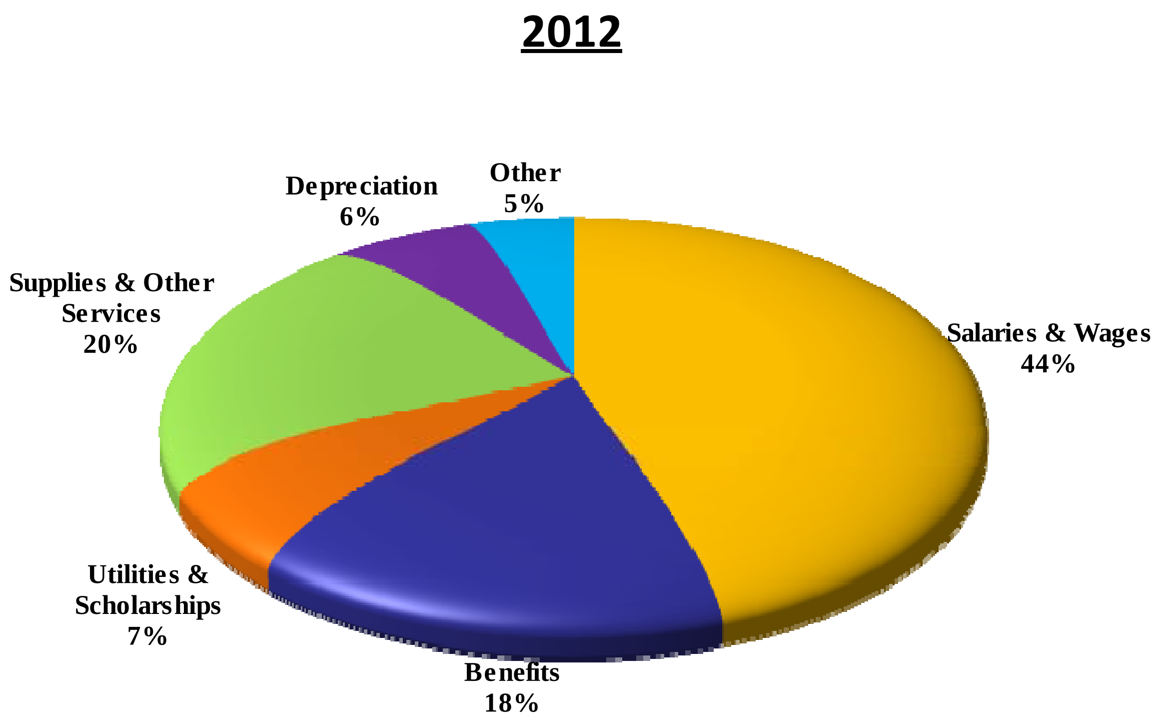
- Capital bond proceeds from the State decreased by $13.1 million due to a decrease in the reimbursement of construction expenditures from the Education, Arts, Science and Tourism (“EAST”) bonds issued by the WV Economic Development Authority. Capital bond proceeds from the State in the amount of $18.7 million were recorded for the first time during fiscal year 2011.

- Grants and contracts revenue (non-capital related) decreased by $9.3 million mainly due to reduced revenues from existing federal and non-governmental awards, including ARRA, as well as no new ARRA awards received during fiscal year 2012. This decrease was partially offset by an increase in revenues from new and existing State grants and contracts. An increase of $16.8 million was noted in this revenue category from fiscal year 2010 to fiscal year 2011.

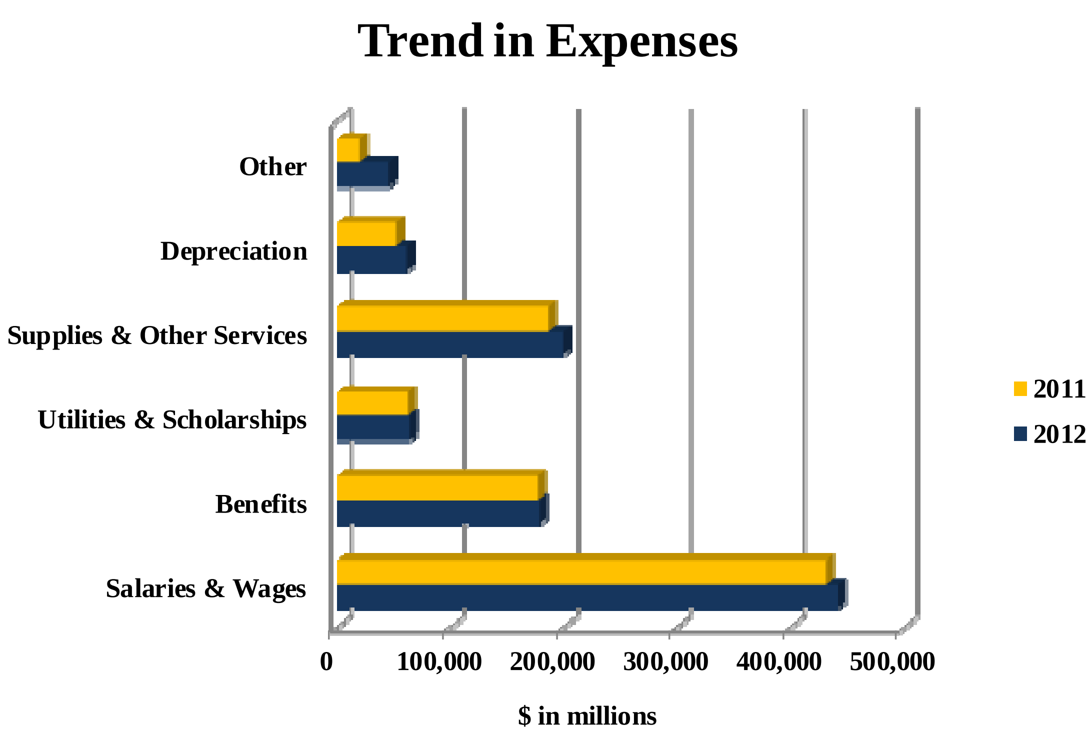
- Investment income decreased by $7.9 million primarily due to significant decline in the fair value of investments with the Foundation. Investment income had experienced an increase of $2.3 million from fiscal year 2010 to fiscal year 2011 due to higher return and an increase in the fair value of investments with the Foundation.

- Pell grant revenue decreased by $1.3 million attributable to a change instituted by the federal government in the award criteria that caused a reduction in the number of eligible students applying for and receiving the grant. Pell Grant revenue had increased by $6.3 million from fiscal year 2010 to fiscal year 2011.

Expenses:
The following graph shows the composition of total expenses by category for fiscal year 2012.



The following chart provides a comparison of expenses by significant category between fiscal years 2012 and 2011.



Total fiscal year 2012 expenses of $993.7 million exceeded those of the prior year by $62.0 million (or 6.7%) and 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:

- The University paid a $20.0 million exit fee to leave the Big East and join the Big 12 starting July 1, 2012.No such expense was noted in fiscal year 2011.

- Supplies and other services increased by $13.5 million attributable to increases in several areas including: Athletics team travel expense related to post-season football games including the Orange Bowl; purchase of tickets for resale related to the Orange Bowl; higher Athletic game guaranties; and other categories such as general travel, legal services, contractual and professional services, medical malpractice insurance, research and educational supplies and general repairs and maintenance. Supplies and other services had experienced a lower increase from fiscal year 2010 to fiscal year 2011.

- Salaries and wages increased by $10.9 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty, non-classified staff and graduate and research assistants' 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. 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 2012. A similar but higher increase was noted in salaries and wages from fiscal year 2010 to fiscal year 2011 of $16.5 million.

- Depreciation and amortization expense increased by $9.7 million over prior year primarily due to partial year amortization, in the amount of $4.7 million, of right-to-use software donated by Siemens PLM for educational purposes. The donated software was valued at $71.2 million and will be amortized over five years. Depreciation on completed construction projects placed in service during fiscal year 2012 also contributed to the increase in depreciation expense. This category did not experience a significant change from fiscal year 2010 to fiscal year 2011.

- Interest on capital-related debt increased by $4.7 million over prior year primarily due to interest paid and payable on the 2011 University improvement revenue bonds issued during fiscal year 2012. The University continues to make regularly scheduled debt service payments on its 2004 revenue bonds as well. No such increase was noted in this category from fiscal year 2010 to fiscal year 2011.

- Utilities expense increased by $2.6 million over prior year attributable to an increase in steam charges resulting from rate increases and minimum usage charge of $1.2 million as well as an increase in electricity expense due to increased rate and usage. Utilities expense had experienced a similar but lower increase from fiscal year 2010 to fiscal year 2011.

- Benefits expense increased by approximately $1.4 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; and an increase in the University's share of employment taxes and pension and retirement contributions. Benefits expense had experienced an increase of $5.0 million from fiscal year 2010 to fiscal year 2011 in correspondence with an increase in the salary expense.

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 Schedules of Cash Flows (in thousands)

	Years Ended June 30		
	2012	**2011**	**2010**
Cash Provided By (Used In):			
Operating Activities	$ (184,877)	$ (170,951)	$ (184,414)
Noncapital Financing Activities	254,004	255,589	247,725
Capital Financing Activities	136,957	(100,064)	(51,783)
Investing Activities	(184,679)	13,286	(942)
Increase (Decrease) in Cash and Cash Equivalents	21,405	(2,140)	10,586
Cash and Cash Equivalents, Beginning of Year	132,793	134,933	124,347
Cash and Cash Equivalents, End of Year	$ 154,198	$ 132,793	$ 134,933

Total cash and cash equivalents increased by $21.4 million during fiscal year 2012 to $154.2 million.

- Net cash used in operating activities increased by $13.9 million primarily due to increases in payments to suppliers, employees, and for benefits, utilities and scholarships and fellowships. These increases in outflows were partially offset by increased cash inflows from tuition and fees. Cash used in operating activities had experienced a decrease from fiscal year 2010 to fiscal year 2011.

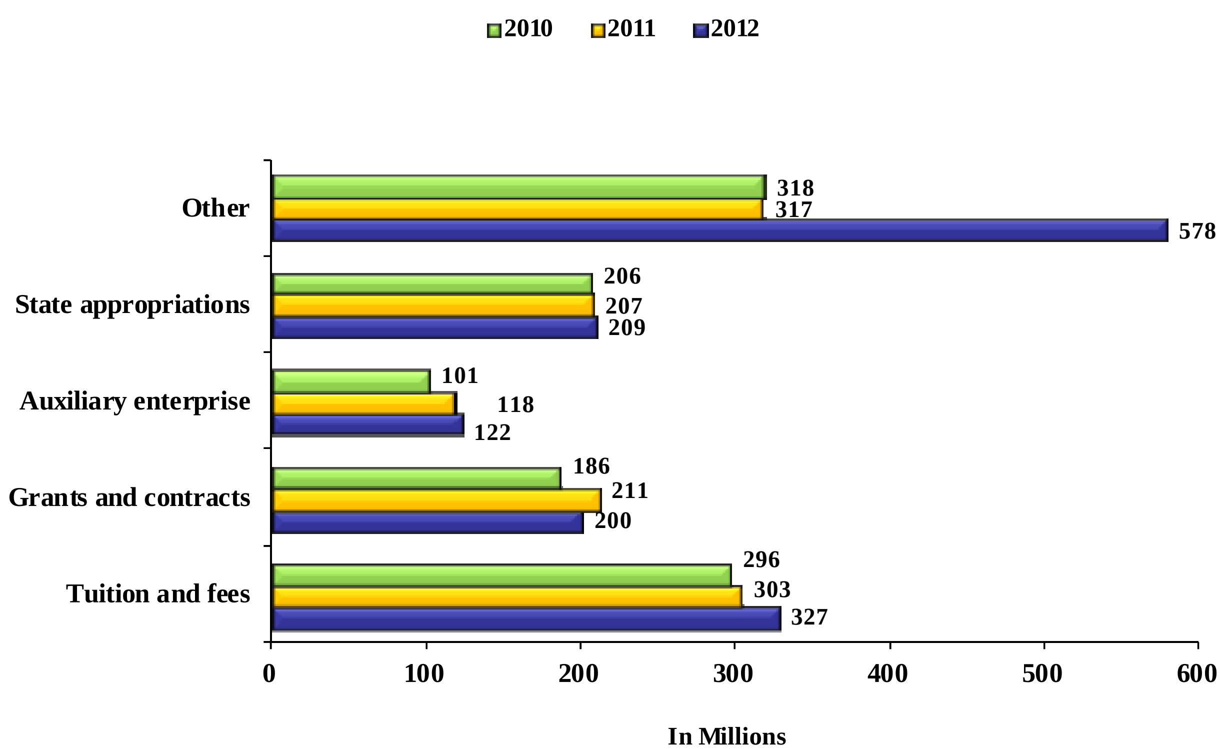
- Net cash provided by noncapital financing activities decreased by $1.6 million primarily due to cash outflows related to payment of conference exit fee to the Big East. This decrease was partially offset by increased cash inflows from State appropriations and gifts. This category had experienced an increase from fiscal year 2010 to fiscal year 2011.

- Net cash provided by (used in) capital financing activities changed by $237.0 million primarily due to increase in cash inflows from proceeds of bonds issued in fiscal year 2012, receipt from lease trustees, and lower cash outflows for purchase of capital assets. The increase in cash inflows was partially offset by a decrease in cash inflows from bond/capital projects from the Commission and capital gifts and grants. Net cash used in capital financing activities had increased by $48.3 million from fiscal year 2010 to fiscal year 2011.

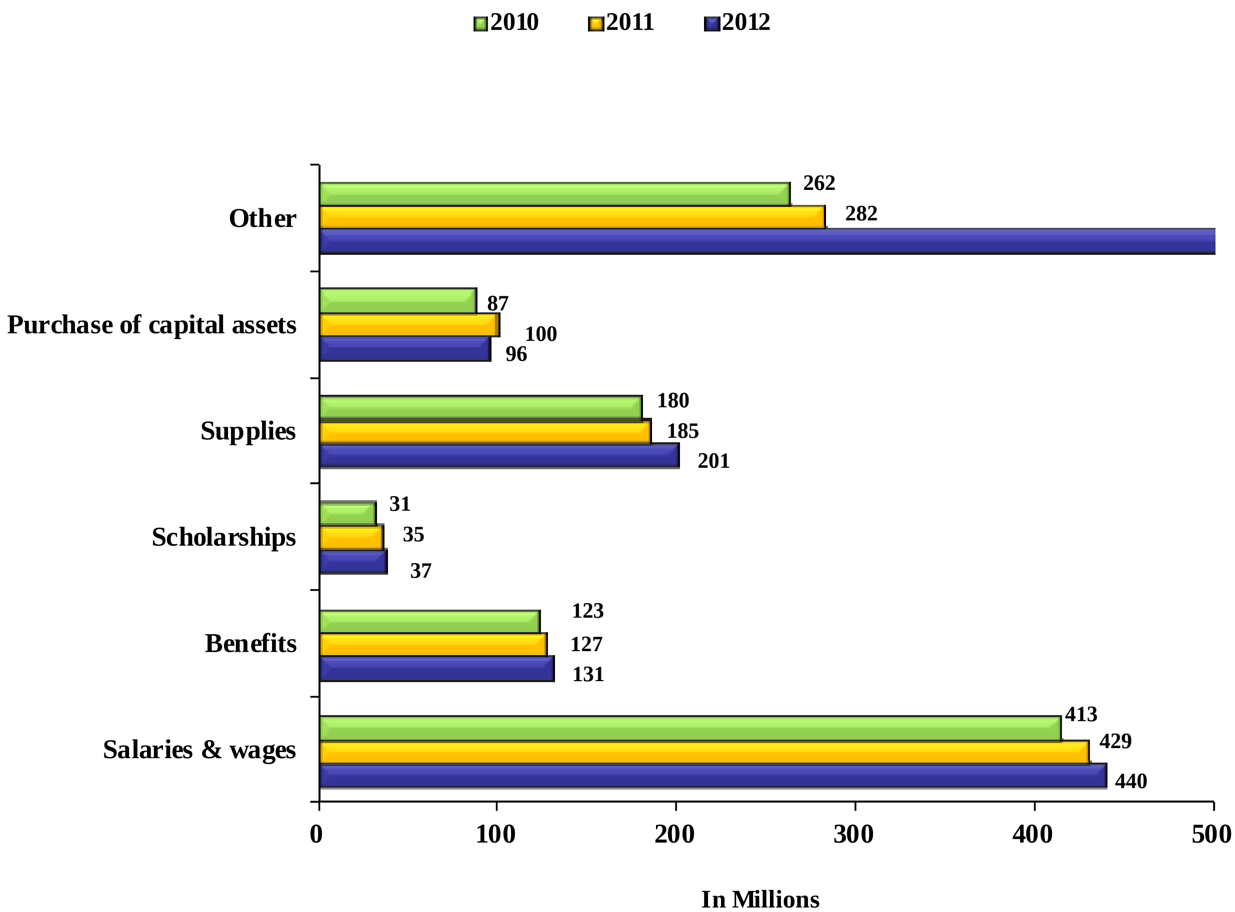
- Net cash provided by (used in) investing activities changed by approximately $198.0 million primarily due to an increase in cash outflows for purchase of investments related to bond proceeds during fiscal year 2012. In contrast, investing activities had provided cash in the net amount of $13.3 million in fiscal year 2011.

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 2012, financed by bond proceeds, loan proceeds, leases, grants, gifts and other University funds.

- The University completed construction of a basketball practice facility to be used by both the men's and women's basketball teams; construction of the Agricultural Sciences greenhouse building; renovation and life safety improvements to the White Hall, an academic building; replacement of the cooling tower serving the Health Sciences Center; renovations to the WVU visitor's resource center; and refurbishment of the PRT guide way heating system and repairs to the PRT system facility Other on-going capital activity included: redevelopment and construction of student recreation fields on the Evansdale campus; renovation, including asbestos abatement, of the Law Center; construction of the Multiple Sclerosis Research Center on the Health Sciences campus; and early site preparation for the construction of the College of Physical Activities and Sports Sciences and the Student Health building.

- During fiscal year 2012, the University acquired real estate, for $26.4 million, called the Suncrest Center consisting of two office buildings subject to operating leases, a two-level parking garage and land that is ground leased to a restaurant. A deed was entered in WVU's name on June 29, 2012 subject to vendor's lien to Glenmark Holding LLC, the seller of the property. The University also acquired several other parcels of land totaling about $5.4 million.

- During fiscal year 2012 the University capitalized costs associated with the implementation of an identity management system, the OBIEE reporting project – a new reporting tool solution, WVUBUY – an electronic procurement application, rework of MyAccess – a central web location for WVU employee services and applications, and development of eRA – an electronic research administration application.

- The WVU Benjamin Statler College of Engineering and Mineral Resources received a donation of right-to-use software from Siemens PLM for educational purposes, valued at $71.2 million.

- The University entered into phase IIIB of the Energy Performance lease purchase agreement with Suntrust Equipment Finance & Leasing Corp. for $9.2 million. 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 IIIB, energy performance projects are being undertaken at the Morgantown, Health Sciences Center and Potomac State College campuses of the University.

The University, including the Health Sciences Center and its regional campuses, has a multi-year capital budget including planned capital expenditures of approximately $279.3 million 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.

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.

In October 2011, the Board issued $237.6 million in revenue bonds and received bond proceeds of $255.6 million, including a net original issue premium of $18.0 million, as follows:

2011 Series B: The Board issued the Series B Improvement Revenue Bonds in the par amount of $187.6 million at a fixed interest rate of 4.14%. These bonds were issued to refinance lease purchases of the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Phase III and to finance new projects. The refinancing resulted in a savings of approximately $4.5 million.

2011 Series C: The Board issued Series C Improvement Variable Rate Revenue Bonds in the amount of $50.0 million with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2012, the average interest rate was .80%. These Bonds were issued to finance new projects.

Other 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 $77.1 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2012.

Economic Outlook

University administration realizes that national and State economic conditions will create significant challenges in future years. However, administration also believes that the University is well positioned to meet these challenges through its prudent financial planning and management practices. These practices are designed to promote growth and productivity, elevate quality, reduce cost and maintain a stable financial position. The effectiveness of these practices and the University's stable financial position was confirmed in FY 2012 as both Moody's and Standard and Poor's upheld the University's bond ratings of Aa3 and A+ respectively.

As a public institution, the University's financial position is closely tied to that of the State of West Virginia and is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. In FY 2012, the State generated a budget surplus of $101 million in general revenue funds and achieved a balance of $883 million (or 21% of the State's general fund budget) in its Revenue Shortfall Reserve Fund (Rainy Day Fund). These results, combined with the actions undertaken to reduce and fund the State's Other Post Employment Benefit (OPEB) liability, signifies the State's approach to maintain a high degree of long term fiscal stability.

While the economic condition of the State remained relatively strong throughout the recent economic downturn, recently enacted federal health care reform and a potential decline in severance tax revenues has prompted the Governor to request that State agencies plan for a 7.5% reduction of their general fund appropriation in their FY 2014 budget plan. Although final funding decisions will not be made until the upcoming Legislative session, University administration is hopeful that these reductions will not materialize. However, University administration will continue to monitor the State's fiscal condition and plan appropriately to ensure it can continue to meet its teaching, research and service missions through cost control and revenue generation strategies.

The University's federally funded research programs also represent an important component of its mission. Unfortunately, as federal deficits have increased federal research funding has been relatively stagnant and increasingly competitive. The timing of the economic downturn could not have been worse for WV and WVU as it coincided with the loss of seniority and key committee leadership for the state in both the House and Senate. Our recent federal funding reflects this change in terms of the loss of Congressionally-directed (ear-mark) funding as well as the end of one time ARRA stimulus funding. The University has been taking actions to strengthen the competitiveness of our faculty in grants seeking through a combination of faculty training programs and proposal development professionals. At the same time we have refocused on aligning research investments to match federal agency priorities and opportunities more closely. This is reflected in our recent and planned hires to increase our competitiveness in areas such as Shale Gas Utilization, Water Stewardship, Health Disparity Solutions, STEM Education and Outreach, and Radio Astronomy.

A few indicators of this success to date include the $6.5 million NSF funded international radio astronomy research program to study gravitational waves and the $3.2 million NSF funded program to recruit, retain, and promote women in the STEM disciplines. Both of these programs were among the select few to garner awards through a nationally competitive process. The greatest success thus far for this strategy; however, was the August 2012 grant award of $19.6 million from the NIH to the WVU for the development of a clinical translation research center to address the major health issues of our regional population. This grant is to the University as a whole and encompasses both the Health Sciences Center and the General University Campus. It attracted an additional $33 million of cost sharing funds from other leading health care and health sciences entities from across the state.

Moving forward, however, it is clear that the University will need to expand its base of funding for the research enterprise. This will require the development of greater emphasis on sources beyond the federal government such as private foundations, corporations, and collaborations with industry.

Despite these external economic challenges, the University continues to experience both programmatic and financial success that will position it for stability well into the future. Examples of these successes include:

- Strategic Plan Implementation:
  The University continued the implementation of its *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.

- Elevating University Visibility:
  On July 1, 2012, WVU officially joined the Big 12 Conference. This move will produce significant reputational and monetary benefits in the future by bringing WVU onto the national stage weekly and aligning WVU with one of the top athletics conferences in the nation for the first time in school history.

- Effective Financial Management:
  The University continues to implement innovative financial management practices through the creation of new revenue streams and cost reduction strategies. In FY 2012 the University identified approximately $12 million of initiatives whose benefits will continue into future periods (in addition to developing future strategies).

- Maintaining Student Demand:
  Freshman enrollment achieved a record level in the Fall of 2012 with an opening day headcount for the Main Campus of 29,879. As part of the increase of 162 freshman students on the Main Campus, the number of domestic minority students in the freshmen class increased 17% from the prior year. These two positive attributes are consistent with the University's strategic plan which calls for expanding enrollment to 32,000 by the year 2020 with a special emphasis on graduate level enrollment.

- Value/Price Competitiveness:
  For the fiscal year 2013, WVU-Main Campus tuition and fees were increased by approximately 5% for both resident and non-resident students. WVU's current tuition levels remain competitive in the higher education marketplace.

- Strategic Investments in Human Capital:
  The University continues to invest in its human capital. In FY 2013 the University implemented a general salary increase averaging 2%. This program is designed to aid in employee retention through competitive salaries and merit based compensation philosophies for faculty and non-classified staff along with a classified staff salary increase program.

- Seizing Opportunities in Financial Markets:
  The University continues to use its favorable credit ratings to obtain funds at very competitive terms. These financial market opportunities have allowed WVU to experience savings from restructuring its current debt terms and obtain additional funds needed for academic, student service and research purposes.

- Building for the Future:
  The University has operationalized its $279.3 million capital plan. The primary focus of this plan is the revitalization of the Evansdale Campus where new facilities will be constructed for the College of Physical Activities and Sport Sciences, the College of Agriculture Sciences, an Engineering research building and a student health and wellness facility.

- Solving Long Term Liabilities:
  The State legislature has addressed one of the most significant financial challenges facing state agencies with positive results. In FY 2012 the legislature and Public Employees Insurance Agency implemented a series of actions to significantly reduce the OPEB Annual Required Contribution (from state agencies) and, in turn, the total OPEB liability. These actions included limiting the annual increase on the employer’s share of the retiree’s premium and allocating $30 million of annual funding to the OPEB Trust Fund beginning in FY 2016 and a change in the applied discount rate. These steps will have a significant positive impact on WVU’s financial position and performance. For FY 2013, these steps will reduce WVU’s annual OPEB accrual from its current level of $47.8 million to approximately $3.5 million. Over time, as the State funds the OPEB trust, this accrual will become a credit and gradually reverse the current accrual of $161 million to zero. The “pay go” portion of the program that requires actual cash payments increased by approximately $600,000.

Despite the challenges facing the University, administration remains committed to expanding its current efforts to maintain a sound financial position through diversification of revenue sources, managing costs and using innovation and technology to gain operational efficiencies. This sound financial position will allow the University 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 also share this perspective.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 131,802	$ 128,844
Accounts receivable, net of allowances for doubtful accounts of $6,713 and $5,188	54,895	48,744
Due from the Commission	862	938
Service agreement receivable from Bridgemont and Parkersburg CTC's	54	-
Loans receivable, current portion	5,315	4,706
Inventories	1,763	1,635
Prepaid expenses	2,758	1,829
Notes receivable from Bridgemont and Parkersburg CTC's, current portion	190	40
Bond issuance cost, current portion	111	132
Total current assets	197,750	186,868
Noncurrent Assets:		
Restricted cash and cash equivalents	22,396	3,949
Investments	268,437	81,935
Loans receivable, net of allowances for doubtful accounts of $6,636 and $6,618	30,849	33,991
Notes receivable from Bridgemont and Parkersburg CTC's	3,228	160
Bond issuance cost, net	1,732	992
Capital assets, net	1,242,281	1,106,166
Total noncurrent assets	1,568,923	1,227,193
TOTAL ASSETS	$ 1,766,673	$ 1,414,061

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED)
AS OF JUNE 30, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 35,863	$ 29,129
Accrued liabilities	8,626	5,346
Accrued payroll	18,885	18,121
Deposits	3,235	3,105
Deferred revenue	52,328	50,415
Due to the Commission	130	75
Compensated absences	22,913	22,409
Real estate purchase agreements payable, current portion	26,754	369
College system debt owed to the Commission	-	75
Debt service assessment payable to the Commission, current portion	4,914	5,546
Leases payable, current portion	1,248	10,681
Bonds payable, current portion	10,725	4,456
Notes payable, current portion	1,310	1,252
Total current liabilities	186,931	150,979
Noncurrent Liabilities:		
Real estate purchase agreement payable	2,551	2,919
Other post employment benefits liability	161,067	114,019
Advances from federal government	26,798	26,741
Debt service assessment payable to the Commission	72,152	77,066
Leases payable	24,044	40,241
Bonds payable	451,735	195,031
Notes payable	22,040	23,351
Other noncurrent liabilities	19,534	18,611
Total noncurrent liabilities	779,921	497,979
TOTAL LIABILITIES	$ 966,852	$ 648,958
NET ASSETS		
Invested in capital assets, net of related debt	$ 835,106	$ 741,302
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	4,577	4,571
Other	475	475
Total nonexpendable	5,137	5,131
Expendable:		
Scholarships and fellowships	279	224
Sponsored programs	496	140
Loans	18,389	17,807
Debt service	1,375	1,373
Other	532	1,240
Total expendable	21,071	20,784
Unrestricted net (deficit)	(61,493)	(2,114)
TOTAL NET ASSETS	$ 799,821	$ 765,103

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

	2012	2011
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $45,807 and $41,928	$ 321,905	$ 301,936
Federal land grants	8,470	8,572
Local land grants	1,075	1,156
Federal grants and contracts	80,853	93,921
State grants and contracts	44,152	38,251
Local grants and contracts	230	300
Nongovernmental grants and contracts	43,708	45,818
Sales and services of educational departments	17,569	17,257
Auxiliary enterprises, net of scholarship allowances of $9,410 and $8,669	127,654	115,435
Interest on student loans receivable	851	740
Net service agreement revenue from Bridgemont and Parkersburg CTC's	612	734
Other operating revenues (including revenue from outsourced enterprise of $1,434 and $1,470)	7,497	6,424
Total operating revenues	654,576	630,544
OPERATING EXPENSES		
Salaries and wages	441,811	430,934
Benefits	179,098	177,701
Scholarships and fellowships	35,365	36,188
Utilities	29,227	26,609
Supplies and other services	200,717	187,188
Depreciation and amortization	61,842	52,109
Loan cancellations and write-offs	499	632
Assessments by the Commission for operations	2,691	2,621
Other operating expenses	362	182
Total operating expenses	951,612	914,164
OPERATING LOSS	(297,036)	(283,620)

(continued)

WEST VIRGINIA UNIVERSITY

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

(Dollars in Thousands)

	2012	2011
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 205,037	$ 190,732
State Lottery appropriations	3,588	3,125
State fiscal stabilization funds	-	13,227
Payments on behalf of the University	3,919	344
Gifts	25,804	18,000
Federal Pell grants	32,658	33,918
Conference exit fee	(20,000)	-
Investment income (including unrealized (loss) gain of ($1,407) and $6,439)	1,877	9,858
Interest on capital asset-related debt	(17,517)	(12,808)
Assessments by the Commission for debt service	(4,561)	(4,705)
Other nonoperating revenues - net	5,903	2,743
Net nonoperating revenues	236,708	254,434
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(60,328)	(29,186)
Capital grants and gifts	87,758	30,266
Capital grants (federal)	1,253	2,879
Capital bond proceeds from State	5,645	18,707
Bond/capital projects proceeds from the Commission	390	264
INCREASE IN NET ASSETS	34,718	22,930
NET ASSETS - BEGINNING OF YEAR	765,103	742,173
NET ASSETS - END OF YEAR	$ 799,821	$ 765,103

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 326,965	$ 303,129
Federal and local land grants	9,545	9,728
Grants and contracts	166,590	176,716
Payments to suppliers	(200,788)	(185,415)
Payments to employees	(439,667)	(429,343)
Payments for benefits	(130,739)	(126,803)
Payments for utilities	(28,719)	(25,803)
Payments for scholarships and fellowships	(37,117)	(35,026)
Loan advances from (returned to) federal government	55	1
Collections (disbursements) of loans to students	2,034	(1,707)
Interest earned on loans to students	851	735
Auxiliary enterprise charges	122,167	117,739
Sales and service of educational departments	17,002	16,879
Payments of net operating expenses from Bridgemont and Parkersburg CTC's	558	842
Other receipts	6,386	7,377
Net cash used in operating activities	(184,877)	(170,951)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	205,037	190,732
State lottery appropriations	3,588	3,125
State fiscal stabilization funds	-	13,227
Gifts	23,459	17,871
Federal Pell grants	32,658	33,918
Conference exit fee	(7,500)	-
Assessments by the Commission for debt service	(4,561)	(4,705)
William D. Ford direct lending receipts	214,175	212,591
William D. Ford direct lending payments	(212,830)	(214,017)
Other nonoperating payments	(22)	2,847
Net cash provided by noncapital financing activities	254,004	255,589
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(5,620)	(5,573)
Bond/capital projects proceeds from the Commission	740	533
Proceeds from University bonds	268,308	-
Bond issuance costs	(879)	-
Capital bond proceeds from State	8,429	15,519
Capital gifts and grants received	12,998	17,015
Capital grants - federal received	1,253	2,879
Purchases of capital assets	(96,398)	(99,985)
Capital projects proceeds from lease trustees	9,195	-
Principal paid on capital debt and leases	(44,527)	(17,849)
Interest paid on capital debt and leases	(16,542)	(12,603)
Net cash provided by (used in) capital financing activities	136,957	(100,064)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	3,230	3,542
Purchase of investments	(189,960)	(2,121)
Redemption of matured investments	2,375	11,911
Purchase of Research Corporation investments	(324)	(46)
Net cash (used in) provided by investing activities	(184,679)	13,286
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	21,405	(2,140)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	132,793	134,933
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 154,198	$ 132,793

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2012 AND 2011
(Dollars in Thousands)

	2012	2011
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (297,036)	$ (283,620)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	61,842	52,109
Donated/noncapitalized expense	4,645	2,610
Revenue held by Big East as partial payment of conference exit fee	(9,000)	-
Expenses paid on behalf of the University	419	344
Changes in assets and liabilities:		
Accounts receivable, net	(2,329)	16,608
Due from the Commission	75	317
Loans receivable, net	2,533	(1,075)
Prepaid expenses	(928)	(107)
Inventories	(129)	70
Accounts payable	2,598	(7,952)
Accrued liabilities	49,775	50,841
Deposits	130	(4)
Deferred revenue	1,913	(1,124)
Due to the Commission	54	(138)
Compensated absences	504	171
Advances from federal government	57	(1)
Net cash used in operating activities	$ (184,877)	$ (170,951)
Noncash Transactions:		
Construction in progress additions in accounts payable	$ 7,676	$ 4,881
Land and building additions in real estate purchase agreements payable	$ 26,385	$ -
Equipment purchased on capital lease	$ 470	$ -
Donated capital assets	$ 73,379	$ 11,602
Unrealized (loss) gain on investments	$ (1,407)	$ 6,439
Capitalization of interest	$ 840	$ 859
Donated noncapitalized assets	$ 2,345	$ -
Bond discount amortization	$ 426	$ 642
Loss on dispositions	$ 1,284	$ 65
Other post employment benefits liability	$ 47,048	$ 48,065
Expenses paid on behalf of the University	$ 3,919	$ 344
Conference revenue and exit fee retained by Big East	$ 9,000	$ -
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	$ 131,802	$ 128,844
Cash and cash equivalents classified as noncurrent assets	22,396	3,949
	$ 154,198	$ 132,793

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 and the separately established community and technical colleges oversaw a plan that ensured the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking and athletics through fiscal year 2012. The University continues to provide Parkersburg and Bridgemont with administrative and academic support services. The University charges Parkersburg and Bridgemont for these services.

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.

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 17 and 18) 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.

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-C, chapter forty-four of the West Virginia Code.

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees 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 combined 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, 2012 and 2011 was $5,000 and $81,000, respectively, which includes approximately $0 and $6,000 for employee benefits as of June 30, 2012 and 2011, 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, 2012 and 2011, 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 and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell grants, investment income and sale of capital assets (including natural resources).

Other Revenues: Other revenues 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, 2012 or 2011.

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 $214.2 million in fiscal year 2012 and approximately $214.0 million in fiscal year 2011 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 2012 and 2011, the University received and disbursed $35.9 million and $37.4 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, 2012 and 2011, 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 $20.1 million and $19.1 million as of June 30, 2012 and 2011, 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 $19.3 million and $18.6 million to reflect projected claim payments at June 30, 2012 and 2011, respectively.

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. *Reclassifications* – Certain reclassifications have been made to the 2011 combined financial statements to conform to the current year presentation. State Lottery appropriations of $3.1 million were reclassified from State appropriations.

y. *Newly Adopted Statements Issued by the GASB* – During fiscal year 2012, the University adopted Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This statement addresses how to account for and report service concession arrangements (SCAs) by establishing recognition, measurement, and disclosure requirements for SCAs for both tranferors and governmental operators. The adoption of this statement did not have a material impact on the financial statements. See related disclosures in Note 19.

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

The University also adopted Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance included in the FASB and 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 adoption of this statement did not have a material impact on the financial statements.

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

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

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

The GASB has also issued Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The University has not yet determined the effect that the adoption of GASB Statement No. 66 may have on its financial statements.

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

3. CASH AND CASH EQUIVALENTS

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

2012

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ 63,414	$ 560	$ 63,974
West Virginia University - Auxiliaries	36,758	-	36,758
Cash on deposit with Trustee or MBC	-	18,835	18,835
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	31,566	-	31,566
Cash on Hand	60	-	60
Cash in Money Market	4	-	4
	$ 131,802	$ 22,396	$ 154,198

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

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.

Cash on Deposit with the Treasurer. The cash on deposit with the Treasurer is pooled by the Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (the BTI). These 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 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 amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements. 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. See additional disclosure relative to BTI investments at Note 5.

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 10 and 11). 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 bonds and the highly liquid invested cash from the 2011 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, 2012 and 2011 was $31.6 million and $22.9 million, respectively, as compared with combined bank balances of $33.0 million and $23.5 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% FDIC insured 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):

	2012	2011
Student tuition and fees, net of allowances for doubtful accounts of $3,536 and $3,114	$ 4,245	$ 3,485
Grants and contracts receivable, net of allowances for doubtful accounts of $1,310 and $874	28,814	33,748
Due from West Virginia University Hospitals, Incorporated	1,363	1,347
Auxiliary services, net of allowances for doubtful accounts of $1,866 and $1,198	2,836	1,792
Investment earnings receivable	9	8
Other, net of allowances for doubtful accounts of $1 and $2	16,560	4,369
Due from the Foundation	178	299
Due from other State agencies	890	3,696
Total accounts receivable	$ 54,895	$ 48,744

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

5. INVESTMENTS

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

2012 **Investment Type**	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. Treasury Securities:				
U.S. Treasury Notes *	$ 189,184			$ 189,184
Mutual Bond Funds:				
Brandywine Global Fixed Income	850	$ 6,019		6,869
IR&M Core Bond	9	951	$ 5	965
iShares Barclays 3-7 Year Treasury	2,362			2,362
iShares Barclays 7-10 Year Treasury	1,301			1,301
Fidelity Floating Rate High Income	306	3,040	2	3,348
Harbor Bond Fund	1	1,844	6	1,851
PIMCO Unconstrained Bond Inst.	2,216	1,420	250	3,886
Wells Fargo *	4			4
Mutual Money Market Funds:				
State Street Cash - SSGA Money Market		1,232		1,232
Mutual Stock Funds:				
Aberdeen Emerging Markets	396	768	1,163	2,327
Eaton Vance *	600			600
Dodge & Cox International Stock Fund	1,494	39		1,533
Dodge & Cox Stock Fund	2,994	18		3,012
Van Eck Global Hard Assets	1,056	113	2	1,171
Vanguard Dividend Appreciation	4,809			4,809
Vanguard MSCI EAFE ETF		6,034		6,034
Vanguard MSCI Emerging Markets	531	1,366		1,897
Vanguard Total Stock Market EFT	15,894			15,894
Wells Fargo *	218			218
MFS *	3,279			3,279
Fixed Income Funds:				
Income Research and Management		4,853		4,853
Other Investments-Commodity:				
SPDR Gold Shares	2,428			2,428
State and Local Government Securities:				
Auction Rate Certificates *		950		950
Land and Other Real Estate Held as Investments:				
Land - Fred G. and Nannie D. Wood Loan Fund *			477	477
Other Alternative Investments:				
Arden-Sage Capital International		2,003	1,108	3,111
CF Global Absolute Alpha Company		851	307	1,158
CF Multi-Strategy Bond Fund	2	1,893		1,895
CFI Multi-Strategy Bond Investors Fund	2	1,787		1,789
	$ 229,936	$ 35,181	$ 3,320	$ 268,437

2011 Investment Type	Level 1	Level 2	Level 3	Fair Value
Mutual Bond Funds:				
Brandywine 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 Inst.	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

* Investments not held with the Foundation.

The above Fair Value Levels represent the valuation of the underlying investments. 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.

The BTI maintains the Consolidated Fund, which consists of ten investment pools, special purpose 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. In 2011, the Legislature passed Senate Bill 330 ("S.B. 330") which increased the maximum investment amount to $40 million. As allowed by legislation, the University invested with the Foundation $25.0 million in October 2006, $4.0 million in October 2009, and $11.0 million in October 2011.

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, 2012 and 2011, the University's investments held with the Foundation were $73.7 million and $60.6 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, 2012	$ 44,899	$ 8,730	$ 20,096	$ 73,725
As of June 30, 2011	32,922	8,591	19,118	60,631

The University's investments held with the Foundation are governed by investment policies and an investment agency agreement 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 investment agency agreement outlines the acceptable exposure to each category of investment and generally outlines a liquidity goal. The agreement also states that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 10% of any portfolio.

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 $975,000 of the University's ARCs outstanding at June 30, 2012, the Corporation owned $950,000, or 97%. Of the $3.4 million of the University's ARCs outstanding at June 30, 2011, the Corporation owned $3.3 million, or 98%. In October 2011 and October 2010, there were redemptions of $2.425 million and $4.2 million, respectively. The final redemption is scheduled in October 2012 for $975,000.

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, 2012 and 2011, the investment was $0 and $13.4 million, respectively.

In October 2011, the University issued bonds (i.e., the 2011 Bonds). These unspent bond proceeds are invested in U.S. Treasury Notes.

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, 2012 and 2011, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2012 and 2011, the WV Money Market Pool investments had a total carrying value of $2,786,968,000 and $3,018,560,000, respectively, of which the University's ownership represents 3.23% and 2.89%, 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 Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

	Credit Rating*		2012		2011	
Security Type	Moody's	S & P	Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	Aaa	AAA	$ 95,628	18.99%	$ 87,197	18.40%
	Aaa	NR*	38,524	7.64	19,891	4.20
	Aa3	AA+**			454	0.10
	B1	CCC**	896	0.18	885	0.19
	B3	B**			366	0.08
	B3	BB**	311	0.06		
	B3	BBB**			631	0.13
	B3	BBB-**	53	0.01		
	B3	CCC**	280	0.06		
	Ca	CCC**	586	0.12	664	0.14
	Caa2	CCC**	186	0.04	473	0.10
	Caa3	CCC**	243	0.05	393	0.08
	Caa3	D**	26	0.01	27	0.01
	NR	AA+	3,900	0.77		
	NR*	NR*	3,786	0.75	4,000	0.84
			144,419	26.68	114,981	24.27
Corporate bonds and notes	Aaa	AA			2,043	0.43
	Aa1	A			4,143	0.87
	Aa2	AA+	9,025	1.79		
	Aa2	AA			11,866	2.50
	Aa3	AA			7,064	1.49
	Aa3	AA-	15,666	3.11		
	Aa3	A	23,032	4.57	13,040	2.75
	A1	AA	12,145	2.41	8,107	1.71
	A1	A+	30,684	6.09		
	A1	A			22,731	4.80
	A2	AA			2,555	0.54
	A2	A	39,064	7.76	23,976	5.06
	A3	A			8,770	1.85
	A3	A-	7,755	1.54		
	A3	BBB+	3,006	0.60		
	Baa1	A-	4,162	0.83		
	Baa2	A-	6,709	1.33		
			151,248	30.03	104,295	22.00
Commercial Paper	P-1	A-1			15,995	3.38
U.S. agency bonds	Aaa	AAA			20,017	4.22
U.S. agency bonds	Aaa	AA+	45,024	8.94		
U.S. Treasury notes***	Aaa	AAA			25,034	5.28
U.S. Treasury notes***	Aaa	AA+	44,251	8.79		
U.S. agency mortgage backed securities****	Aaa	AAA			97,296	20.53
U.S. agency mortgage backed securities****	Aaa	AA+	77,065	15.3		
Money Market Funds	Aaa	AAAm	41,610	8.26	96,287	20.32
			$ 503,617	100%	$ 473,905	100%

*NR = Not Rated

**The securities were not in compliance with BTI Investment Policy at June 30, 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, 2012 and 2011, the University's ownership represents 0% and 2.80%, respectively, of these amounts held by the BTI.

Other Investments– The investment agency agreement with the Foundation states that each public debt instrument selected for investment shall be subject to proper credit analysis prior to inclusion in the portfolio. Credit ratings were as follows at June 30:

Portfolio	Investment	2012 Rating	2011 Rating
BRIM	Harbor Bond Fund	AA-	A
S.B. 603	Income Research & Management	AA-	AA
BRIM	Vanguard Bond Index Fund	-	Baa and higher
BRIM, S.B. 603, Corporation	State Street Cash - SSGA Money Market	AAAm	AAAm
BRIM, S.B. 603	CF Multi-Strategy Bond Fund	A+	AA
Corporation	CFI Multi-Strategy Bond Investors Fund	A+	AA
Corporation	Auction Rate Certificates	A+	A+
BRIM, S.B. 603, Corporation	Brandywine Global Fixed Income	BBB+	BBB+
S.B. 603, Corporation	Dodge and Cox Income Fund	-	AA-
Corporation	IR&M Core Bond	AA-	-
BRIM, S.B. 603	iShares Barclays 3-7 Year Treasury	AAf	-
BRIM, S.B. 603	iShares Barclays 7-10 Year Treasury	AAf	-
BRIM, S.B. 603, Corporation	PIMCO Unconstrained Bond Inst.	AAA	-
2011 Bonds	U.S. Treasury Notes	AA+	-

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 Pool — The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 731 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

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

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

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

Other Investments. Investments subject to interest rate risk include the following at June 30:

2012	2011
U. S. Treasury Notes	Brandywine Global Fixed Income
Brandywine Global Fixed Income	Fidelity Floating Rate High Income
IR&M Core Bond	Harbor Bond Fund
iShares Barclays 3-7 Year Treasury	PIMCO Unconstrained Bond Fund
iShares Barclays 7-10 Year Treasury	Vanguard Bond Index Fund
Fidelity Floating Rate High Income	Dodge & Cox Income Fund
Harbor Bond Fund	State Street Cash - SSGA Money Market
PIMCO Unconstrained Bond Inst.	Income Research and Management
Wells Fargo	Auction Rate Certificates
State Street Cash - SSGA Money Market	CF Multi-Strategy Bond Fund
Income Research and Management	CFI Multi-Strategy Bond Investors Fund
Auction Rate Certificates	
CF Multi-Strategy Bond Fund	
CFI Multi-Strategy Bond Investors Fund	

Interest rate risk is managed by limiting the time period or duration of the specific investment. The U.S. Treasury Notes have maturities through January 31, 2015 and interest rates which range from 0.375% to 3.125%.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single 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, 2012, the University’s investments were not subject to concentration of credit risk. At June 30, 2011, more than 5% of the University’s investments was in the Income Research & Management 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, at both June 30, 2012 and June 30, 2011, 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, 2012, 98.6% of the Aberdeen Emerging Markets, 50.21% of the Brandywine Global Fixed Income Fund, 95.52% of the Dodge and Cox International Stock Fund, 18.81% of Dodge and Cox Stock Fund, 13.7% of the Harbor Bond Fund, .02% of the PIMCO Unconstrained Bond Inst., 100% of the Vanguard MSCI EAFE ETF, and 100% of the Vanguard MSCI Emerging Markets are subject to foreign currency risk. These investments represent 34.59% of the total 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 have entered into forward foreign currency contracts or currency futures contracts to hedge foreign currency exposure. These investments represented 3.43% of the total investments.

6. CAPITAL ASSETS

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

2012	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated or amortized:				
Land	$ 31,628	$ 11,109	$ -	$ 42,737
Construction in progress	75,500	60,762	(87,074)	49,188
Total capital assets not being depreciated or amortized	$ 107,128	$ 71,871	$ (87,074)	$ 91,925
Other capital assets:				
Land improvements	$ 34,693	$ 647	$ -	$ 35,340
Buildings	1,105,656	131,517	(25,750)	1,211,423
Equipment	165,509	19,632	(14,965)	170,176
Library books	122,440	6,381	(3)	128,818
Software	51,368	533	(40)	51,861
Infrastructure	258,133	9,052	-	267,185
Other assets	28,519	71,215	-	99,734
Intangible assets	150	-	-	150
Total other capital assets	1,766,468	238,977	(40,758)	1,964,687
Less accumulated depreciation and amortization for:				
Land improvements	(14,425)	(1,974)	-	(16,399)
Buildings	(279,691)	(22,333)	1,655	(300,369)
Equipment	(99,142)	(16,176)	13,245	(102,073)
Library books	(95,163)	(7,315)	1	(102,477)
Software	(45,499)	(2,058)	40	(47,517)
Infrastructure	(209,343)	(4,346)	-	(213,689)
Other assets	(24,155)	(7,638)	-	(31,793)
Intangible assets	(12)	(2)	-	(14)
Total accumulated depreciation and amortization	(767,430)	(61,842)	14,941	(814,331)
Other capital assets, net	$ 999,038	$ 177,135	$ (25,817)	$ 1,150,356
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 107,128	$ 71,871	$ (87,074)	$ 91,925
Other capital assets	1,766,468	238,977	(40,758)	1,964,687
Total cost of capital assets	1,873,596	310,848	(127,832)	2,056,612
Less accumulated depreciation and amortization	(767,430)	(61,842)	14,941	(814,331)
Capital assets, net	$ 1,106,166	$ 249,006	$ (112,891)	$ 1,242,281

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 or 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

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, 2012 and 2011, $23,947,377 and $15,519,000, respectively, 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 $840,000 and $859,000 during fiscal years 2012 and 2011, respectively.

7. LONG-TERM LIABILITIES

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

2012	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreements payable	$ 3,288	$ 26,385	$ (368)	$ 29,305	$ 26,754
Other post employment benefits liability	114,019	47,048	-	161,067	
College system debt owed to the Commission	75	-	(75)	-	
Advances from federal government	26,741	57	-	26,798	
Debt service assessment payable to the Commission	82,612	-	(5,546)	77,066	4,914
Leases payable	50,922	9,858	(35,488)	25,292	1,248
Bonds payable	199,487	268,650	(5,677)	462,460	10,725
Notes payable	24,603	-	(1,253)	23,350	1,310
Other noncurrent liabilities	18,686	4,368	(3,515)	19,539	5
Total long-term liabilities	$ 520,433	$ 356,366	$ (51,922)	$ 824,877	

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	

8. OTHER POST EMPLOYMENT BENEFITS

OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2012, 2011, and 2010, the noncurrent liability related to OPEB was $161.1 million, $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 $59.0 million and $11.7 million, respectively, during 2012, $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, 2012, 2011, and 2010, there were 694, 615, and 568 retirees, respectively, receiving these benefits.

9. LEASES PAYABLE

a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2012 are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2013	$	6,817
2014		5,926
2015		5,116
2016		4,408
2017		3,118
2018-2022		13,080
2023-2027		9,880
2028-2032		7,905
2033-2037		5
2038-2042		5
2043-2047		5
2048-2052		5
2053-2057		5
2058		1
Total	$	56,276

Total rental expense for the years ended June 30, 2012 and 2011 was $7.8 million and $7.2 million, respectively. 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 $26.8 million and $65.2 million at June 30, 2012 and 2011, 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,		
2013	$	2,022
2014		2,435
2015		2,469
2016		2,466
2017		7,828
2018-2022		8,687
2023-2027		3,676
Minimum lease payments		29,583
Less amount representing interest		(4,291)
Present value of minimum lease payments		25,292
Current Portion		1,248
Noncurrent Portion	$	24,044

During fiscal year 2012, the University repaid the capital leases for the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Lease Phase III with the 2011 Series B Bonds that were issued in October 2011. The advance payments of capital leases with a portion of bond proceeds resulted in reduced future interest payments of approximately $4.5 million. Also during fiscal year 2012, the University entered into a new capital lease for Energy Performance Phase III B.

10. BONDS PAYABLE

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

	Original Interest Rate	Annual Principal Installment Due	2012 Principal Amount Outstanding	2011 Principal Amount Outstanding
Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2012, variable rate		$ 975 to 4,200	$ 975	$ 3,400
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	53,460	55,430
Revenue Improvement Bonds, 2004 Series C, due through 2035	4.3-5.0%	0 to 12,780	138,710	138,710
Revenue Improvement Bonds, 2011 Series A, due through 2026	3.87%	35 to 62	12,356	-
Revenue Improvement Bonds, 2011 Series B, due through 2037	4.14%	0 to 21,800	187,605	-
Revenue Improvement Bonds, 2011	variable	0 to	-	-
Series C, due through 2042	rate	10,470	50,000	-
Unamortized Bond Premium			20,884	3,664
Unamortized Loss on Bond Defeasance			(1,530)	(1,717)
Net Bonds Payable			462,460	199,487
Current Portion			10,725	4,456
Noncurrent Portion			$ 451,735	$ 195,031

1997 Bonds

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.

The 1997 bonds were refinanced with the 2004 bonds.

2004 Bonds

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, 2012 and .00% and .00%, respectively, at June 30, 2011. 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.

2011 Bonds

In fiscal year 2012, the Board issued $250.3 million in revenue bonds as follows:

2011 Series A In August 2011, the Board issued the 2011 Series A bonds in the amount of $12.7 million. These bonds were used to finance the acquisition of a multi-story apartment complex known as “The Augusta on the Square” and other lots, buildings, houses, and structures which were subject to liens thereupon.

2011 Series B In October 2011, the Board issued the Series B Improvement Revenue Bonds in the par amount of $187.6 million. The actual proceeds received equaled $205.6 million. These Bonds were issued to refinance the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Phase III lease purchases and to finance new projects.

2011 Series C In October 2011, the Board issued Series C Improvement Variable Rate Revenue Bonds in the amount of $50.0 million with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2012, the average interest rate was .80%. The rate at June 30, 2012 was .83%. These Bonds were issued to finance new projects.

The bond proceeds of $268.3 million included net original issue premium on the 2011 Bonds in the amount of $18.0 million.

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2013	$ 9,966	$ 19,147	$ 29,113
2014	10,289	18,788	29,077
2015	10,311	18,846	29,157
2016	10,580	18,629	29,209
2017	11,150	18,140	29,290
2018-2022	65,034	81,768	146,802
2023-2027	82,181	63,903	146,084
2028-2032	87,235	43,066	130,301
2033-2037	106,360	19,307	125,667
2038-2042	50,000	2,762	52,762
Bonds Payable	443,106	$ 304,356	$ 747,462
Unamortized Bond Premium	20,884		
Loss on Bond Defeasance	(1,530)		
Net Bonds Payable	462,460		
Current Portion	10,725		
Noncurrent Portion	$ 451,735		

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 approved the Corporation entering into such transaction. The Corporation 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 at June 30, 2012 and June 30, 2011, was $5.6 million and $5.9 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 at June 30, 2012 and June 30, 2011, was $8.8 million and $9.3 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. 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 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 at June 30, 2012 and June 30, 2011, was $8.9 million and $9.5 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.

Total principal and interest payments remaining to be paid at June 30, 2012 and June 30, 2011 were approximately $31.1 million and $33.5 million, respectively. Total facilities and administrative revenues earned by the HSC during fiscal years 2012 and 2011 were $8.0 million and $9.2 million, respectively. Total pledged revenue as of June 30, 2012 and June 30, 2011 was $2.8 million and $3.7 million, respectively.

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

Fiscal Year Ending June 30,	WVHDF Loan Principal	WVHDF Loan Interest	WVEDA Loan Principal	WVEDA Loan Interest	WVIJDC Loan Principal	WVIJDC Loan Interest	Total Principal
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	359	212	575	363	628	192	1,562
2018-2022	2,095	760	3,402	1,287	3,442	659	8,939
2023-2026	1,864	180	2,849	277	2,535	131	7,248
Notes Payable	5,583	$ 2,170	8,833	$ 3,670	8,934	$ 1,934	23,350
Current Portion	292		461		557		1,310
Noncurrent Portion	$ 5,291		$ 8,372		$ 8,377		$ 22,040

12. REAL ESTATE PURCHASE AGREEMENTS PAYABLE

During fiscal year 2012, the University entered into an agreement to purchase the Suncrest Center in Morgantown, WV. The total purchase price of the property was $26,385,000. The unpaid balance of the purchase price for this property, $26,385,000, was secured by a vendor’s lien as of June 30, 2012.

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 recorded at present value.

These liabilities are classified as real estate purchase agreements payable on the combined statement of net assets.

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 was 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, 2012 or 2011.

	2012	2011
Total unrestricted net assets before OPEB liability	$ 99,574	$ 111,905
Less: OPEB liability	161,067	114,019
Total unrestricted net assets (deficit)	$ (61,493)	$ (2,114)

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, 2012 and 2011. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2012 and 2011. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 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**
2012	$ 1,815	$ 741	$ 2,556
2011	1,997	815	2,812
2010	2,143	873	3,016

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**
2012	$ 22,979	$ 22,979	$ 45,958
2011	22,266	22,266	44,532
2010	21,480	21,480	42,960

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
2012	$ 272	$ 272	$ 544
2011	308	308	616
2010	290	290	580

The University's total payroll for fiscal years 2012 and 2011 was $441.8 million and $430.9 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were $12.3 million, $385.7 million and $4.5 million in fiscal year 2012 and $13.6 million, $373.3 million and $5.1 million in fiscal year 2011, 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 $9.5 million and $7.7 million in fiscal years 2012 and 2011, respectively. An additional $1.2 million and $533,000 was accrued at June 30, 2012 and 2011, respectively, to record the University's liability to meet the minimum steam purchase requirement for the contract years ended September 30, 2012 and 2011. 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 $31.0 million at June 30, 2012.

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 $259,000 and $13.7 million in fiscal year 2012 and $601,000 and $9.9 million in fiscal year 2011, respectively. Accounts receivable at June 30, 2012 and 2011 includes $993,000 and $53,000, 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, 2012 and 2011.

b. *West Virginia University Hospitals, Incorporated* – 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 2012 and 2011, $31.7 million and $32.3 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, 2012 and 2011 include $1.7 million and $1.4 million, respectively, due from WVUH for such items. During fiscal years 2012 and 2011, $10,000 and $12,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2012 and 2011 include $3.3 million and $161,000, respectively, due to WVUH for such items and for refunds of FICA tax for medical residents.

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 $410,000 and $423,000 for the years ended June 30, 2012 and 2011, respectively. The remaining payroll is billed to the Association. The Association owed the University $33,000 and $103,000 related to payroll and postage as of June 30, 2012 and 2011, respectively.

The Association reimburses the University up to $50,000 per year for the alumni magazine. These payments were $39,000 and $41,000 for the years ended June 30, 2012 and 2011, respectively.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering and rental revenue received from the University was approximately $650,000 and $475,000 for the years ended June 30, 2012 and 2011, respectively.

The University charged the Association $925,000 and $756,000 for catering services for the years ended June 30, 2012 and 2011, respectively. The Association owed the University $308,000 and $60,000 for catering services as of June 30, 2012 and 2011, respectively.

The University owed the Association $16,000 and $122,000 for reimbursement of utilities as of June 30, 2012 and 2011, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University $185,000 and $150,000 for the years ended June 30, 2012 and 2011, 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.

On July 11, 2012, the Association and the University entered into a parking lot shared use agreement. The Association will pay the University $80,000 per year on a quarterly basis beginning in fiscal year 2013.

d. *West Virginia University at Parkersburg and Bridgemont Community and Technical College* — In 2008, the University entered into an agreement with Siemens Building Technologies, Inc. to perform Phase II of the Energy Performance contract. The contract was to install certain energy enhancement equipment in buildings on the University's campuses, including Parkersburg and WVUIT. The cost of the contract was financed with a lease purchase agreement between the University and Suntrust Leasing Corporation ("Suntrust").

   Beginning in fiscal year 2009, when Parkersburg and Bridgemont became separate entities from the University, the Parkersburg and Bridgemont portions of the Energy Performance Phase II lease purchase were reported on Parkersburg's and Bridgemont's statements of net assets as a lease payable.

   During fiscal year 2012, the University issued the 2011 Series B and C bonds which in part paid off the Energy Performance Phase II lease purchase with Suntrust. After the bonds were issued, an agreement was entered into between the University and Parkersburg and Bridgemont wherein Parkersburg and Bridgemont agreed to continue to pay the University based on their portion of the original amortization schedule for the lease purchase with Suntrust. This source of funds is internally assigned by the University to pay the 2011 Series B and C bonds.

   The original amount of the notes related to Parkersburg and Bridgemont was $3,316,991 and $211,691, respectively, with an interest rate of 3.98%. The term of the notes were 16 years with the last payment due in January 2024. The new agreements between the University and Parkersburg and Bridgemont used the same terms. The outstanding notes receivable due from Parkersburg and Bridgemont at June 30, 2012 was $3,062,679 and $195,461, respectively. Interest earned during fiscal year 2012 for the notes related to Parkersburg and Bridgemont was $62,220 and $3,971, respectively, and is recorded as investment income on the combined statement of revenues, expenses, and changes in net assets.

In 2006, the Commission provided funding for deferred maintenance projects to institutions with approved projects that could also provide a 50% match in funding. The total cost for the WVUIT projects was $1,925,000. The University agreed to loan WVUIT the 50% match of $962,500 for these projects at zero percent interest for a term of ten years.

Beginning in fiscal year 2009, when Bridgemont became a separate entity from the University, the Bridgemont portion of the Deferred Maintenance Loan was separated from the WVUIT portion. The remaining principal on the original loan was $673,750 of which $393,750 was allocated to WVUIT and $280,000 was allocated to Bridgemont with both loans having remaining terms of seven years.

The outstanding notes receivable due from Bridgemont at June 30, 2012 was $160,000.

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 at both June 30, 2012 and 2011, with net assets of $596.8 million and $582.6 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled $87.2 million and $76.0 million in fiscal years 2012 and 2011, respectively.

Total funds expended by the Foundation in support of University activities totaled $66.1 million and $50.6 million in fiscal years 2012 and 2011, 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. SERVICE CONCESSION AGREEMENT

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

This contract is with Barnes & Noble College Bookstores, Inc. ("Barnes & Noble"). Barnes & Noble leases and manages four bookstores on the University's main campus, one bookstore on each of the regional campuses (Potomac State College and WVUIT), and one bookstore at Parkersburg. The current contract term is from March 1, 2008 to April 30, 2018. The parties have agreed to annually negotiate the financial consideration portion of the contract. For the fiscal years ending June 30, 2012 and 2011, the guaranteed portion of the financial consideration consisted of $1,328,000 and $1,258,000, respectively. The contract terms also provide for variable amounts of sales commissions. These amounts were $106,000 and $212,000 for June 30, 2012 and 2011, respectively.

The contract designates Barnes & Noble as the exclusive provider of textbooks, course packs, and a variety of supplies and university-licensed clothing and souvenirs. The University retains the right to limit the price charged for many of these items and, in certain cases, the University specifies items that must be offered for sale in the University bookstores. Barnes & Noble is bound, at the University's bookstore locations, by all brand exclusivity contracts that affect brands or products sold in the bookstores.

20. 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, 2012 or 2011.

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, 2012 and 2011, the University has recorded a liability of $435,000 and $0, respectively, for asbestos removal in accordance with the provisions of GASB.

21. SUBSEQUENT EVENTS

On July 26, 2012, the University issued $13,270,555 of bonds, the 2012 Series A Bonds (Taxable), to purchase the Suncrest Center through the Third Supplement Indenture to the original Bond Trust Indenture, dated November 1, 2004, related to the 2004 Bonds.

The financing was accomplished through a bid process for a private placement bond issue, the successful bidder being Huntington Bank, The Huntington Investment Company, for a fixed rate of 4.5% over 30 years. The lease revenues from the current and future occupants of the Suncrest Center will support the debt service on this debt.

On June 27, 2012, the University and the Hospital had entered into an agreement whereby the Hospital agreed to advance one-half of the purchase price of the Suncrest Center property. The University received $13,192,500 in the form of an interest-free purchase money loan on July 26, 2012. The Hospital has the right to convert said loan to an undivided 50% interest in the property upon the Hospital's receipt of a final, non-appealable Certificate of Need.

On May 1, 2012, the University entered into a pre-development agreement with Paradigm Development Group, LLC ("Paradigm"), which was later amended on September 21, 2012, to acquire certain parcels of land in close proximity to the University's downtown campus for the purpose of furthering the University's strategic need for safe and affordable student housing and associated amenities. Under the agreement, the University will also engage in a public-private partnership with Paradigm to build and manage student housing and other retail facilities on this land. On October 23, 2012, the WVU Board of Governors approved the acquisition of the land in the amount of $14.6 million.

In its meeting of September 28, 2012, the WVU Board of Governors approved the acquisition of real property known as the Square at Falling Run and additional real property adjacent to the University's downtown campus, for an expected net purchase price of $5.3 million. The Board also authorized the financing of such purchase through the issuance of revenue bonds in the principal amount of not more than $5.3 million. The acquisition and the financing of the acquisition await the approval of the WV Attorney General, the Joint Committee on Government and Finance, and the Commission.

22. SEGMENT INFORMATION

During fiscal year 2012, the Board issued $250.3 million in revenue bonds as follows:

2011 Series A In August 2011, the Board issued the 2011 Series A bonds in the amount of $12.7 million. These bonds were used to finance the acquisition of a multi-story apartment complex known as "The Augusta on the Square" and other lots, buildings, houses, and structures which were subject to liens thereupon.

2011 Series B In October 2011, the Board issued the Series B Improvement Revenue Bonds in the par amount of $187.6 million a fixed interest rate of 4.14%. The actual proceeds received equaled $205.6 million. These Bonds were issued to refinance the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Phase III lease purchase agreements and to finance new projects.

2011 Series C In October 2011, the Board issued Series C Improvement Variable Rate Revenue Bonds in the amount of $50.0 million with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2012, the average interest rate was .80%. The rate at June 30, 2012 was .83%. These Bonds were issued to finance new projects.

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
University Improvement Revenue Bonds 2011 Series A; University Improvement Revenue Bonds 2011 Series B; University Improvement Variable Rate Revenue Bonds 2011 Series C (Collectively the "2011 Bonds")

During fiscal year 2012, the Board issued revenue improvement bonds to finance the acquisition of a multi-story apartment complex known as "The Augusta on the Square" and other lots, buildings, houses and structures which were subject to liens thereupon. The 2011 Series A bonds were issued on August 1, 2011 in the amount of $12,710,197. The bonds were issued as the First Supplemental Indenture, supplementing and amending the Bond Trust Indenture, dated November 1, 2004.

Also during fiscal year 2012, the Board issued revenue improvement bonds (a) University Improvement Revenue Bonds (West Virginia University Projects) 2011 Series B, in the aggregate principal amount of $187,605,000 (the “2011 B Bonds”) and (b) University Improvement Variable Revenue Bonds (West Virginia University Projects) 2011 Series C, in the aggregate principal amount of $50,000,000 (the “2011 C Bonds” and together with the 2011 B Bonds, the “2011 Bonds”). The 2011 Bonds were issued pursuant to a Resolution adopted by the Board on June 3, 2011, and pursuant to a resolution of the Commission adopted on August 5, 2011, approving the issuance of such Bonds. The 2011 Bonds were issued under and secured by a Bond Trust Indenture dated as of November 1, 2004 between the Issuer and United Bank, Inc., as Bond Trustee (the “Bond Trustee”), as supplemented by a First Supplemental Bond Indenture dated as of August 1, 2011 and a Second Supplemental Bond Indenture dated as of October 1, 2011. The proceeds of the 2011 Bonds were used to (a) finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures related thereto made prior to the issuance of the 2011 Bonds (the “2011 Projects”), (b) refinance certain tax-exempt lease-purchase agreements entered into by the University (the “Refinancing”) and (c) pay the costs of issuance of the 2011 Bonds.

The 2011 Series A, B and C 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 2011 Series A, B and C Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

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, 2012 and 2011 were $747.5 million and $343.8 million, respectively. Total gross pledged revenue for fiscal year 2012 and 2011 was $138.8 million and $126.1 million, respectively.

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

(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2012	AUXILIARIES As of/Year Ended 2011
CONDENSED SCHEDULES OF NET ASSETS		
Assets:		
Current Assets	$ 41,702	$ 39,566
Noncurrent and Capital Assets *	702,337	447,236
Total Assets	744,039	486,802
Liabilities:		
Current Liabilities	40,784	26,717
Long-Term Liabilities	501,227	238,395
Total Liabilities	542,011	265,112
Net Assets:		
Invested in Capital Assets, net of related debt	237,344	247,750
Restricted	12,766	1
Unrestricted	(48,082)	(26,061)
Total Net Assets	$ 202,028	$ 221,690
CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Auxiliary and Capital Fees	$ 27,921	$ 27,700
Operating Revenues	113,467	101,378
Operating Expenses	(122,676)	(107,599)
Net Operating Income	18,712	21,479
Nonoperating Revenues/Expenses:		
Investment Income	236	8
Net Transfers to Other Funds	(9,228)	(26,226)
Other Nonoperating Income	11,637	7,300
Gifts	9,444	6,708
Other Nonoperating Expenses	(25,087)	(4,427)
Interest Expense *	(25,376)	(11,557)
Decrease in Net Assets	(19,662)	(6,715)
Net Assets - Beginning of Year	221,690	228,405
Net Assets - End of Year	$ 202,028	$ 221,690
CONDENSED SCHEDULES OF CASH FLOWS		
Net Cash Provided by Operating Activities	$ 24,366	$ 10,427
Net Cash Flows Provided by Noncapital Financing Activities	9,444	6,708
Net Cash Flows Used in Capital and Related Financing Activities	(20,588)	(12,424)
Net Cash Flows Provided by Investing Activities	236	8
Increase in Cash	13,458	4,719
Cash - Beginning of Year	35,580	30,861
Cash - End of Year	$ 49,038	$ 35,580
Reconciliation of cash		
Cash classified as current assets	$ 36,272	$ 35,579
Cash classified as noncurrent assets	12,766	1
	$ 49,038	$ 35,580

* Interest of $446,000 and $365,000 was capitalized for fiscal year 2012 and 2011, respectively.

23. FUNCTIONAL CLASSIFICATION OF EXPENSES

(Dollars in Thousands)

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

Year Ended June 30, 2012

Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Other Operating Expenses	Total
Instruction	$ 178,589	$ 70,903	$ -	$ 257	$ 26,262	$ -	$ -	$ -	$ 18	$ 276,029
Research	68,146	36,798	-	972	37,779	-	-	-	-	143,695
Public Service	36,418	11,313	-	176	13,984	-	-	-	30	61,921
Academic Support	24,105	8,075	-	80	11,251	-	-	-	-	43,511
Student Services	20,981	10,405	-	12	7,846	-	-	-	-	39,244
Operation and Maintenance of Plant	24,385	11,930	-	19,789	21,628	-	-	-	-	77,732
General Institutional Support	48,290	16,987	-	811	32,448	-	-	-	52	98,588
Student Financial Aid	-	-	35,365	-	-	-	-	-	-	35,365
Auxiliary Enterprises	40,897	12,687	-	7,130	49,519	-	-	-	262	110,495
Depreciation and Amortization	-	-	-	-	-	61,842	-	-	-	61,842
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,691	-	2,691
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	-
Loan Cancellations and Write Offs	-	-	-	-	-	-	499	-	-	499
Total Expenses	$ 441,811	$ 179,098	$ 35,365	$ 29,227	$ 200,717	$ 61,842	$ 499	$ 2,691	$ 362	$ 951,612

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	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

Deloitte.

Deloitte & Touche LLP
2500 One PPG Place
Pittsburgh, PA 15222-5401
USA

Tel: +1 412 338 7200
Fax: +1 412 338 7380
www.deloitte.com

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 combined financial statements of the West Virginia University (the "University") as of June 30, 2012, and have issued our report thereon dated November 9, 2012. 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 combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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, managements 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.

Deloitte & Touche LLP

November 9, 2012

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