



West Virginia University

Annual Financial Report 2005-2006

TABLE OF CONTENTS

West Virginia University Overview	3-27
Mission	3
President's Letter	4
Campuses	5
Students	6
Academics	7
Regional Campuses	19
Research and Sponsored Programs	23
WVU Extension Service	25
WVU Foundation Highlights	27
Financial Statements	28-88
Independent Auditors' Report	28
Management's Discussion and Analysis	29
Combined Statement of Net Assets	42
Combined Statement of Revenues, Expenses, and Changes in Net Assets	44
Combined Statement of Cash Flows	46
Notes to Combined Financial Statements	48
Independent Auditors' Report on Internal Control over Financial Reporting and Compliance and Other Matters Based Upon the Audit Performed in Accordance with <i>Government Auditing Standards</i>	88
West Virginia University Governance	89-91
Officers of the University	89
West Virginia Higher Education Policy Commission	89
West Virginia University Board of Governors	90
West Virginia University at Parkersburg Board of Advisors	90
Potomac State College of West Virginia University Board of Advisors	90
West Virginia University Institute of Technology (WVUIT) Board of Visitors	90
The Community and Technical College at WVUIT Board of Advisors	91

Mission



West Virginia University's primary mission is to provide high-quality programs of instruction at the undergraduate, graduate, and professional levels; to stimulate and foster both basic and applied research and scholarship; to engage in and encourage other creative and artistic work; and to bring the resources of the University to all segments of society through continuing education, extension, and public service activities.

West Virginia University's special responsibility is to discover, challenge, and create opportunities for West Virginia citizens, who can benefit from its programs—especially those who have demonstrated high achievement or who possess excellent potential. Those opportunities include the chance to conduct pioneer-

ing research and scholarship. The best and brightest students and faculty will work together to create exciting and productive paths for investigation and development. The University nurtures these symbiotic interactions to build intellectual, social, and economic development for all of West Virginia.

West Virginia University recognizes that diversity enriches the institution and the society it serves. The University is committed to social justice and to practicing the principles of opportunity and affirmative action.



President's Letter

Dear Friend of WVU:

In the past year—through teaching, research, and service—West Virginia University has achieved significant recognition as a major university with comprehensive state, regional, and national impact.

Let me share just a few of our accomplishments:

- CNN featured WVU's first-of-its-kind forensic investigation program in a nationally broadcast technology segment.
- *Washington Monthly* ranked WVU 139th out of 245 national universities based on how well these select public and private colleges and universities are turning out productive members of society and promoting research and other activities that benefit the country.
- *U.S. News & World Report* ranked WVU's graduate programs in engineering and rural medicine among the nation's best.
- *USA Today* declared WVU a top-ten value among national flagship universities.



Over the past decade, while coping with rapid change in higher education funding patterns, innovations in information and technology, and ever-expanding student expectations, WVU has deepened its impact on the lives of students worldwide.

Our commitment to student-centered education and academic quality has led more students than ever to launch their dreams and their professional lives at WVU. Fall 2005 saw the highest enrollment in WVU history and preliminary 2006 figures show enrollment on the Morgantown campus exceeding 27,000.

This year, the University took innovative steps to help students grow intellectually and socially. We constructed Lincoln Hall, a state-of-the-art residence hall that serves as WVU's first residential college, creating a small but diverse learning community within a larger institution.

We began extensive renovations on academic buildings, including Oglebay, Brooks, and Colson halls, which will reopen in 2007. Recognizing that the interaction between faculty members and students in WVU classrooms forms the foundation of the University's educational mission, we have made classroom modernization a major part of our strategic plan. We also continued to develop new degree programs and minors in cutting-edge career fields.

WVU researchers conducted potentially life-changing research on issues vitally important to the future of our nation, including homeland security, the treatment of cancer and neurological diseases, and development of alternative energies. In the last fiscal year, our researchers attracted \$150 million in external funding for sponsored programs. Growth in biomedical research, one of the University's six strategic research focus areas, has been particularly robust.

Donors to WVU have also contributed to the institution's growing national stature. In the past year, the WVU Foundation disbursed \$35.5 million on behalf of the University, and over the past ten years it has provided WVU with over \$300 million in direct support. Total assets exceed \$800 million, and the endowment has topped \$400 million.

Faculty members, staff members, administrators, students, alumni, donors, and all who care about West Virginia University have helped us achieve our current standing as an academic community of exceptional quality. As I prepare for retirement in 2007, I anticipate working with all of our constituents in the coming year to position West Virginia University for a smooth leadership transition and ever-growing national, international, and individual impact.

Sincerely yours,

A handwritten signature in black ink, appearing to read "David C. Hardesty, Jr.", written in a cursive style.

David C. Hardesty, Jr.
President of West Virginia University

Campuses

West Virginia University–Main Campus

West Virginia University's Main Campus, located in Morgantown, West Virginia, was established in 1867 as a federal land-grant institution. WVU combines the breadth of academic opportunities offered by a major research institution with the atmosphere of a small school; the undergraduate student/faculty ratio is 21:1. Enrollment in one of the University's 15 colleges and schools offers students the warmth and friendliness of a small academic community. The University encourages diversity and promotes social justice in all of its activities.

A wide range of health sciences programs are taught at the Robert C. Byrd Health Sciences Center through schools of medicine, dentistry, nursing, and pharmacy, including allied health programs and graduate programs in basic health sciences.

Potomac State College of West Virginia University

Potomac State College of West Virginia University traces its origin to the 1902 Act of the West Virginia Legislature, by which it became the "Keyser Branch of West Virginia University." As a two-year residential regional campus of the University, Potomac State College is a great place to begin a college career. It offers 50 associate degrees for transfer to WVU or most four-year institutions. The College also offers 18 associates of applied science degrees that prepare students for a career in just two years. Returning adults can also design their own WVU baccalaureate program through the Regents Bachelor of Arts Degree Program. Nurses have an opportunity to participate in the RN to BSN program, allowing them to earn a WVU degree through the Keyser campus.

West Virginia University at Parkersburg

West Virginia University at Parkersburg was founded in 1961 as the "Parkersburg Branch of West Virginia University." West Virginia University at Parkersburg is a separately accredited campus of West Virginia University, dedicated primarily to anticipating and responding to the higher education needs of its service area and to facilitate access for residents of its region. The mission of West Virginia University at Parkersburg is to provide appropriate community-based educational programs that offer area residents opportunity in pursuing a broad range of educational goals, including lifelong learning.

West Virginia University Institute of Technology

West Virginia University Institute of Technology (WVUIT) was established by the State Legislature in 1895 as "Montgomery Preparatory School," a branch of West Virginia University. The college was independent from West Virginia University between the early 1900s and July 1996, when it became a regional campus of WVU. As West Virginia's only public institute of technology, the school provides degree programs with a strong engineering, scientific, or technological emphasis and other degree programs for which there is significant need and student clientele.

The Community and Technical College at WVUIT

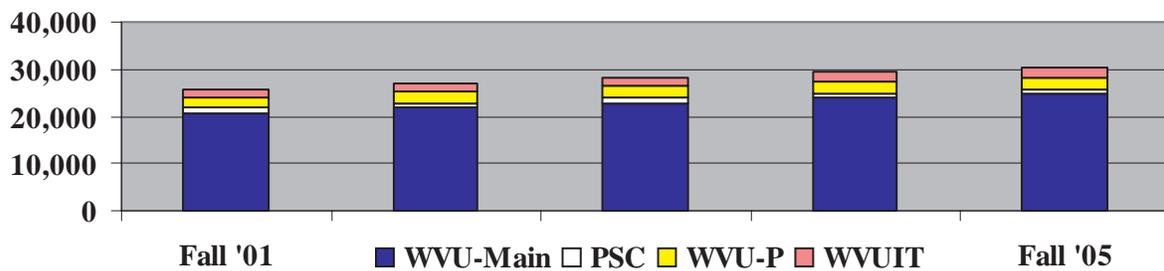
The Community and Technical College at WVU Tech has complied with all 2003-2004 legislative mandates, and after a comprehensive self-study, was awarded independent NCA accreditation in February 2004 for the maximum initial accreditation period of five years, with no progress reports or follow-up visits required. The Community and Technical College at WVU Tech was the third in the state to gain this status and began its first year as a separate institution in fall 2004. The following mission and vision statements were adopted during the self-study process: The Community and Technical College at WVU Tech promotes excellence in teaching, learning, and service; prepares the current and future workforce; and provides lifelong educational opportunities.

Students

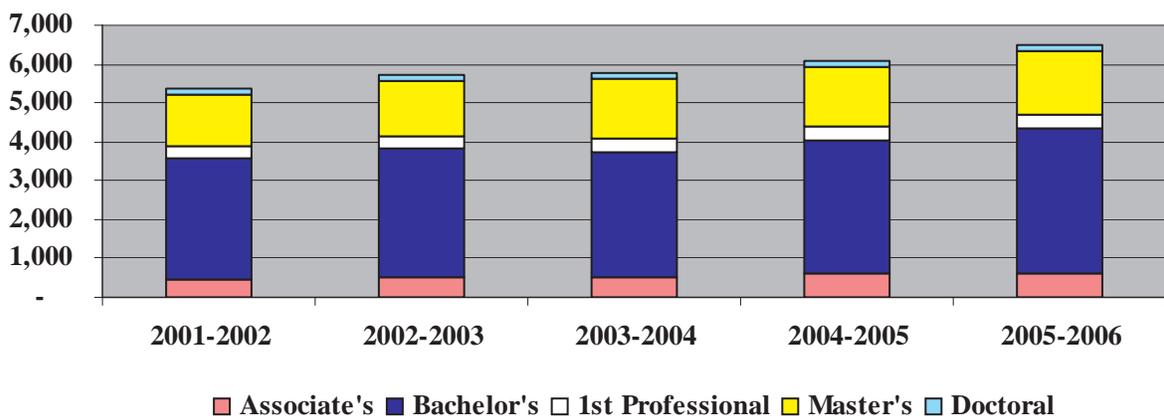
WVU is a national university with students from all 55 counties of West Virginia, from 50 states and the District of Columbia, and 89 countries. Fall 2005 enrollment for West Virginia University and its regional campuses was a record high 33,624. Of those students, over 65 percent were West Virginia residents. Below is a table of the student headcount enrollment for the fall 2005 semester, end-of-term for West Virginia University's main campus and three regional campuses.

	Undergraduate	Graduate	1st Professional	WV Resident	% WV Resident
WVU-Main	19,552	5,331	1,391	15,143	58%
PSC	1,303	-	-	1,059	81%
WVU-P	3,854	-	-	3,731	97%
WVUIT	2,178	15	-	2,043	93%

**West Virginia University FTE Enrollment
Fall 2001 Through Fall 2005**



Degrees Conferred for Academic Years 2001-2002 Through 2005-2006



Among West Virginia University's proudest honors are the 25 students who have been chosen to receive Rhodes Scholarships to study at Oxford University, the 17 Truman Scholars who have been recognized for their public service efforts, the 29 Goldwater Scholars who have demonstrated academic excellence in the sciences, the two Marshall Scholars, funded by the British government to commemorate the humane ideals of the European Recovery Program, and two Udall Scholars recognized for their commitment to the environment.



Dr. George Hammond comments on economic trends for the state and the Northcentral region during an Economic Outlook Conference held in Morgantown in March.

College of Business and Economics

In its 2006 edition, *U.S. News & World Report* ranked West Virginia University's College of Business and Economics among the top quartile of undergraduate programs in the country accredited by the Association to Advance Collegiate Schools of Business—AACSB International. Of the 504 programs eligible, B&E is ranked 116th. Among public institutions, the College is ranked 89th.

This national ranking came amid a year when a professor in the College was recognized for a paper he and a former student wrote on entrepreneurship in former Soviet block nations. Russell Sobel, the James Clark Coffman Distinguished Chair in Entrepreneurial Studies, was awarded the John Templeton Prize for the best paper published in the *Journal of Private Enterprise* in 2005.

In November, the College's Bureau of Business and Economic Research held the 12th annual Economic Outlook Conference in Charleston, which was attended by approximately 200. The conference updates policy makers and business leaders on the state's economic position and provides a forecast for the future based on data analysis. A similar event was held in the spring in Morgantown.

At the end of 2005, Ken Kedrick Jr., a 1965 graduate and managing general partner of the Arizona Diamondbacks baseball team, and his wife Randy, contributed \$500,000 to establish the Ken and Randy Kendrick Fund for Free Market Research and Entrepreneurship Policy, a program that examines ways entrepreneurship is encouraged through lower taxes, reduced regulation, secure private property rights, and personal responsibility. Also in the previous academic year, 50 Executive Master of Business Administration students began classes, with a new addition—a group of 17 students in Keyser.

The College attracted national attention to its Acordia/Royal & SunAlliance Distinguished Lecture when Richmond Federal Reserve President Lacker spoke on the eve of debut testimony to US lawmakers by then new Fed Chairman Ben Bernanke.

In February, the College began a process to develop a recognizable "brand" to distinguish itself among the nation's business schools. Through interviews with faculty, staff, students, business owners, government officials, and higher education leaders, consultants worked to formulate a strong marketable identity. Their results were unveiled in August, just as the new fall semester began.

As the spring semester neared its end, two students won \$10,000 plus a package of business perks including office space, printing services, and legal help for their company's first year of business. This was the fourth annual Entrepreneurship Center Business Plan Competition sponsored by the College. The winner was among five teams competing, narrowed from a field of 20 entrants that began in the fall of 2005.

College of Creative Arts

WVU's College of Creative Arts recently has advanced many initiatives, opening opportunities for engagement in the arts for our students and the citizens of West Virginia. The new Department of Community Arts and the partnership with the Pittsburgh Symphony Orchestra are among these new initiatives.

The College's community art, music, theatre, and dance programs have been reorganized into a Department of Community Arts. This allows the College not only to maintain the educational quality the public has come to expect, but also to widen course offerings and open new avenues of self-expression, a collaborative experience, global understanding, and communication for people of all ages.

The partnership with the Pittsburgh Symphony Orchestra will bring this world-class orchestra to the Creative Arts Center for three performances, featuring the very best classical musicians, for the 2006-07 season. This partnership also includes master classes by Maestro Marvin Hamlisch and symphony musicians for music students, student internships with the Pittsburgh Symphony Orchestra, and additional opportunities for our students.

ROMPP (Real Opportunities Make People Productive), a first of its kind juried art exhibition by West Virginians who have disabilities, was held in the Creative Arts Center's Paul Mesaros Gallery during the summer months. This exhibition, a collaboration between the College of Creative Arts and WVU's Center for Excellence in Disabilities, promises to assist these special artists to attain a new level of achievement.

During the summer of 2006, the College of Creative Arts hosted its second annual Summer Institute of Teacher Education in the Arts, a one-week residential program for 24 kindergarten through twelfth grade teachers from West Virginia and southwestern Pennsylvania. The Institute was funded in part by an \$89,000 grant from the Claude Worthington Benedum Foundation, which helped the College develop and initiate the program.



Throughout last year, partnerships with the College's strong international programs in Guanajuato, Mexico, the world-renowned Jingdezhen Ceramics Institute in China, and the Nuova Academia di Belle Arti in Milan, Italy, were advanced, giving our students more opportunities to integrate an international experience into their education.

As seen in the illustration, the College introduced new uniforms for the West Virginia University Marching Band this year. This "new look" features the traditional, identifiable design with updated details. We are fortunate to have one of the very best marching bands in the country at West Virginia University; it is, indeed, a source of pride for all West Virginians.

The Davis College of Agriculture, Forestry, and Consumer Science

The Davis College of Agriculture, Forestry, and Consumer Sciences enjoyed a year of growth, both in physical facilities and programmatic terms. Faculty, staff, and students in the Davis College's programs in environmental microbiology and plant pathology moved into a new facility on the Evansdale campus, South Agricultural Sciences. The space is home to state-of-the-art laboratories and a lecture hall equipped with the latest instructional technology. The lecture hall was dedicated to James H. Arbuckle, honoring a longtime friend of the College who was dedicated to lifelong learning.

The Davis College was the first unit at WVU to offer a college-specific major in multidisciplinary studies. Students may choose from the Davis College's growing list of academic minors, combining three under the guidance of a faculty mentor to craft a program that best suits their professional interests.

The Davis College's Division of Forestry rechristened itself as the Division of Forestry and Natural Resources to better reflect its diverse academic programs and to keep pace with peer institutions.

Faculty in the Human Nutrition and Foods Program relocated to the Division of Animal and Veterinary Sciences. The move was prompted by the increasing synchronicity of respective research agendas to promote critical mass of inquiry through co-location. The Child Development and Family Studies Program relocated to the WVU College of Human Resources and Education for similar programmatic reasons.

Student achievement was high. The Davis College's Soils Team took first place in the National Collegiate Soil Judging Contest in March. Corry Calderone, a senior agronomy major from Finleyville, Pennsylvania, took first place in individual competition. The College's Poultry Judging Team took third place in the US Poultry and Egg Association National Poultry Judging Contest in May. Paul Emerson, a senior in environmental protection from Hurricane, received the Mined Land Reclamation Educational Grant from the National Association of State Land Reclamationists. Emerson was chosen from a pool of applicants from across the United States. Kari Thompson, a graduate student in the Davis College's program in genetics and developmental biology, received a prestigious fellowship from the National Science Foundation to spend a summer of study in Japan.

High-profile new courses continued to draw students to the Davis College. Offerings like *Vines to Wines* and *Traditions of Hunting* presented traditional concepts of horticulture and wildlife management in new and challenging ways. Programs in applied design—interior design, landscape architecture, and textiles, apparel, and merchandising—took the lead in developing an exchange program with schools in Milan, Italy, expanding opportunities for study abroad for students. WVU's program in landscape architecture was named one of the top 15 in the nation by *Intelligent Design*.



Eberly College of Arts & Sciences

Following last year's highly successful Capital Campaign, this has been a year of consolidation and institution-building for the Eberly College of Arts and Sciences. The College's enrollment continues to increase significantly, accompanied by a rapid growth of minor fields of study. The College now educates approximately 6,500 majors. Two of the most popular degree programs, forensic and investigative sciences and social work, received national accreditation.

The College is in the process of expanding programs in cultural resource management and Native American studies. The College has also instituted a new master's degree program in professional writing and editing and has revitalized the undergraduate Writing Lab.

The year's research accomplishments were marked by a sizeable increase in externally funded research. Highlights this year also include the growth of the WV Nanoscience initiative and the addition of the National Geospatial Development Center, the first federal laboratory to be housed on the campus of WVU.

Ryan Murphy, a sophomore physics major from Philippi, West Virginia, was named WVU's 26th Goldwater Scholar. Eberly College faculty members were named as the first recipients of two recently created University Professorships, one honoring US Senator Robert C. Byrd and the other created by WVU alumni Russell and Ruth Bolton.

A new dean of the College, Mary Ellen Mazey, assumed responsibilities on October 1, 2005. She is a native of West Virginia and an alumna of WVU. Dean Mazey comes to the Eberly College from Wright State University, where she was dean of the College of Liberal Arts

College of Engineering and Mineral Resources

The College of Engineering and Mineral Resources continues to grow, not only in enrollment, but also in the breadth and depth of its programs, and in the quality of its facilities and laboratories. Last year the College had 550 freshmen and 2,100 undergraduates. More than 40 percent of freshmen received the merit-based PROMISE Scholarship. The College graduate enrollment was 750, with approximately 25 percent in the PhD program—the most doctoral students ever in the College's history—and the College graduated 25 PhDs. The College provides students with the support they need to achieve academic and career success. Freshman advisors provide guidance and mentoring. Study labs ensure that freshmen who need help get it. Design competitions, student organizations and clubs, and community outreach activities enrich campus life.

At the heart of the College is its faculty, who are experts in their disciplines, in teaching, and in research. Many have received national and international awards, been selected as Fellows in professional societies, elected into leadership positions on professional governing boards, and earned prestigious research grants. In recent years, the College has attracted talented new faculty members involved in advanced research in emerging fields such as nanotechnology.

A vital aspect of engineering education is providing students with opportunities to participate in research projects, internships, and cooperative education. Students design bridges, build fuel-efficient vehicles, write research reports, and work everywhere from underground coal mines to the White House.

Excellent engineering programs require excellent facilities. In the past six years, with University support, the College has invested more than \$22 million in upgrading its classrooms and laboratories. Plans are under way for a four-story addition to the Engineering Sciences Building, to include high-tech classrooms and laboratories, a learning center, and a new entrance. The College plans to begin construction in May 2007.

The College's annual research expenditures remained strong at \$23 million last year. In addition, private support is vital to its success, and the College's alumni and friends generously support its efforts through scholarships, fellowships, laboratories, and other initiatives. Also, the College continues to reach out to middle and high-school students through activities such as Girl Scout Day, Visitation Days, Eighth Graders Day, and the Engineers of Tomorrow Program, funded last year by a \$1.6 million NSF grant.

The College works hard to assist students in finding their first permanent job—sending out resumes, posting opportunities, and hosting an annual career fair that attracts dozens of employers. The College’s graduates are leaders in the private, public, and nonprofit sectors worldwide. The College is committed to continued growth through investment in students, faculty, programs, facilities, and research.

Extended Learning

Distance education has become a valued component in the University’s enrollment and financial management picture. The growth in these programs has contributed significantly to the University’s financial health. Extended Learning returned \$9 million to the colleges in 2004-05.

WVU offers 19 graduate degrees through Extended Learning. Five undergraduate minors or areas of emphasis contribute to two degree completion options: the Multi-Disciplinary Studies degree and the Regents Bachelor of Arts. While WVU still offers some programs in traditional off-campus settings around the state, the growth over the last eight years has been in online graduate programs and undergraduate courses. In 1998, only ten percent of courses were delivered with a distance education technology. Today 64 percent of all off-campus student credit hours are offered via technology. In the fall, Extended Learning offered 230 sections of online classes.

Online courses are also popular for students across the WVU system as well. WVU serves as a host site for the Blackboard Enterprise System, a course management software called Vista. In the fall term, on the main campus, there were 24,000 students enrolled in 2,000 course sections using Vista for their courses. When regional and branch campuses are included, there are more than 27,000 students using Vista.

The Internet is not the only technology employed to bring WVU programs to place-bound adults in the state. The Interactive Video Network (IViN) allows professors to teach classes in multiple sites at the same time. Thirty-five courses were taught each term on IViN. Students and professors interact in real time, and the class is archived on the Web. In spring 2006, more than 1,000 hours of instruction were delivered to twelve sites and 250 students nightly. Because IViN allows the University to connect literally to anywhere in the world, the network is also used for meetings, conferences, interviews, and legal depositions. In 2005-06, IViN had approximately 1,500 hours of connectivity. From Hong Kong to Martinsburg, IViN can deliver WVU to the world.

Extended Learning also offers noncredit and professional development courses online. From a few lifelong learning courses a few years ago, the schedule now includes nursing, substitute teaching, forensics, paralegal training, and financial planning.

College of Human Resources and Education

A \$10.1 million renovation of Allen Hall will provide returning College of Human Resources and Education faculty, staff, and students with a welcoming environment. The renovation project includes a redesigned front entrance that is both inviting and more accessible for people with disabilities. Improvements made in twelve classrooms (eight more than previously) and the Dean’s Conference Room provide the latest educational technology. The WVU Hearing Clinic has also been expanded and now has a large laboratory with a double-walled examination booth that will extend the clinic’s research capabilities, a separate room for working with hearing aid clients, and an additional room where students can prepare for their clients. Additional improvements include new lighting and fresh paint that brighten the hallways, as well as new, more functional office furniture.

Realignment of the College’s four departments—Advanced Educational Studies; Counseling, Counseling Psychology, and Rehabilitation Counseling; Educational Theory and Practice; and Speech Pathology and Audiology—has occurred to meet both current needs and future opportunities for students. Two of these departments, Counseling, Counseling Psychology, and Rehabilitation Counseling and Speech Pathology and Audiology remain as they were. The Department of Educational Leadership Studies and the Department of Technology, Learning and Culture replace Advanced Educational Studies, and the Department of Curriculum and Instruction/Literacy Studies and the Department of Special Education replace Educational Theory and Practice.

Additional organizational changes within the Department of Technology, Learning, and Culture (TLC) will impact both the technology education and educational psychology doctoral programs. A decision was made to combine the two programs and



replace with them with a new doctoral program in instructional design and technology. The Child Development and Family Studies Program has also moved from the Davis College of Agriculture, Forestry, and Consumer Sciences to HR&E and will be housed under TLC. Once again they and the WVU Nursery School will be in HR&E.

The College's Department of Speech Pathology and Audiology received accreditation approval from the American Speech-Language Hearing Association's Council for Academic Accreditation in Audiology and Speech-Language Pathology for both the graduate audiology program and the graduate speech-language pathology program. The clinical doctoral program in audiology and the master's program in speech-language pathology received full accreditation through June 30, 2013.

Carolyn Atkins, a professor in speech pathology and audiology, was selected as the 2005 West Virginia Professor of the Year. The national award is given to college educators for their commitment to students and their innovation in the classroom by the Council for the Advancement and Support of Education and the Carnegie Foundation for the Advancement of Teaching.

Ed Jacobs, an associate professor in counseling, received a national award from the American Counseling Association. The ACC Nomination and Awards Committee selected him to be the recipient of the 2006 ACC Innovation in Counseling Award based on his many creative contributions to the counseling profession.

Barbara Ludlow, professor and chairperson in Special Education, was the recipient of the 2006 Eagle Award of the American Council on Rural Special Education (ACRES). In the 30 year history of ACRES, she is only the third person to be recognized with an Eagle Award.

College of Law

The 2005-06 academic year was marked by a number of events that enriched the educational experience for our students and the greater Morgantown community. One of the highlights of the year was Supreme Court Justice Ruth Bader Ginsburg's visit to the College of Law on October 20, 2005. Justice Ginsburg spent time with the students in an informal session and had lunch with the faculty before presenting the Donley Lecture to the students, faculty, and members of the bench and bar in West Virginia. Justice Ginsburg was the third Justice of the United States Supreme Court to visit the College of Law since 1998.

The *West Virginia Law Review*, the fourth-oldest law review in the country, hosted a very successful symposium entitled "Brave New World: Developing the Legal Frontiers in Light of Forensic and Biometric Advances." The symposium was presented in cooperation with the West Virginia University Forensic Science Initiative and the Biometric Knowledge Center and brought to campus Judge William H. Webster, former director of the FBI and CIA, and Professor Stephen Goldberg of the Georgetown University Law Center and the annual Donley Lecturer. They joined with members of the College's faculty, practicing attorneys, and members of the Forensic Science Program in discussing the scientific advancements and the protection of individual liberties in the post-September 11 world.

In addition, Dr. Sidney Wolfe, the director of the Health Research Corporation for Law and Medicine, presented the Fisher Lecture in Law and Medicine, and Professor Mark Janis of the University of Connecticut School of Law presented the Ihlenfeld Lecture on Public Service and Ethics. The West Virginia Supreme Court of Appeals held its annual session at the College of Law, hearing cases from the court's docket in the morning and the final round of the Baker Cup Moot Court competition in the afternoon.

The College's students honed their legal skills by participating in co-curricular activities such as the *West Virginia Law Review*, the Moot Court, or the Lugar Trial Association; by representing clients in our Clinical Law Program; or by involvement in a service learning experience coordinated through the Appalachian Center for Law and Public Service. In addition, members of the faculty and law students, in cooperation with the West Virginia State Bar, provided legal assistance to the Katrina victims relocated to Camp Dawson in Preston County, West Virginia. Members of the faculty and law students also provided assistance to the State of West Virginia's investigation of the Sago mine disaster.

The Perley Isaac Reed School of Journalism

The Perley Isaac Reed School of Journalism's 2005-06 academic year was marked by continued enrollment growth, innovative teaching, and outstanding student achievements. In fall 2005, student enrollment exceeded 1,000 undergraduate and graduate journalism students—the largest-ever student body. Over the past five years, the School has more than doubled its number of direct admit students—students who are directly admitted to the School because they have higher GPAs and ACT or SAT test scores than pre-journalism students. And, for the 2005-06 academic year, the School ranked among the top-five most popular majors at WVU.

The School has also experienced record growth in its off-campus and entrepreneurial programs. The totally online Integrated Marketing Communications Master's Program—the first of its kind in the country—has grown from 17 students in the inaugural class of 2003 to 127 active students by the end of the 2006 spring term. The School's online advertising minor has experienced similar growth and is open to majors across WVU campuses.

Even with student enrollment on the rise, the School must remain competitive, offering stimulating programs and innovative teaching. During the past academic year, the School brought to campus nationally renowned journalists, such as *Newsweek* investigative correspondent Michael Isikoff and three-time Pulitzer Prize-winning photographer Carol Guzy. In addition, Rick Bragg, a best-selling author and a Pulitzer Prize-winning former national correspondent for the *New York Times*, shared with students his experiences writing about his southern Appalachian heritage. The School also led the national discussion about media coverage of the Sago Mine disaster in a C-SPAN televised panel.

Innovative projects continue to engage faculty and students in exciting research that links WVU to the state and region. Since 2003, the School has spearheaded efforts to collect West Virginia veterans' histories, bringing the number of West Virginia histories in the Library of Congress to more than 250. A related project continues with the production of a multimedia documentary chronicling the previously untold stories of West Virginia's African American war veterans.

Students also are engaged in hands-on learning, using cutting-edge media technologies, to help produce the School's multimedia Web site, "Starting Over: Loss and Renewal in Katrina's Aftermath." Working across disciplines and using multiple formats—video, photography, print, and multimedia—students continue to chronicle the stories of Hurricane Katrina evacuees who have been relocated to West Virginia. The project was named as a finalist in the Society of Professional Journalists' national student competition.

Throughout the year, students also gained practical, real-world experience through internships at GolinHarris International, the Philadelphia Flyers, the State Legislature, KDKA-TV, and KDKA-Radio, among others. In addition to these exciting opportunities, three students placed in the highly competitive Hearst Competition, while two others were selected from a national pool to participate in the Poynter Institute's prestigious Summer Fellowship for Young Journalists. And for yet another year, the School had two students recognized as "Outstanding Seniors" for being in the top one percent of WVU's graduating class.



School of Physical Education

The School of Physical Education has expanded its educational outreach, now offering the opportunity for individuals to obtain via distance education master's degrees in athletic coaching education, physical education teacher education, and sport management. The School recently added minors in personal training and sport and exercise psychology. Two new technology-based classrooms were added in the Coliseum. The School's academic quality is exemplified by the fact that a significant number of graduating seniors in the Athletic Training Program passed the entire NATA Board of Certification Exam on their first attempt, which is well above the national average.

The Motor Development Center continues to receive national recognition for its children's wellness programming, which includes *Dance, Dance Revolution*. The International Center for Performance Excellence continues to excel in its mission to promote, on a global basis, an awareness of the values of engaging in sport and health-related physical activity to enhance the quality of life.

Athletics

Success ran rampant through West Virginia University athletics during 2005-06 as WVU continued the greatest across-the-board two-year span in program history. Mountaineer football held the banner, completing an 11-1 campaign, capturing the outright Big East championship with a 7-0 conference mark, and winning the Sugar Bowl over SEC champion Georgia. The Mountaineers ended the season ranked number five nationally while twelve players garnered all-Big East accolades, including rookie of the year and Sugar Bowl MVP Steve Slaton. Coach Rich Rodriguez was Big East coach of the year.

In men's basketball, the Mountaineers posted a 22-11 record, a third-place finish in the nation's toughest conference, and second consecutive appearance in the NCAA Sweet 16. Kevin Pittsnogle and Mike Gansey were named all-Big East first team, while Johannes Herber was the CoSIDA Academic All-American of the year.

Women's basketball made one of the most remarkable postseason runs in the 23-year history of the BIG EAST tournament. Number twelve WVU knocked off number five Louisville, number four St. John's and number one Rutgers (ranked sixth nationally) to reach its first-ever Big East championship game.

The Mountaineer gymnasts finished the regular season with a 22-8 record and advanced to the NCAA Regionals for the 28th time. Junior Janáe Cox was first team all-EAGL on all four events, and Coach Linda Burdette became the school's all-time leader in career wins.

Women's soccer earned its sixth straight Women's College Cup appearance in 2005, posting a 12-6-3 record with five Mountaineers garnering all-conference accolades. Men's soccer finished 13-8-2 and earned an at-large berth in the Men's College Cup.

The swimming and diving teams set seven school records at the 2006 Big East championship while the men's 200 free relay team of Chris Hagedorn, Andrew Langenfeld, Nick Delic, and Kyle Williams earned honorable mention All-America honors. Hagedorn was Big East swimmer of the year, and Sergio Lopez was the conference coach of the year.

The WVU wrestling team finished second at the EWL championships; four Mountaineers claimed league titles and six qualified for the NAAs. Freshman Brandon Rader from Parkersburg achieved All-America honors.

In volleyball, Julie Hockensen became the second Mountaineer in school history to earn Big East honors with her second-team selection; Stephanie Zolna became WVU's all-time kills leader with 1,404.

Baseball topped the 30-win mark and advanced to the Big East tournament for the first time since 2003. Tennis made its second straight appearance in the Big East championship, finishing sixth. Abbie Stechschulte placed 16th in the pentathlon at the NCAA indoor track championship, while Susan Davis placed 74th at cross country nationals.

Robert C. Byrd Health Science Center: School of Dentistry



Renovations continue in the main student clinic. This area is designed to facilitate the team concept of dental practice, in which dental students have the opportunity to practice four-handed dentistry and to work with dental hygiene students in an integrated environment, much like private practice. Each treatment area will include capability for the use of electronic patient records and digital radiography. In preparation for the transition to an electronic patient record, the School of Dentistry invested over \$100,000 in computer upgrades to facilitate the process. In conjunction with the main clinic project, the patient reception area will also be renovated, and a new student clinic support area will be built. The student clinic support area will include individual workstations, computers, and telephones to assist students in managing their clinical practices.

The WVU School of Dentistry continues to utilize funding from two grants to lead the reduction of oral health disparities within the state and beyond. The first, a seven-year grant from the National Institutes of Health, funds research in collaboration with the University of Pittsburgh School of Dental Medicine to determine factors that contribute to oral health disparities in Appalachia. To date, WVU has received over \$1.8 million to screen and examine over 100 families from rural West Virginia communities that have been enrolled in the study. An additional \$400,000 will be available in fiscal year 2007 for continuation of the study. The second grant, from the Robert Wood Johnson Foundation, provides over \$850,000 to the WVU School of Dentistry to strengthen its ties with West Virginia communities in need of dental care. This five-year initiative, Pipeline Profession and Practice: Community-Based Dental Education Project, is helping the School expand its successful community-based dental education program and increase efforts to recruit and retain more West Virginia students from backgrounds that are underrepresented in the dental profession. This includes individuals from minority, first-generation college, and low-income groups. The project also aims to foster cultural sensitivity with curricular revisions and special faculty development programs.

The WVU School of Dentistry had another successful year with its fundraising efforts through the WVU Foundation. Some examples of this success were the \$150,000 raised in gifts and pledges to support renovation projects currently in process and another \$250,000 toward future renovations. Over \$100,000 was raised by the alumni honor roll and phone-a-thon, and \$18,000 was raised in a one-day event to support the scholarship fund. The School also received over \$125,000 in estate and planned gifts for the 2005–06 fiscal year.

WVU School of Medicine

The School of Medicine serves more than 2,500 students with a variety of educational programs—including medicine, physical and occupational therapy, medical technology, physical therapy, exercise physiology, continuing medical education, and others. Faculty members provide advanced clinical care to more than 100,000 people throughout the state.

John E. Prescott, MD, former president and CEO of University Health Associates, was named dean of the School of Medicine in July. He was formerly chair of the school's Department of Emergency Medicine and director of the Center for Rural Emergency Medicine.

In early 2005, WVU received confirmation that the Rural Health Education Program is paying dividends when a University of Nebraska report ranked WVU fourth among medical schools worldwide in percentage of graduates who choose to serve rural communities in the US. The school ranks 17th among medical schools in the total number of graduates who practice in rural areas.

Physical changes are also occurring at the School of Medicine. Construction of a new, two-story Eastern Division Clinical Campus began last fall on the City Hospital campus in Martinsburg. The \$6.4 million, 32,000-square-foot building will house a 200-seat auditorium, a 40-seat classroom, several meeting rooms, a paper-and-electronic library, a resident suite, and a computer-based study area. And in Charleston, \$10 million in funding has been allocated for a new interdisciplinary education space for the School of Medicine's Charleston Division and Charleston Area Medical Center.

With construction scheduled to begin this fall, our new Biomedical Science Research Center will spark even more collaboration among scientists from different disciplines—fostering innovative solutions for West Virginia's biggest health maladies including cancer, stroke, heart disease, and diabetes.

An ambitious Strategic Research Plan, incorporating scientists and physicians from across all schools and disciplines at the Health Sciences Center is also moving forward.

WVU School of Nursing

Since 1960, the West Virginia University School of Nursing has served as the premier nursing education center for West Virginians. Offering bachelor's and master's degrees, along with the only nursing doctoral program in West Virginia, graduates are educated to serve as clinicians, teachers, scholars, and researchers. The WVU School of Nursing bachelor's program is offered on six campuses: the WVU main campus, WVU Parkersburg, Charleston Division, Potomac State, Glenville State, and WVUIT. Both the bachelor's and master's programs are accredited by the Commission on Collegiate Nursing Education.

The Master of Science in Nursing (MSN) Program remains strong with a webcast system for delivering courses, thus enabling students to participate in classes from home. The MSN Program tracks include family nurse practitioner, pediatric nurse practitioner, and neonatal nurse practitioner. Keeping up with the demand for nurses statewide and nationally, the School has increased undergraduate enrollment and offers an accelerated bachelor's program for people who have bachelor's degrees in other fields.

Research conducted within the School of Nursing contributes to the health of West Virginians. The Community Health Initiatives include several studies funded by the Centers for Disease Prevention and Control to develop and evaluate interventions targeted to the Appalachian population and implemented in clinical sites, work sites, churches, and communities. Additionally, funded researchers seek to improve outcomes in health care systems, as well as empower individuals to improve health habits, better manage chronic conditions, and navigate important life transitions.



Emme Chapman, a 2006 graduate of the WVU School of Medicine, was the first student to complete the school's Health Careers Opportunity Program (HCOP) as a high school student and go on to graduate from the School of Medicine. The HCOP Provides enrichment, tutoring and other services to students planning careers as health professionals.



WVU School of Nursing students practice insulin preparation for diabetic care in their Clinical Skills Laboratory.

WVU School of Pharmacy

After a distinguished eleven-year career at West Virginia University, Dean George Spratto retired in July 2006, and Patricia A. Chase, PhD, was named dean of the School of Pharmacy. The West Virginia University School of Pharmacy has been educating students since 1914.

The School offers the Doctor of Pharmacy (PharmD) degree program, a four-year professional plan of study that is preceded by a minimum of two years of pre-professional studies. Eighty students are admitted into the program each year. Built on a strong foundation in the biomedical, pharmaceutical, social, and clinical sciences, the program focuses on the development of the knowledge, skills, and attitudes needed to prepare graduates who will ensure optimal medication therapy outcomes for their patients. During the four-year program students complete a variety of experiential education opportunities in a wide array of pharmacy practice environments, such as community and institutional pharmacy. In 2005, the program received the honor of being named a West Virginia University Board of Governors Program of Excellence.

The PhD program in pharmaceutical and pharmacological sciences and health outcomes research continues to attract national recognition and attention in terms of the quality of research training and graduate student successes. Graduates and their faculty advisors have won over a dozen best research paper awards in the last four years at national professional meetings. The School has received a \$500,000 grant from the Agency for Healthcare Research and Quality to establish a statewide health outcomes research program in West Virginia. A four-year NIH grant has been received to study mechanisms of cell death regulation and associated lung disorders. This work will be important in risk assessment and therapeutic intervention in pulmonary diseases. The School actively participates in NSF and NIH supported research experiences for undergraduates and faculty from regional colleges, including training programs for graduate students from the School and other WVU departments. The Wigner Institute for Advanced Pharmacy Education and Research has been established to provide West Virginia pharmacists training and support to deliver specialized patient care services.

The School also provides various service initiatives to the citizens of West Virginia. The Office of Continuing Education is the largest provider of continuing education to pharmacists in the state. Drug and health information is provided to health-care professionals by the West Virginia Center for Drug and Health Information. The West Virginia Poison Center provides comprehensive emergency poison information, prevention, and education resources. The Rational Drug Therapy Program provides prior authorization and consultative services to several West Virginia state agencies and saves the state millions of dollars in pharmaceutical costs each year.



University Libraries

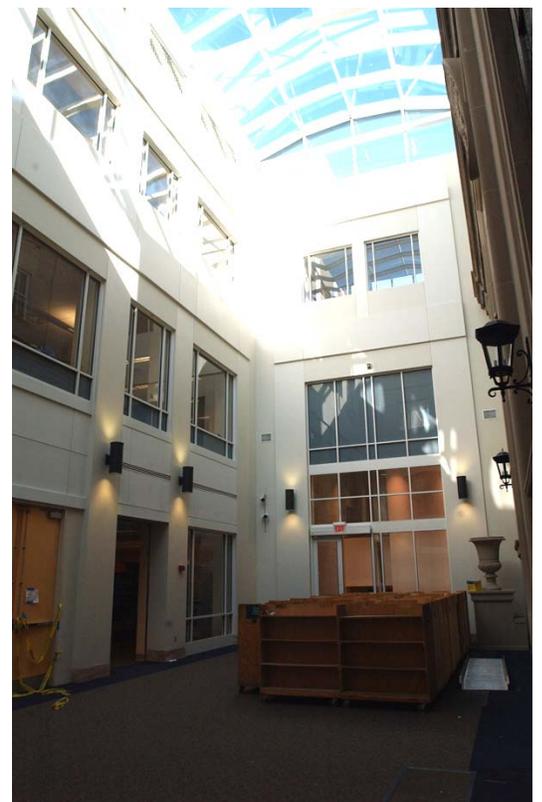
The Internet and an expanding universe of digital research tools have substantively changed the WVU Libraries. Using the best technology, the Libraries deliver resources to students and faculty in support of instruction and research. Web of Science and Science Direct were two important new electronic resources purchased in 2005-06. Web of Science is a linked citation index to more than 22,000 academic journals. Science Direct is an electronic journal collection for science, technology, and medicine with full text online. Both resources were purchased with funding from the WVU Research Corporation.

Improved library facilities continue to be popular with students. Almost 700,000 people visited the Downtown Campus Library, some drawn by the opening of Eliza's, a new coffee shop on the fourth floor. A student-led initiative directed by former student body president D.J. Casto resulted in the café, which features Starbucks coffee and beverages. Eliza's is named in recognition of Eliza J. Skinner, WVU's first professional librarian.

In November 2005, the Libraries launched West Virginia History OnView, an online collection of historical photographs from the West Virginia and Regional History Collection. More than 30,000 online visits are made each month to this outstanding resource. Professional recognition has been received from the American Library Association, the Smithsonian Institution, and the Pennsylvania Library Information Network. More than 12,000 photos are currently cataloged and searchable for users anywhere in the world with an Internet connection.

The Rare Books Room received 150 rare and historic volumes from the estate of Kanawha Valley book collector William VanVliet Bacon. Appraised at \$85,000, this gift represents the single-most important addition to the Rare Books Collection since the founding gift of the Arthur S. Dayton Collection a half century ago. Other notable acquisitions included West Virginia military histories from 1799, Civil War diaries, and the archives of the Seneca Glass Company of Morgantown.

The Libraries also extended access to WVU alumni. In January 2006, the Libraries and the WVU Alumni Association announced the Alumni Library Gateway, which provides online access for Alumni Association members to two of the Libraries' most popular academic and business databases. WVU was the first university in West Virginia to offer this service to alumni.



Regional Campuses

WVU at Parkersburg

West Virginia University at Parkersburg continued to grow and mature as an institution in 2005-2006. The year was highlighted by sustained enrollment increases, additions to its program offerings, and enhancements to the campus.

Enrollment Records—For the fall semester, the college set a 29-year record in its number of full-time students. The spring full-time enrollment was the highest in the College’s 45-year history.

Commencement Highlight—At May’s Commencement, WVU Parkersburg awarded the most baccalaureate degrees it has conferred since the institution began offering bachelor’s degrees in 1991.

Additional Program Offerings—The College assumed responsibility for the Regents Bachelor of Arts degree which had been offered by WVU in Parkersburg for a number of years. Several job-specific programs and Fast Track certificates were implemented to respond to workforce needs.

Student Engagement—The College’s Student Government encouraged involvement by students in the campus and the community. The forensic team garnered regional and national honors. A team of WVU Parkersburg computer and information technology students and faculty helped relocate the Joint Military Operations Center in New Orleans as part of a Hurricane Katrina relief effort. (See photo of CIT students involved in New Orleans’ project above.)

Technology Advances—The college implemented several initiatives related to technology to enhance the teaching/learning process. On-line registration commenced. The number of blended delivery and on-line courses increased dramatically and positively impacted enrollment.

Grants Development—WVU Parkersburg’s Education Division surpassed \$1 million in acquisition of state, federal and private foundation grants. It is the first academic division to reach a million dollars in external funding.

Strategic Planning—The campuswide strategic planning process entered a second phase of revision and analysis. The process has had immediate impacts on focusing the institution as a student-centered, accessible learning community, dedicated to excellence.

Continuing Campus Enhancements—A \$2.9 million classroom tower stabilization project neared completion. The project addressed settling of the three-story tower as well as the creation of a campus focal point with the tower’s exterior front to feature a stained glass curtain wall. The College received a generous donation of trees to line campus roadways which will have a lasting “greening” impact for years to come. Remodeling of various office and teaching spaces were part of a continuing initiative to enhance the campus and its grounds. A facilities master plan reached the final stages of development.



Potomac State College of WVU

Potomac State College, in Keyser, WV, began its 104th year as a fully integrated division of West Virginia University (it became official on July 1, 2005). As in the previous year, the College continued to experience change and growth in 2005-2006. The College began its fall semester with a seven percent increase in first-time freshmen equaling 465 new students on campus. The overall headcount held at 1,279 students. And as in years past, there were more than 100 PROMISE scholars on campus.

Some of the academic, organizational, and operational changes that occurred this year included:

- Six new full-time faculty were appointed in the areas of biology, education, forestry, history, math, and sociology.
- WVU's Mountie Bounty Debit Program was customized to accommodate Potomac State students and staff in order to take effect fall 2006.
- A groundbreaking ceremony was held on June 20, 2006, to officially launch construction for a new \$19 million, 350-bed residence hall. Amenities will include a new dining hall, a 74-seat mini theater, exercise room, and video game room among other features. Completion date is scheduled for fall 2007.
- In order to accommodate the parking spaces that were taken off line due to the construction of the new residence hall, three new parking lots were constructed with the largest being adjacent to the Church-McKee Arts Center.
- Upgrades were made to the campus' networking hardware, improving access speed and providing for the installation and utilization of a new VoIP phone system. The Voice Over IP System uses the same lines that computers use to connect to the Internet making this system more cost-effective because it requires less infrastructure connectors.



WVU Institute of Technology



The West Virginia University Institute of Technology welcomed a new president in 2005: WVU Tech alumnus and accomplished executive Charles Bayless. Below is a sampling of highlights from the 2005-06 year.

- WVU Tech will become a division of WVU on July 1, 2007. In preparation for this, the two institutions have created a transitional team who are looking at all facets of the institution. They are making and implementing plans to fully integrate WVU Tech into WVU as a well functioning division of the University.
- In the 2007 edition of *U.S. News & World Report: America's Best Colleges*, WVU Tech was once again nationally ranked among the top baccalaureate engineering programs.
- The College of Engineering with the College of Engineering and Mineral Resources at WVU is offering 2+2 and 4+1 programs in mining engineering for WVU Tech students. They are also partnering with Marshall University to offer a WVU Tech civil engineering degree to students in the Charleston-Huntington area.
- A student team project, "Distributed Normal Map Generation" was chosen as the winner of the 2006 Higher Education Student Project Competition sponsored by the West Virginia High Technology Consortium. This is the second consecutive year that a WVU Tech engineering student team has won this prestigious award.
- For the academic year 2005-06, faculty at the College of Engineering brought in external research funding totaling over \$1.4 million. Numerous undergraduate and graduate students and two research faculty positions were supported by these external funds.
- The College of Business, Humanities, and Science received a donation of \$250,000 for an endowed scholarship to support nursing students.
- The faculty of the College of Business, Humanities and Sciences secured approximately \$675,400 in external funding in 2005-06.
- The College delivered approximately 110 distance education courses, including two-dozen Web classes and 30 dual-credit classes in area high schools.

The Community and Technical College at WVUIT (CTC at WVUIT)



The Community and Technical College at WVU Tech (CTC at WVU Tech) complied with all legislative mandates regarding North Central Association accreditation and has operated as an independent institution co-located on the WVU Tech campus since 2004. The College remains administratively linked to WVU Tech, purchasing general education and administrative services from Tech. The mission of the College is to promote excellence in teaching, learning, and service; prepare the current and future workforce; and provide lifelong educational opportunities.

In its second full year as a separate institution, the CTC at WVU Tech earned national recognition as a “high performer in student-faculty interaction.” This distinction was based on student responses to the Community College Survey for Student Engagement, which ranked the College as one of the top four small community colleges in the nation.

Other highlights included:

- A 1.9 percent increase in headcount enrollment
- The highest three-year graduation rate of all community colleges in the state (25.8 percent)
- Service to 1,545 participants in workforce development courses
- Emphasis on increasing external resources, resulting in over \$1 million in grants, donations, and fund-raising
- Lease signing for the National Publishing Innovation Center
- Additions of academic programs: AAS programs in diesel technology and building construction and one-year certificate programs in medical transcription online, electrical mining specialist, mechanical mining specialist, and electromechanical mining specialist
- Execution of a partnership agreement with CTC Shepherd to deliver printing technology to the Eastern Panhandle
- Reaccreditation of the Dental Hygiene Program from the American Dental Association
- Board passage rate average of 92 percent for dental hygiene and respiratory therapy
- Participation in service learning projects such as a Stream Monitoring Project and preparation of a 3-D computer graphics model for the State Capitol Economic and Workforce Development Initiatives; hosting a mining summit; offering land surveyor, printing, office technology, engineering technology, and dental hygiene industry training; developing a skill set for the tourism industry; entering into a partnership with the West Virginia Manufacturers’ Association; and attending printing-related trade shows with Charleston Area Alliance

Ensuring the delivery of quality technical education, attracting and retaining excellent faculty and staff, supporting students, and serving industry continued to be hallmarks of the CTC at WVU Tech in its second year as a college.

Research and Sponsored Programs



West Virginia University is designated as a Research University (High Research Activity) as classified by the Carnegie Foundation for the Advancement of Teaching. WVU has completed another successful fiscal year in research, sponsored projects/programs, technology transfer, and economic development. The University continues to develop interdisciplinary programs, form strategic partnerships, and build technology transfer and economic development infrastructure. Funding from external sources for total sponsored programs is \$142.9 million in fiscal year 2006, with research and development funding at an all-time record of \$88.3 million. A few examples of the many research activities at WVU are outlined below.

Advanced Materials

The West Virginia University College of Engineering and Mineral Resources opened the new Nanosystems Clean Room, a 3,300 square-foot facility in the Engineering Sciences Building. The Clean Room is the key hub in a set of laboratories supporting WVNano, a campuswide effort to advance nanoscience and engineering. Nanotechnology involves the observation and manipulation of material smaller than a wavelength of light. One nanometer is one-billionth of a meter. In comparison, a human hair is about 100,000 times as wide. Nanotechnology research requires a “super-clean” environment in order to avoid contamination of materials involved in the research. Although housed in the College of Engineering and Mineral Resources, the facility is shared by researchers from several WVU schools and colleges. Together with labs in physics, chemistry, and health sciences, the clean room provides the means to build new nano and microscale devices and systems to improve lives, health, and security.

Economic Development

A company founded in 2002 at West Virginia University and created to commercialize new scientific technology has launched its first product line. The Protea Explorer System, developed at Protea Biosciences in Morgantown, allows a researcher to insert blood or tissue samples into a tray. The device can be programmed to carry out a series of steps that would otherwise take place in separate stations around the lab. Once the sample has been processed, it is analyzed in a mass spectrometer. The Protea Explorer Systems is expected to be in heavy demand among the 12,000 pharmaceutical, biotech, and academic laboratories around the world where protein research is conducted.

Energy and Environment

The West Virginia Water Research Institute, located in the National Research Center for Coal and Energy, is dedicated to preserving and restoring the natural environment through research and partnerships with industry, government agencies, academia, and the public. With funds granted by the US Department of Energy’s National Energy Technology Laboratory, the Institute’s Combustion Byproduct Recycling Consortium will work to find alternative uses for coal combustion byproducts.

The Davis College of Agriculture, Forestry, and Consumer Sciences has a new state-of-the-art agricultural sciences complex on the University’s Evansdale campus. Devoted to the study of biological sciences, the South Agricultural Sciences Building is a two-story, 38,000 square-foot facility that contains research and teaching laboratories, a small greenhouse, a 250-seat lecture hall, office space for professors, staff, and graduate students, and unfinished shell space for future growth and expansion.

Human Development and Culture

A multipartner collaboration to improve the welfare of children in West Virginia has received additional funding. West Virginia University is collaborating with the US Administration for Children and Families, the West Virginia Department of Health and Human Resources, and the West Virginia Social Work Consortium. The funding will provide curriculum development and professional training to prepare social workers in their tasks of protecting children from harm, working with biological parents, and developing homes for foster care and adoption.

Molecular and Biomedical Sciences

The WVU Sensory Neuroscience Research Center, a National Institutes of Health (NIH) Center of Biomedical Research Excellence is a multidisciplinary center for research in neuroscience, with five interactive and coordinated research projects focused on the topics of development and plasticity. Investigators combine their collective expertise to solve basic scientific problems that bear on development of treatments for human neurological diseases. Techniques range from genetic to functional brain imaging analysis of congenital and developmental sensory disorders. Combined anatomical, physiological, and molecular analyses of neurons developing in vitro are also proposed.



WVU Extension Service

Throughout West Virginia's 55 counties, the WVU Extension Service worked with more than 257,000 youths and adults, many of whom participated regularly in ongoing programs. The 4-H Youth Development Program reaches one in five West Virginia youths. In each county, WVU Extension educators are trusted neighbors who connect local issues to state and national resources. By helping individuals, families, businesses, and communities apply research-based knowledge to problems, Extension helps people protect their resources, increase their income, guard their health, and build their leadership and career skills.



In 2005, 4-H and FFA youths personally experienced the economic value of agriculture by turning their livestock work into bankable dollars: \$2,527,818. WVU Extension agents work closely with community farmers' markets, 44 of which generated \$1.6 million in sales in 2005.

West Virginia Community Educational Outreach Service members in just 23 counties volunteered 289,000 hours for community health, literacy, and educational projects—providing staff time valued at more than \$4 million. CEOS is a statewide network of clubs guided by WVU Extension faculty and staff.

The benefits of marketing through WVU Extension's Quality Assurance calf pools are reflected in producers' returns. The price advantages, additional weight gains, and marketing expense savings garnered producers a total added value that exceeded \$985,000.

WVU Extension agents train master gardeners, who in 2005 “repaid” the community for their training by providing leadership and volunteer services valued at more than \$464,000 to schools, parks, and other community needs.

Predation management training helped shepherds save \$44,000. The wool marketing program helped them earn an additional \$40,600.

WVU Extension’s financial planning and risk management sessions in 2005 helped the average West Virginia farmer save nearly \$14,000.

Throughout its 80 years of service, the Mount Vernon Dining Hall has been the heart of WVU Jackson’s Mill State 4-H Camp and Lifelong Learning Center, near Weston. Eighty years of serving thousands of meals to thousands of campers and visitors has taken its toll on the stately building. In 2006, the WVU Extension Service received \$3 million—half from the West Virginia Legislature and half from WVU—to install upgrades, make repairs, and add an elevator and other accommodations. To preserve the building’s history and national standing, VanNostrand Architects of Buckhannon will follow the renovation guidelines of the National Register of Historic Places.



Swimming pool at WVU Jackson’s Mill

Private donors raised \$136,187 for the \$320,000 renovation fund of the Northern Panhandle Cottage at WVU Jackson’s Mill. The cottage—comprised of four dormitory rooms and a conference room—is receiving upgrades that include a commercial sprinkler, Internet access, a new roof, and four remodeled bathrooms. When the Northern Panhandle Cottage was dedicated in 1952, it joined 13 other cottages that were financed by county-led fund-raising programs. The pride of Hancock, Brooke, Ohio, Marshall, and Wetzel counties, the Northern Panhandle Cottage is the Mill’s only multicounty cottage. All are on the National Register of Historic Places.

WVU Foundation Highlights

- Total assets under Foundation management were \$802.7 million as of June 30, 2006—an 11% increase as compared to \$721.6 million at the close of the previous fiscal year. Included in the total assets is \$277.6 million held by the Foundation for the WVU Hospitals.
- The Foundation’s annual operating expenses of \$6.8 million represent less than 1% of total assets under management. No operating expenses are deducted from gifts given by donors—thus 100% of each donor’s gift is made available for the intended purpose.
- \$40.3 million in funds were disbursed on behalf of the University during the year to support a myriad of purposes, including scholarships and fellowships; academic program development; chairs, professorships and lectureships; faculty development and research; equipment and facilities; and libraries.
- \$10.3 million (25%) of the total disbursements on behalf of the University were directed toward salaries, professional development grants, and awards which enabled the University to attract and retain high caliber faculty for teaching, research and public service.
- \$10.1 million (25%) of the total disbursements on behalf of the University were directed toward student support which made attendance at WVU a reality for many students—primarily, state residents.
- Over the past ten years, the Foundation has provided \$317.2 million in support of the University.
- 21,825 donors contributed \$61.2 million to the Foundation for the benefit of the University during the past fiscal year.
- The Foundation’s endowment portfolio earned a net investment return of 13.5% for the fiscal year.



INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

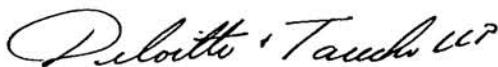
We have audited the accompanying combined statements of net assets of West Virginia University (the "University") as of June 30, 2006 and 2005 and the related combined statements of revenues, expenses, and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such combined financial statements present fairly, in all material respects, the financial position of the University at June 30, 2006 and 2005, and the combined changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis on pages 2 to 14 is not a required part of the basic combined financial statements, but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 28, 2006, 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.



September 28, 2006

WEST VIRGINIA UNIVERSITY

Management's Discussion and Analysis Year Ended June 30, 2006

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) Statements No. 34 and No. 35. 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, 2006 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2005 compared to fiscal year 2004.

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

Financial Highlights

At June 30, 2006, the University's total net assets increased from the previous year-end by \$43.4 million, primarily due to increases in capital assets, net of depreciation, cash and cash equivalents and net accounts receivable as well as decreases in debt service assessment payable to the Commission, bonds payable and leases payable. This increase in net assets was partially offset by a decrease in due from the Higher Education Policy Commission (the "Commission") and increases in accounts payable, other liabilities, compensated absences, deferred revenue, and accrued payroll. Total revenues grew by 8.2%, mainly due to an increase in revenues from tuition and fees, auxiliary enterprises and capital grants and gifts. Total expenses increased from prior year mainly because of increased salaries and benefits, supplies and other services, interest on capital related debt, scholarship expense and utilities.

This increase is more than the increase in total net assets from fiscal year 2004 to fiscal year 2005, which was mainly due to an increase in investments, net capital assets and cash and cash equivalents.

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 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.

Net Assets (in thousands)

	As of June 30		
	2006	2005	2004
Assets			
Current Assets	\$ 186,467	\$ 170,972	\$ 138,587
Noncurrent Assets	873,865	830,842	671,930
Total Assets	\$ 1,060,332	\$ 1,001,814	\$ 810,517
Liabilities			
Current Liabilities	\$ 107,038	\$ 91,101	\$ 85,345
Noncurrent Liabilities	398,424	399,237	252,933
Total Liabilities	\$ 505,462	\$ 490,338	\$ 338,278
Net Assets			
Invested in Capital Assets, Net of Related Debt	\$ 467,295	\$ 428,492	\$ 410,980
Restricted for:			
Nonexpendable	4,098	3,843	3,220
Expendable	33,993	32,164	29,917
Unrestricted	49,484	46,977	28,122
Total Net Assets	\$ 554,870	\$ 511,476	\$ 472,239

Total assets of the University increased by \$58.5 million to a total of \$1,060.3 million as of June 30, 2006. The increase was primarily due to an increase in capital assets, net, cash and cash equivalents, accounts receivable, net and loans receivable, net. These increases were partially offset by a decrease in investments, due from the Commission and prepaid expenses. Capital assets and cash followed an upward trend from prior years.

- Capital assets, net increased by \$60.2 million primarily due to significant additions of construction-in-progress and completion of buildings during fiscal year 2006, including several capital projects associated with Athletics and those undertaken at the Health Sciences Center. Similarly, the increase in capital assets, net from fiscal year 2004 to fiscal year 2005 was primarily due to additions of construction-in-progress.
- Cash and cash equivalents increased by \$8.7 million primarily due to an increase in unpaid invoices at the end of fiscal year 2006 compared to prior year end and as a result of positive operations. Additionally, funds received from the University Health Associates (UHA) to establish escrow accounts for professional liability coverage at the State Treasurer's Office contributed to the increase. An increase in grants activity and improved collection of outstanding accounts receivable resulted in an increase in cash balances from fiscal year 2004 to fiscal year 2005.
- Net accounts receivable increased by \$7.3 million primarily due to outstanding mission support payments from the UHA and the West Virginia University Hospitals, Inc. (WVU Hospital). This increase was partially offset by a decrease in due from the Commission. Accounts receivable balances decreased from fiscal year 2004 to fiscal year 2005 due to improvement in management and collectibility of balances due from sponsors.
- Loans receivable, net increased by \$617,000 from prior year which is attributable to increased activity in the Perkins and School of Medicine loan programs. The increased activity in the Perkins loan program has occurred over the past few years, causing an increase in loans receivable balances from fiscal year 2004 to fiscal year 2005 also.
- Investments decreased by \$17.4 million primarily due to the sale of the guaranteed investment contract, in which the proceeds of the 2004 revenue refunding and improvement bonds are invested, to finance construction activity on campus. This decrease was partially offset by an increase in amounts deposited with the WVU Foundation in an escrow account for professional liability coverage. Investments had experienced an increase from fiscal year 2004 to fiscal year 2005 due to the investment of proceeds from the 2004 revenue refunding and improvement bonds with the bond trustee in a guaranteed investment contract.
- Prepaid expenses decreased by \$1.0 million primarily due to amortization of prepaid maintenance costs recorded in prior years. Such expenses had increased from fiscal year 2004 to fiscal year 2005 mainly because maintenance and support costs were recorded in fiscal year 2005 for the future use of a geology research and educational software.

Total liabilities for the year increased by \$15.1 million. This increase is primarily attributable to an increase in accounts payable, other liabilities, compensated absences, deferred revenue, and accrued payroll. These increases were partially offset by a decrease in the reported debt service assessment payable to the Commission, bonds payable, and leases payable.

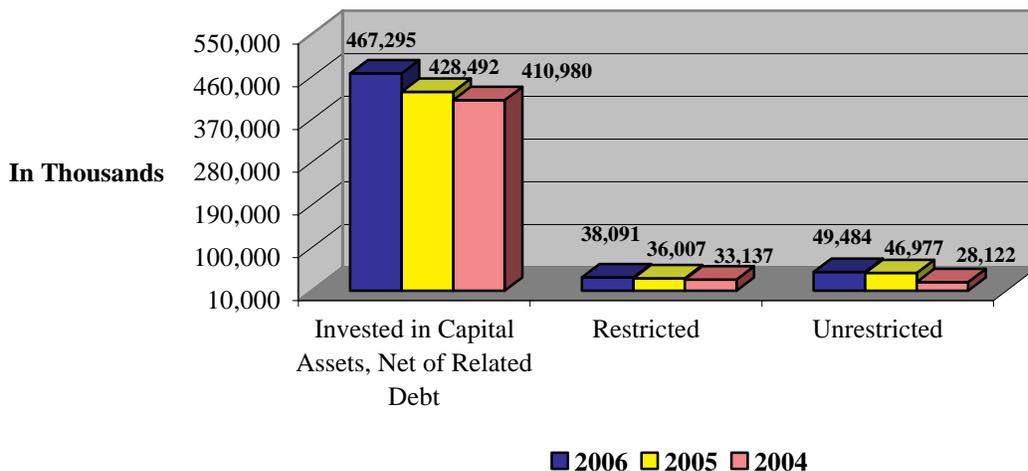
- Accounts payable increased by \$6.7 million primarily because of significant invoices due to vendors at the end of fiscal year 2006, including invoices associated with capital construction projects such as the Evansdale Residential Complex, Brooks and Oglebay Halls. Accounts Payable balance had decreased from fiscal year 2004 to fiscal year 2005 primarily due to decreased construction activity associated with some significant Athletics capital projects during fiscal year 2005.

- Other liabilities increased by \$6.4 million primarily due to the accrual of projected future claims related to medical malpractice litigation cases. Escrow accounts have been established at the WV State Treasurer's Office and the WVU Foundation to fund these potential liabilities. This category did not experience any major change from fiscal year 2004 to fiscal year 2005.
- Compensated absences liability increased by \$5.4 million mainly due to a significant increase in retiree premium rates. In contrast, the fiscal year 2005 compensated absences liability calculation was based on plan year 2005 retiree premium rates due to a freeze on retiree premium rates in effect at that time. Compensated absences liability did not experience a change from fiscal year 2004 to fiscal year 2005.
- Deferred revenue increased by \$3.7 million primarily due to increased deferral of athletics football ticket sales and an escrow deposit received from the City of Morgantown for the transfer of property at the Square at Falling Run. Deferred revenue had increased from fiscal year 2004 to fiscal year 2005 because of unearned revenue recorded on a geology research and education software grant, increased deferral of athletics football ticket sales and receipt of several scheduled or advance payment sponsored awards during fiscal year 2005.
- Accrued payroll increased by \$2.8 million mainly due to an increase in number of employees paid in arrears as well as increased salary expense for such employees as a result of a pay raise given to employees during fiscal year 2006. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. Accrued payroll also increased during fiscal year 2006 due to an increase in longevity payroll as a result of faculty receiving such payments for the first time in fiscal year 2006. The increase in accrued payroll was expected and is consistent with, but higher than, the increase in accrued payroll from fiscal year 2004 to fiscal year 2005.
- Debt service assessment payable to the Commission decreased by \$3.9 million due to debt service (principal) payments in fiscal year 2006. This decrease is consistent with the decrease in such liability from fiscal year 2004 to fiscal year 2005.
- Bonds payable decreased by \$2.8 million due to bond principal payments and amortization of net original issue bond premium related to the 2004 revenue refunding and improvement bonds during fiscal year 2006 as well as amortization of the loss on refunding related to the 1997 refunded bonds. Bonds payable had experienced a significant increase from fiscal year 2004 to fiscal year 2005 due to the issuance of revenue refunding and improvement bonds during fiscal year 2005 in the par amount of \$220.0 million.
- Leases payable decreased by \$2.5 million primarily due to scheduled principal payments on capital leases and fewer capital lease and financing agreements entered into during fiscal year 2006. This decrease is consistent with the decrease in leases payable from fiscal year 2004 to fiscal year 2005.

The University's current assets of \$186.5 million were sufficient to cover current liabilities of \$107.0 million indicating that the University has sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.

COMPARISON OF NET ASSETS June 30, 2006, 2005 and 2004



Invested in capital assets, net of related debt increased by \$38.8 million primarily due to an increase in capital assets, net, and decreases in debt assessment payable to the Commission, bonds payable and leases payable. This increase is comparable to, but higher than, the increase in this category from fiscal year 2004 to fiscal year 2005.

Restricted net assets increased by \$2.1 million mainly due to additional funding made available to the Perkins and School of Medicine loan programs, a decrease in loans in collection and an increase in transfers of restricted funds budgeted for debt service during fiscal year 2006. This increase is consistent with the increase in this category from fiscal year 2004 to fiscal year 2005.

Unrestricted net assets increased by \$2.5 million mainly due to positive operations. This increase is lower than the increase noted in this net asset category from fiscal year 2004 to fiscal year 2005 but continues to follow an increasing trend.

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.

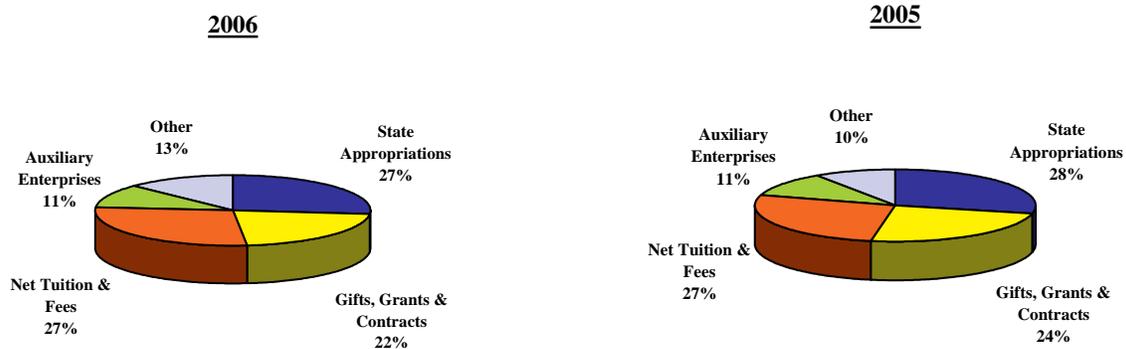
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because state appropriations are provided by the West Virginia Legislature (the “Legislature”) to the University without the Legislature directly receiving commensurate goods and services for those revenues. 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.

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

	Years Ended June 30		
	2006	2005	2004
Operating Revenues	\$ 476,626	\$ 448,519	\$ 402,083
Operating Expenses	675,516	627,199	590,101
Operating Loss	(198,890)	(178,680)	(188,018)
Net Nonoperating Revenues	201,480	197,692	202,739
Income (Loss) before Other Revenues, Expenses, Gains or Losses	2,590	19,012	14,721
Capital grants and gifts	21,498	16,553	6,942
Bond proceeds/capital projects proceeds from the Commission	19,306	3,672	-
Increase in Net Assets	43,394	39,237	21,663
Net Assets at Beginning of Year	511,476	472,239	450,576
Net Assets at End of Year	\$ 554,870	\$ 511,476	\$ 472,239

Revenues:

The following charts illustrate the composition of revenues by source for 2006 and 2005.



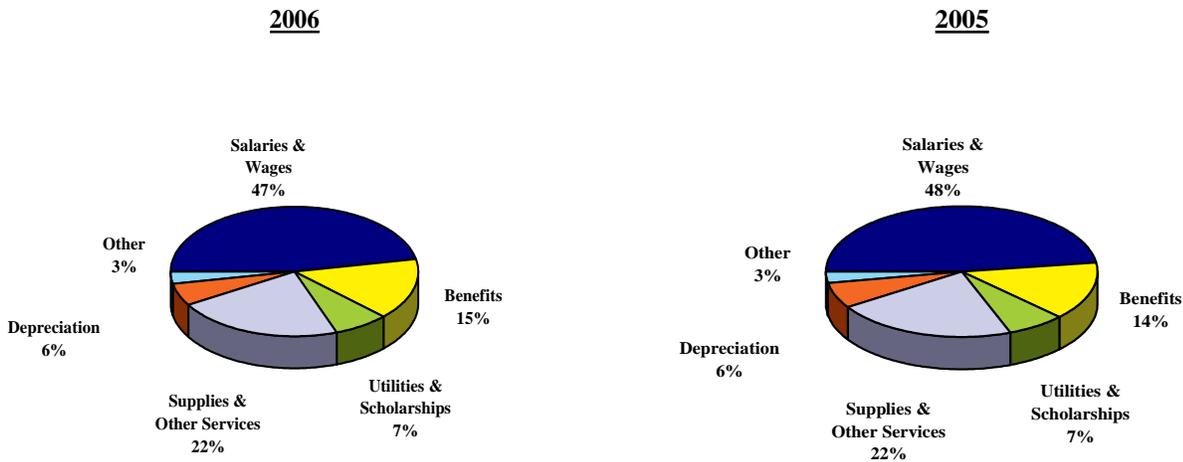
The total revenues for fiscal year 2006 were \$737.3 million, an increase of \$56.1 million over prior year. The most significant sources of revenue for the University are tuition and fees, state appropriations, and grants and contracts. Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Tuition and fees increased by \$21.7 million primarily due to an increase in the fee rate, an increase in non-resident student enrollment, and an increase in extended learning fee revenue. This increase is consistent with increases in prior years.
- Bond/capital projects proceeds from the Commission increased by \$15.6 million over prior year due to an increase in expenses incurred by the University and reimbursed by the Commission from the Higher Education Facilities 2004 Series B bonds issued by the Commission. This category had experienced a similar, but lower, increase from fiscal year 2004 to fiscal year 2005 due to Lottery funding transferred during fiscal year 2005 from the Commission to finance health, life safety and ADA, and deferred maintenance projects at the University.
- Auxiliary revenue increased by \$8.3 million primarily due to an increase in auxiliary fee revenue and athletics revenue. Auxiliary fee revenue increased due to an increase in room and board fees and auxiliary special fees. Athletics revenue increased due to the University's participation in the Sugar Bowl, higher ticket sales and correspondingly higher surcharge and concession receipts, and an increase in the allocation of Big East Conference revenue. Auxiliary revenue had decreased from fiscal year 2004 to fiscal year 2005 mainly due to reduction in revenue generated from the University's participation in the Gator Bowl, a decrease in allocation of Big East Conference revenue and decreased ticket sales.
- Capital grants & gifts increased by \$4.9 million over prior year primarily because of increased revenues from existing capital grants and revenues from new capital grants received during fiscal year 2006. During fiscal year 2006 revenues from grants related to the construction of the National Education and Technology Center and the HSC Eastern Panhandle Campus increased. New capital grants include a grant to improve the housing conditions of rodents maintained at the Health Sciences Center Animal Facility at WVU and a cell sorter instrument to be housed in the Flow Cytometry Core Facility at WVU. The increase is consistent with, but lower than the increase in capital grants and gifts from fiscal year 2004 to fiscal year 2005.
- Gift revenue increased by \$4.1 million mainly because of WVU Foundation funds provided to Athletics for the payment of Athletics scholarships and Athletics' share of debt service payments. There was no substantial change in gift revenue from fiscal year 2004 to fiscal year 2005.
- Investment income increased by \$2.1 million primarily because of increased interest earnings received from the deposits with financial institutions as well as increased dividend income from the unspent bond proceeds invested in a guaranteed investment contract. This increase is consistent with, but lower than, the increase in investment income from fiscal year 2004 to fiscal year 2005.
- Sales and services of educational activities increased by \$2.0 million primarily due to higher revenue from study abroad and exchange program administrative fees and conference and registration fees as a result of WVU Foundation's decision to transition non-gift revenue from the WVU Foundation to the University. The increase is also attributable to augmented educational activities in the areas of training emergency medical personnel and creative arts. This increase is consistent with the increase in this category from fiscal year 2004 to fiscal year 2005.
- State appropriations increased by \$1.2 million primarily due to an increase in legislative appropriations for activities at the Health Sciences Center and the Main Campus of the University. State appropriations had decreased from fiscal year 2004 to fiscal year 2005 primarily due to a mandated reduction in base budget allocations from the State.

- Grants and contracts revenue (non-capital related) decreased by \$3.3 million mainly as a result of decline in expenditures and the associated revenues from existing awards and closure of several grants in fiscal year 2006. Grants and contracts revenue had increased from fiscal year 2004 to fiscal year 2005 primarily because of revenues from new sponsored awards received during fiscal year 2005 and increase in revenues from existing sponsored awards.
- Federal land grants decreased by \$652,000 mainly due to timing of expenditures and the recognition of corresponding revenue. Federal land grant revenue had increased from fiscal year 2004 to fiscal year 2005 primarily because carryover balances from fiscal year 2004 were used, in addition to annual grants, for expenditures, resulting in a corresponding increase in revenue.

Expenses:

The following is a graphic comparison of total expenses by category between 2006 and 2005.



Total expenses for fiscal year 2006 were \$693.9 million, an increase of \$51.9 million from prior year. This increase is consistent with, but higher than, the increase noted in total expenses from fiscal year 2004 to fiscal year 2005. This increase is primarily due to an increase in several categories of expenses as detailed below.

- Salaries and wages increased by \$19.1 million from the prior year mainly due to an increase in the number of tenure and non-tenure track faculty, support staff and student employees on payroll. Additionally, a mid year salary increase program for all University employees, implemented in November 2005 (fiscal year 2006), faculty promotions, and the accrual of legislatively funded faculty longevity program also contributed to the increase. A similar, but slightly lower, increase was noted in salaries and wages from fiscal year 2004 to fiscal year 2005.
- Benefits expense increased by \$13.4 million primarily due to an increase in employee health insurance premiums and accrual for retiree post employment benefits. A similar, but smaller, increase was noted in this category from fiscal year 2004 to fiscal year 2005.
- Supplies and other services increased by \$10.8 million mainly due to purchases of non-capital equipment, and increased insurance expense, travel expense, repairs and maintenance of buildings, other routine maintenance contracts, and other general expenses. This increase is consistent with an increase in this category from fiscal year 2004 to fiscal year 2005.
- Interest on capital related debt increased by \$4.9 million primarily due to an increase in bond interest paid on the 2004 revenue refunding and improvement bonds. A slightly lower increase was noted in this category from fiscal year 2004 to fiscal year 2005.

- Scholarship and fellowship expenses increased by \$3.8 million over the prior year. This increase is primarily attributable to an increase in student enrollment and a corresponding increase in tuition and fees. Additionally, Athletics scholarships were recorded and paid by the University during fiscal year 2006 instead of the WVU Foundation directly paying such scholarships to the athletes. A similar but smaller increase was noted in this category from fiscal year 2004 to fiscal year 2005.
- Utilities increased by \$3.3 million primarily due to increased steam, natural gas, and water rates and usage. This increase is consistent with, but slightly higher than, the increase in utilities from fiscal year 2004 to fiscal year 2005.
- Depreciation expense decreased from prior year by \$2.0 million primarily due to a decrease in depreciation expense related to equipment, software and infrastructure. During fiscal year 2006, the capitalization threshold for grant-funded equipment changed from \$1,000 to \$5,000 resulting in a decrease in the amount of such equipment being capitalized as assets and a correspondingly lower depreciation expense in this category. Capitalized Oracle software costs were fully depreciated by the end of the first quarter in fiscal year 2005. As a result, no depreciation was recorded in fiscal year 2006 compared to three months in fiscal year 2005. Several infrastructure assets were fully depreciated during fiscal year 2006 resulting in a lower depreciation expense for infrastructure. Depreciation expense had experienced a decrease from fiscal year 2004 to fiscal year 2005 due to lower depreciation associated with the capitalized Oracle software costs.

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 income loss and net cash used in operating activities.

Cash Flows (in thousands)

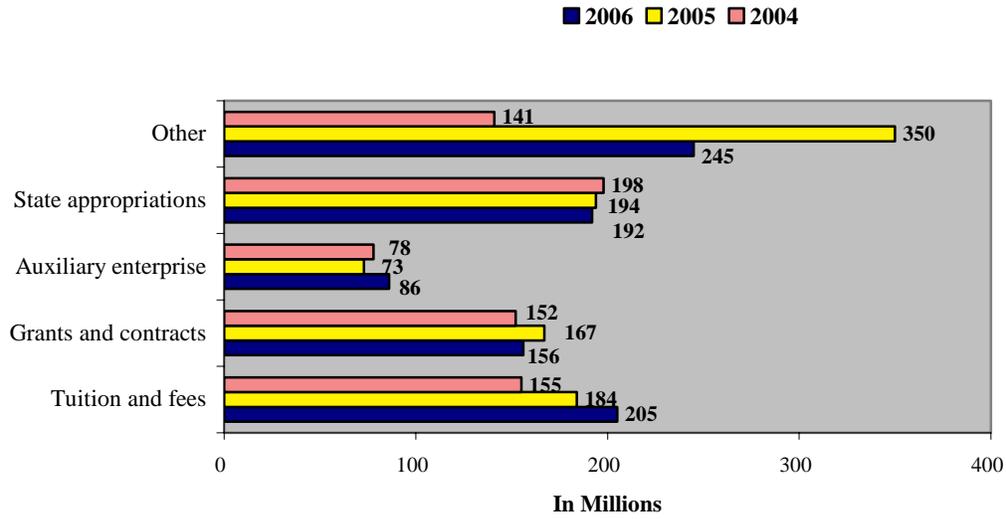
	Years Ended June 30		
	2006	2005	2004
Cash Provided By (Used In):			
Operating Activities	\$ (147,537)	\$ (126,850)	\$ (136,115)
Noncapital Financing Activities	201,099	198,905	203,968
Capital Financing Activities	(70,758)	64,197	(55,521)
Investing Activities	25,924	(95,454)	347
Increase in Cash and Cash Equivalents	8,728	40,798	12,679
Cash and Cash Equivalents, Beginning of Year	144,383	103,585	90,906
Cash and Cash Equivalents, End of Year	\$ 153,111	\$ 144,383	\$ 103,585

Total cash and cash equivalents increased by \$8.7 million during fiscal year 2006 to \$153.1 million.

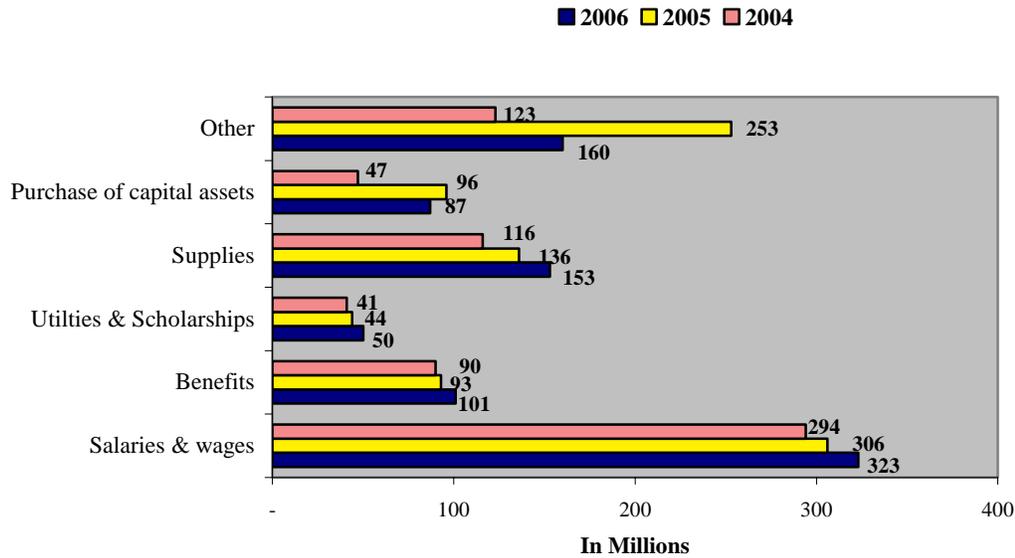
- Net cash used in operating activities increased by \$20.7 million primarily due to higher payments to suppliers and higher salaries and wages, benefits, and utilities as well as a decrease in cash inflows from grants and contracts. These increases in outflows were partially offset by increases in cash inflows from tuition and fees, auxiliary enterprise and other receipts. In contrast, cash used in operating activities had decreased from fiscal year 2004 to fiscal year 2005.
- Net cash provided by noncapital financing activities increased by \$2.2 million primarily due to an increase in gift receipts. This category had experienced a decrease from fiscal year 2004 to fiscal year 2005 primarily due to a decrease in cash inflows from state appropriations.
- Net cash provided by (used in) capital financing activities changed by \$135.0 million as a result of increase in cash outflows for principal and interest payments on capital debt and leases in fiscal year 2006. During fiscal year 2005 cash was provided by inflows from bond proceeds.
- Net cash provided by (used in) investing activities changed by \$121.4 million as a result of increase in cash inflows from sale of investments and investment income in fiscal year 2006. Cash outflows for the purchase of a guaranteed investment contract related to bond proceeds had caused a decrease in this category in fiscal year 2005.

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 2006, financed by bond proceeds, grants and other University funds.

- The University completed construction of the Plant Pathology facility, Mount Vernon Dining Hall at Jackson's Mill and the Evansdale Residence Hall (Lincoln Hall), and abatement of asbestos and HVAC upgrade at Allen Hall. Other activity included renovation of the Mountainlair parking garage, Colson Hall and Oglebay Hall; rehabilitation of Brooks Hall; construction of housing facilities on the Downtown Campus and the Campus of Potomac State College of WVU; and infrastructure improvements to the Creative Arts Center and Downtown chiller plants. Grant funds were used for the construction of the Blanchette Rockefeller Neurosciences Institute building, the Health Sciences Center Eastern Panhandle Clinical Campus, the Health Sciences Biomedical Science Research Center and the National Education and Technology Center.
- Several Athletics projects were undertaken including construction of Stadium Suites for \$15.9 million; various capital improvements to the Coliseum for \$14.1 million; construction of Soccer Stadium and soccer practice field for \$3.6 million; renovations to the Puskar Center for \$1.5 million; construction of an Olympic Wrestling Complex for \$1.1 million; and replacement of the Caperton Indoor Practice Facility Turf for \$398,000.
- The following major projects were undertaken at the WVU Health Sciences Center - renovations to laboratories under the Strategic Research Plan in the amount of \$1.7 million; renovation of the first floor of the Health Sciences Center to relocate administration offices for \$1.3 million; and renovation of two wings on the fifth floor of the Health Sciences Center to house laboratories and offices for \$631,000.
- The University capitalized costs associated with the implementation of a comprehensive Student Integration Project. The Project included upgrades to the student accounting system to Banner 7.2, the distance learning system to Vista 3.07.17 and the student portal product to Luminis III.3.1 which is integrated with the other two applications upgraded. The University also capitalized costs associated with the development of a system to deliver Forms 1098T to University students on a secure website as well as ongoing costs associated with the implementation and enhancement of KRONOS, an employee time and attendance system.
- Costs were incurred under the Wesbanco lease purchase agreement for dental equipment upgrade at the WVU School of Dentistry. The University had entered into a lease purchase agreement for \$8.6 million with Wesbanco Bank, Inc. during fiscal year 2004. The total lease amount consists of \$3.9 million real property lease purchase agreement and \$4.7 million personal property lease purchase agreement. The University also entered into an installment payment agreement with IBM Corporation, in the amount of \$1.4 million, to finance the purchase of data storage equipment and software.

The University, excluding the Health Sciences Center, has planned capital expenditures of approximately \$222.6 million for an on-going capital plan and approximately \$3.5 million each year for repairs and maintenance. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University campuses. These capital projects are being financed through bond proceeds and other sources of revenues available to the University including internal financing, operational revenue and other financing sources. The 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.

In addition to the University's capital plan, the on-going Health Sciences Center capital plan includes planned capital expenditures of approximately \$96.5 million for construction and renovation projects including \$29.6 million for the construction of the Blanchette Rockefeller Neurosciences Institute, \$41.9 million for the Biomedical Research Center, \$17.4 million for the Learning Center, and \$6.4 million for the Eastern Division clinical building. These projects are being financed from grants, loans and other financing sources. The Health Sciences Center has committed approximately \$3.2 million for maintenance to be funded by internal sources.

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 \$108.5 million is reported as debt service assessment payable to the Commission by the University.

The University maintains an A+ and A1 credit ratings from Standard and Poor's and Moody's respectively.

Economic Outlook

The University's financial position is closely tied to that of the State of West Virginia. The University is always at the risk of reallocations of State appropriations away from higher education and WVU and its regional campuses. The level of State support is one of the key factors influencing the University's financial condition. State appropriations continue to decline as a percentage of total institutional operating and nonoperating revenues. State appropriated revenue for fiscal year 2007, excluding the amount earmarked for specific activities, remained at approximately the fiscal year 2006 level.

A decline in State appropriations has necessitated the University to focus on cost control and revenue generation through both enrollment growth and tuition increases. The University has addressed the increased need for funding and maintaining quality academic programs and student services by approving tuition and fees increases for fiscal year 2007. The University is also pursuing other revenue enhancement and cost containment strategies to mitigate the appropriation shortfall. Despite the reductions in State appropriations and the necessity to cut costs, the University is committed to investing in the future and continues to offer an exceptional educational value. The University is looking at banner enrollment of more than 34,400 students for fiscal year 2007.

The University is faced with several challenges in light of the predicted State appropriation funding levels. The University needs to continue to address priority requirements for investments in employees, in capital projects and in technology, as well as to make investments to generate resources. The University's senior leadership is actively engaged in developing processes to generate additional revenues, reduce expenditures and achieve efficiencies.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

(Dollars in Thousands)

	2006	2005
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 140,944	\$ 131,720
Accounts receivable, net of allowances for doubtful accounts of \$2,971 and \$3,930	38,202	29,298
Due from the Commission	604	2,192
Loans receivable, current portion	3,656	3,844
Inventories	1,663	1,473
Prepaid expenses	1,266	2,313
Bond issuance cost, current portion	132	132
Total current assets	<u>186,467</u>	<u>170,972</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	12,167	12,663
Investments	91,270	108,691
Loans receivable, net of allowances for doubtful accounts of \$5,335 and \$5,562	31,300	30,495
Bond issuance cost, net	1,651	1,783
Other assets, net	24	-
Capital assets, net	737,453	677,210
Total noncurrent assets	<u>873,865</u>	<u>830,842</u>
TOTAL ASSETS	<u>\$ 1,060,332</u>	<u>\$ 1,001,814</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED) AS OF JUNE 30, 2006 AND 2005

(Dollars in Thousands)

	2006	2005
LIABILITIES		
Current Liabilities:		
Accounts payable	\$ 29,059	\$ 22,414
Accrued liabilities	3,448	3,399
Accrued payroll	10,864	8,086
Deposits	2,448	2,372
Deferred revenue	30,278	26,565
Due to the Commission	336	171
Compensated absences, current portion	19,088	17,995
College system debt owed to the Commission, current portion	202	229
Debt service assessment payable to the Commission, current portion	4,698	4,485
Leases payable, current portion	3,558	3,584
Bonds payable, current portion	2,964	1,706
Notes payable, current portion	95	95
Total current liabilities	<u>107,038</u>	<u>91,101</u>
Noncurrent Liabilities:		
Compensated absences	39,270	34,918
College system debt owed to the Commission	964	1,766
Advances from federal government	27,345	27,390
Debt service assessment payable to the Commission	103,839	107,937
Leases payable	5,710	8,134
Bonds payable	213,144	217,217
Notes payable	143	238
Other noncurrent liabilities	8,009	1,637
Total noncurrent liabilities	<u>398,424</u>	<u>399,237</u>
TOTAL LIABILITIES	<u>\$ 505,462</u>	<u>\$ 490,338</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 467,295	\$ 428,492
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	3,488	3,233
Other	525	525
Total nonexpendable	<u>4,098</u>	<u>3,843</u>
Expendable:		
Scholarships and fellowships	136	229
Sponsored programs	1,966	1,027
Loans	17,295	15,698
Capital projects	12,522	14,108
Debt service	1,254	247
Other	820	855
Total expendable	<u>33,993</u>	<u>32,164</u>
Unrestricted	<u>49,484</u>	<u>46,977</u>
TOTAL NET ASSETS	<u>\$ 554,870</u>	<u>\$ 511,476</u>

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands)

	2006	2005
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of \$21,970 and \$20,224	\$ 206,028	\$ 184,337
Federal land grants	7,205	7,857
Local land grants	942	942
Federal grants and contracts	93,187	97,964
State grants and contracts	30,393	32,246
Local grants and contracts	232	230
Nongovernmental grants and contracts	36,720	33,340
Sales and services of educational departments	12,309	10,323
Auxiliary enterprises, net of scholarship allowances of \$4,302 and \$5,028	81,349	73,043
Interest on student loans receivable	563	618
Other operating revenues (including revenue from outsourced enterprise of \$1,550 and \$1,550)	7,698	7,619
Total operating revenues	<u>476,626</u>	<u>448,519</u>
OPERATING EXPENSES		
Salaries and wages	326,058	306,926
Benefits	106,160	92,794
Scholarships and fellowships	24,077	20,324
Utilities	26,506	23,228
Supplies and other services	150,385	139,617
Depreciation	39,436	41,438
Loan cancellations and write-offs	249	380
Assessments by the Commission for operations	2,235	2,131
Waivers in support of other State institutions	332	355
Other operating expenses	78	6
Total operating expenses	<u>675,516</u>	<u>627,199</u>
OPERATING LOSS	<u>(198,890)</u>	<u>(178,680)</u>

(continued)

WEST VIRGINIA UNIVERSITY**COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)**
YEARS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands)

	2006	2005
NONOPERATING REVENUES (EXPENSES)		
State appropriations	\$ 195,997	\$ 194,784
Gifts	15,325	11,201
Investment income	8,502	6,418
Interest on capital asset-related debt	(10,699)	(5,804)
Assessments by the Commission for debt service	(6,000)	(6,196)
Other nonoperating expenses	(1,645)	(2,711)
Net nonoperating revenues	<u>201,480</u>	<u>197,692</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	2,590	19,012
Capital grants and gifts	21,498	16,553
Bond/capital projects proceeds from the Commission	<u>19,306</u>	<u>3,672</u>
INCREASE IN NET ASSETS	43,394	39,237
NET ASSETS--BEGINNING OF YEAR	<u>511,476</u>	<u>472,239</u>
NET ASSETS--END OF YEAR	<u>\$ 554,870</u>	<u>\$ 511,476</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

**COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2006 AND 2005**

(Dollars in Thousands)

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	\$ 204,663	\$ 184,349
Federal and local land grants	8,148	8,800
Grants and contracts	156,436	167,242
Payments to suppliers	(153,416)	(136,340)
Payments to employees	(323,288)	(306,196)
Payments for benefits	(101,292)	(92,721)
Payments to utilities	(26,082)	(23,360)
Payments for scholarships and fellowships	(23,535)	(21,026)
Loan advances from (returned to) federal government	(31)	491
Disbursements of loans to students	(866)	(986)
Interest earned on loans to students	563	617
Auxiliary enterprise charges	85,528	73,266
Sales and service of educational departments	12,207	10,256
Other receipts - net	13,428	8,758
Net cash used in operating activities	<u>(147,537)</u>	<u>(126,850)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	191,961	193,884
Gifts	15,325	11,201
Assessments by the Commission for operations	(6,000)	(6,196)
William D. Ford direct lending receipts	124,896	113,284
William D. Ford direct lending payments	(124,932)	(113,284)
Other nonoperating receipts (payments) - net	(151)	16
Net cash provided by noncapital financing activities	<u>201,099</u>	<u>198,905</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(4,518)	(4,510)
Bond/capital projects proceeds from the Commission	19,306	3,672
Proceeds from University bonds	-	153,610
Bond issuance costs	-	(1,992)
Capital gifts and grants received	19,341	16,539
Purchases of capital assets	(86,819)	(95,529)
Principal paid on capital debt and leases	(7,412)	(3,616)
Interest paid on capital debt and leases	(10,805)	(3,977)
Proceeds from insurance recovery	149	-
Net cash provided by (used in) capital financing activities	<u>(70,758)</u>	<u>64,197</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	25,962	19,851
Investment income	5,690	2,708
Purchase of investments	(5,728)	2
Purchase of guaranteed investment contract	-	(118,015)
Net cash provided by (used in) investing activities	<u>25,924</u>	<u>(95,454)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	8,728	40,798
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>144,383</u>	<u>103,585</u>
CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 153,111</u>	<u>\$ 144,383</u>

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2006 AND 2005

(Dollars in Thousands)

	2006	2005
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (198,890)	\$ (178,680)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	39,436	41,438
Changes in assets and liabilities:		
Accounts receivable, net	(3,948)	12,280
Due from the Commission	1,588	(955)
Loans receivable, net	(617)	(606)
Prepaid expenses	816	161
Inventories	(190)	49
Accounts payable	(4,345)	(4,732)
Accrued liabilities	9,089	(22)
Deposits	76	266
Deferred revenue	3,883	3,361
Due to the Commission	165	117
Compensated absences	5,445	(57)
Advances from federal government	(45)	530
Net cash used in operating activities	<u>\$ (147,537)</u>	<u>\$ (126,850)</u>
Noncash Transactions:		
Equipment purchased on capital lease	<u>\$ 1,815</u>	<u>\$ 569</u>
Donated capital assets	<u>\$ 2,157</u>	<u>\$ 4,532</u>
Unrealized gain on investments	<u>\$ 2,653</u>	<u>\$ 1,688</u>
Bond discount amortization	<u>\$ 642</u>	<u>\$ 4,803</u>
Loss on dispositions	<u>\$ 1,564</u>	<u>\$ 708</u>
Land swap	<u>\$ 705</u>	<u>\$ -</u>
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	\$ 140,944	\$ 131,720
Cash and cash equivalents classified as noncurrent assets	12,167	12,663
	<u>\$ 153,111</u>	<u>\$ 144,383</u>

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

NOTES TO COMBINED FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2006 AND 2005

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.

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), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*. The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

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

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

The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (including the Community and Technical College at West Virginia University Institute of Technology) and West Virginia University at Parkersburg (the “Regional Campuses”) and the Tech Research and Development Corporation and the West Virginia University Research Corporation (the “Corporations”). 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 15 and 16) 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 Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as an amendment to GASB Statement No. 14. Related foundations and other affiliates of the University (see Notes 15 and 16) do not meet the criteria for determination as component units of the University as described in GASB Statement No. 39.

- 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 when materials or services are received. All accounts and transactions between the University, the Regional Campuses and the Corporations 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.

Prior to July 2005, cash and cash equivalents on deposit with the West Virginia Treasurer’s Office (the “Treasurer”) were pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the IMB). Effective July 2005, investment of such funds is overseen and managed by the West Virginia Board of Treasury Investments (BTI). These funds were transferred to the BTI and the BTI is directed by the Treasurer to invest these funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. 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 amortizing 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The IMB, and subsequently the BTI, were established by the State Legislature and are subject to oversight by the State 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.

The IMB, and subsequently the BTI, maintain the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts, in which the state and local governmental agencies invest. These pools have been structured as multi-participant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the IMB's and the BTI's investment operations pool can be found in their respective annual reports. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, WV 25301 or <http://www.wvimb.org> or <http://www.wvbt.com>.

- d. *Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. The University's investments include investments pooled with other State funds in a cash liquidity pool to maximize investment income. Income on these investments is allocated as described above. Regulatory oversight for investments on deposit with the Treasurer is provided by the State's Investment Management Board in accordance with statutory guidelines. These investments are non-categorized with respect to risk and collateral disclosure. Investments also include U.S. Government securities, municipal obligations, high-grade corporate obligations, and equity securities. The University's other investments are categorized as to credit risk as insured and registered.

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

The alternative investments are carried at estimated fair value as of June 30, 2006. These valuations include assumptions and methods that were reviewed by University management. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2006. Because alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

- e. *Allowance for Doubtful Accounts* – It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectibility 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 being determined on the first-in, first-out method.
- 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, maintain sinking fund or reserve funds, (2) to purchase capital or other noncurrent assets, and (3) permanently restricted net assets are classified as a noncurrent asset on the statement of net assets.
- h. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The University’s capitalization threshold is \$5,000. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries*. The combined financial statements reflect all adjustments required by GASB Statement No. 42 as of June 30, 2006.
- 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 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* – The University accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement 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 leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick leave credit toward insurance premiums when they retire.

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.

The estimate of the liability for the extended health or life insurance benefit has been made on the vesting method in accordance with the provisions of GASB Statement No.16. Under that method, the University has identified the accrued sick leave benefit earned to date by each employee, has determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the University for such coverage and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated expense and expense incurred for the vacation leave and sick leave, which can be converted to extended health or life insurance benefits, are recorded as a component of benefits expense on the statement of revenues, expenses, and changes in net assets.

- k. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the “Severance Plan”) to provide incentives for the voluntary severance of the University’s classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants electing the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed \$45,000. Participants electing 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 will be divided into 96 equal consecutive monthly payments. If the employee is over age 59 at the time his or her payments begin, 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 begin will receive his or her payment in a lump sum. The University’s total liability as of June 30, 2006 and 2005 was \$1.6 million and \$2.0 million, respectively, which includes approximately \$113,000 and \$154,000 for employee benefits as of June 30, 2006 and 2005, 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; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.
- m. *Net Assets* – GASB Statements No. 34 and No. 35 report equity as “net assets” rather than “fund balance”. 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 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, 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 West Virginia State Legislature. At June 30, 2006 and 2005, 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 of Governors.

- 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 Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB Statements No. 34 and No. 35, such as state appropriations and investment income.

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

- o. *Use of Restricted Net Assets* – The University has adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The University attempts to utilize restricted net assets first when practicable. The University did not have any designated net assets as of June 30, 2006 or 2005.

- 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 unsubsidized 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 \$124.9 million in fiscal year 2006 and \$113.3 million in fiscal year 2005 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 2006 and 2005, the University received and disbursed \$22.2 million and \$24.3 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.
- 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, property, casualty and medical malpractice liability 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 may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of 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 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 deposited \$1 million 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 has also deposited \$6 million in an interest bearing account with the Foundation to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program, the University has recorded a liability of \$7 million to reflect projected claim payments at a 95% confidence level.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (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 2005 combined financial statements to conform to the current year presentation.
- y. *Recent Statements Issued By GASB* – The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Effective July 1, 2006, the University will adopt GASB Statement No. 45. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or <http://wvpeia.com>. No liability related to this plan exists for the University at June 30, 2006.

GASB has also issued Technical Bulletin No. 2006-1 clarifying how payments received from the federal government under the retiree drug subsidy provisions of Medicare Part D should be reported. The University has determined that this guidance is not applicable to the University's financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2006 and 2005 (dollars in thousands):

2006

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 79,822	\$ 10,144	\$ 89,966
West Virginia University - Auxiliaries	26,783	-	26,783
Cash on deposit with Trustee or MBC	-	1,023	1,023
Deposits with BRIM Escrow Account Treasurer	-	1,000	1,000
Cash in Bank	32,999	-	32,999
Cash on Hand	48	-	48
Cash in Money Market	1,292	-	1,292
	<u>\$ 140,944</u>	<u>\$ 12,167</u>	<u>\$ 153,111</u>

2005

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 70,203	\$ 11,045	\$ 81,248
West Virginia University - Auxiliaries	28,834	-	28,834
Cash on deposit with Trustee or MBC	-	1,618	1,618
Cash in Bank	31,886	-	31,886
Cash on Hand	49	-	49
Cash in Money Market	748	-	748
	<u>\$ 131,720</u>	<u>\$ 12,663</u>	<u>\$ 144,383</u>

Amounts with the Treasurer and the Municipal Bond Commission as of June 30, 2006 and 2005 are comprised of the following investment pools.

2006:

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.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the University may invest in, three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

Security Type	Credit Rating*		Carrying Value	Percent of Pool Assets
	Moody's	S & P		
Commercial paper	P1	A-1	\$ 943,057	54.14%
Corporate bonds and notes	Aaa	AAA	61,992	3.56
	Aa	AA	55,063	3.16
	Aa	A	12,000	0.69
			<u>129,055</u>	<u>7.41</u>
U.S. agency bonds	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	306,279	17.58
Certificates of deposit	P1	A-1	99,000	5.68
	NR	NR	23,800	1.37
			<u>122,800</u>	<u>7.05</u>
U.S. agency discount notes	P1	A-1	93,851	5.39
Money market funds	Aaa	AAA	758	0.04
Repurchase agreements (underlying securities)				
U.S. Treasury notes	Aaa	AAA	73,000	4.19
U.S. agency notes	Aaa	AAA	29,339	1.69
			<u>102,339</u>	<u>5.88</u>
			<u>\$ 1,741,802</u>	<u>100.00%</u>

*NR = Not Rated

The University's ownership represents 3.54% of these amounts held by the BTI.

The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S & P</u>		
U.S. agency bonds	Aaa	AAA	\$ 21,420	11.76%
U.S. Treasury bills	Aaa	AAA	28,346	15.56
U.S. agency discount notes	P-1	A-1	112,399	61.70
Money market funds	Aaa	AAA	109	0.06
Repurchase agreements (underlying securities)				
U.S. Treasury strips	Aaa	AAA	15,602	8.56
U.S. agency bonds	Aaa	AAA	4,298	2.36
			<u>19,900</u>	<u>10.92</u>
			<u>\$ 182,174</u>	<u>100.00%</u>

The University's ownership represents .82% of these amounts held by the BTI.

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

<u>Security Type</u>	<u>Credit Rating</u>		<u>Carrying Value</u>	<u>Percent of Pool Assets</u>
	<u>Moody's</u>	<u>S & P</u>		
Corporate asset backed securities	P1	A-1	\$ 46,963	17.70%
Corporate bonds and notes	Aaa	AAA	2,448	0.92
	Aa	AA	3,790	1.43
	Aa	A	15,660	5.90
	A	AA	3,048	1.15
	A	A	46,847	17.65
			<u>71,793</u>	<u>27.05</u>
U.S. agency bonds	Aaa	AAA	87,215	32.86
U.S. Treasury bills	Aaa	AAA	58,067	21.88
Repurchase agreements (underlying securities)				
U.S. agency mortgage backed securities	Aaa	AAA	1,346	0.51
			<u>\$ 265,384</u>	<u>100.00%</u>

The University's ownership represents 12.06% of these amounts held by the BTI.

Interest Rate Risk

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

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

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 102,339	3
U.S. Treasury bills	306,279	32
Commercial paper	943,057	25
Certificates of deposit	122,800	105
U.S. agency discount notes	93,851	89
Corporate notes	129,055	77
U.S. agency bonds/notes	43,663	208
Money market funds	758	1
	<u>\$ 1,741,802</u>	<u>42</u>

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

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 19,900	3
U.S. Treasury bills	28,346	42
U.S. agency discount notes	112,399	39
U.S. agency bonds/notes	21,420	152
Money market funds	109	1
	<u>\$ 182,174</u>	<u>49</u>

The overall weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Enhanced Yield Pool:

<u>Security Type</u>	<u>Carrying Value (In Thousands)</u>	<u>WAM (Days)</u>
Repurchase agreements	\$ 1,346	3
U.S. agency bonds/notes	58,067	894
Corporate notes	71,793	588
Corporate asset backed securities	46,963	688
U.S. agency bonds/notes	87,215	594
	<u>\$ 265,384</u>	<u>672</u>

Other Investment Risks

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

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

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

are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

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

2005:

Cash Liquidity Pool

Credit Risk

The IMB limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the weighted average credit ratings of the Cash Liquidity Pool's investments (dollars in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
Commercial paper	P1	A-1	\$ 598,241	37.9%
U.S. Treasury bills	Aaa	AAA	259,398	16.4
Corporate notes	Aaa	AAA	155,559	9.9
Certificates of deposit	P1	A-1	152,999	9.7
Agency bonds	Aaa	AAA	147,955	9.4
Agency discount notes	P1	A-1	119,564	7.6
Money market funds	Aaa	AAA	4,241	0.3
Total rated investments			<u>\$ 1,437,957</u>	<u>91.2%</u>

Unrated securities include repurchase agreements of \$141 million at June 30, 2005. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 4.01% of the net asset position of this pool at June 30, 2005.

Concentration of credit risk

West Virginia statutes prohibit the Cash Liquidity Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Cash Liquidity Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statement of net assets is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities for the various asset types in the Cash Liquidity Pool (dollars in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity</u>
Commercial paper	\$ 598,241	49
U.S. Treasury bills	259,398	30
Corporate notes	155,559	53
Certificates of deposit	152,999	42
Agency bonds	147,955	88
Repurchase agreements	141,050	1
Agency discount notes	119,564	52
Money market funds	4,241	1
	<u> </u>	<u> </u>
Total assets	<u>\$ 1,579,007</u>	<u>45</u>

Foreign currency risk

The Cash Liquidity Pool has no securities that are subject to foreign currency risk.

Government Money Market

Credit risk

The IMB limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U. S. Treasury issues, U. S. government agency issues, money market funds investing in U. S. Treasury issues and U. S. government agency issues, and repurchase agreements collateralized by U. S. Treasury issues and U. S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U. S. Treasury; however, they are all rated Aaa by Moody's and AAA by Standard &

Poor's. Agency discount notes held by the pool are rated P1 by Moody's and A-1 by Standard & Poor's.

The University's ownership represents 0.44% of the net asset position of this pool at June 30, 2005.

Concentration of credit risk

West Virginia statutes prohibit the Government Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Government Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statement of net assets is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Government Money Market Pool (dollars in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity (days)</u>
Agency discount notes	\$ 46,409	32
Agency bonds	42,571	75
Repurchase agreements	39,950	1
U.S. Treasury bills	24,904	48
Money market funds	985	1
 Total assets	 \$ 154,819	 38

Foreign currency risk

The Government Money Market Pool has no securities that are subject to foreign currency risk.

Enhanced Yield

Credit risk

The IMB limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield Pool's investments (dollars in thousands):

<u>Security Type</u>	<u>Moody's</u>	<u>S&P</u>	<u>Carrying Value</u>	<u>Percent of Assets</u>
Corporate notes	A	AA	\$ 81,632	30.0%
Agency bonds	Aaa	AAA	69,203	25.5
U.S. Treasury notes	Aaa	AAA	66,467	24.5
Corporate asset backed securities	Aaa	AAA	49,990	18.4
Total rated investments			<u>\$ 267,292</u>	<u>98.4%</u>

Unrated securities include repurchase agreements of \$4.4 million at June 30, 2005. Acceptable collateral for the repurchase agreements include U. S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 6.25% of the net asset position of this pool at June 30, 2005.

Concentration of credit risk

West Virginia statutes prohibit the Enhanced Yield Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

Custodial credit risk

At June 30, 2005, the Enhanced Yield Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statement of net assets is invested in the lending agent's money market fund.

Interest rate risk

The weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date. The following table provides the weighted average maturities (WAM) for the various asset types in the Enhanced Yield Pool (dollars in thousands):

<u>Security Type</u>	<u>Carrying Value</u>	<u>Weighted Average Maturity (years)</u>
Corporate notes	\$ 81,632	1.7
Agency bonds	69,203	1.9
U.S. Treasury notes	66,467	2.3
Corporate asset backed securities	49,990	1.1
Repurchase agreement	4,362	0
Total assets	<u>\$ 271,654</u>	<u>1.7</u>

Foreign currency risk

The Enhanced Yield Pool has no securities that are subject to foreign currency risk.

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 Note 10). Bank balances are insured by the Federal Deposit Insurance Corporation or collateralized by securities, held as collateral by the bank, in the name of the State of West Virginia. Deposits with the MBC are invested in the IMB and BTI Government Money Market Pool, are non-categorized deposits with respect to risk and collateral disclosure and are subject to IMB and BTI policies and limits (see cash on deposit with the Treasurer). Deposits with the bond trustee represent investment of a small portion of the 2004 revenue refunding and improvement bonds in a Federated Government Obligations fund that invests primarily in short-term U.S. Treasury and government agency securities, including repurchase agreements collateralized fully by U.S. Treasury and government agency securities. Such securities have a dollar-weighted maturity of 90 days or less and are not insured by the FDIC.

Cash in bank. The combined carrying amount of cash in bank at June 30, 2006 and 2005 was \$33.0 million and \$31.9 million, respectively, as compared with combined bank balances of \$39.2 million and \$46.7 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank balances are insured by the Federal Deposit Insurance Corporation or collateralized by securities, held as collateral by the bank, in the name of the State of West Virginia.

Cash in Money Market. Deposits with the money market funds are collateralized by securities, held as collateral by the bank, in the name of the State of West Virginia.

4. ACCOUNTS RECEIVABLE

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

	2006	2005
Student tuition and fees, net of allowances for doubtful accounts of \$2,043 and \$2,429	\$ 1,362	\$ 1,927
Grants and contracts receivable, net of allowances for doubtful accounts of \$343 and \$427	26,913	23,471
Due from West Virginia University Hospitals, Incorporated	1,150	949
Auxiliary services, net of allowances for doubtful accounts of \$574 and \$799	650	747
Other, net of allowances for doubtful accounts of \$11 and \$275	7,948	2,204
Due from other State agencies	179	-
	<u>\$ 38,202</u>	<u>\$ 29,298</u>

All accounts receivable are classified as current on the combined statement of net assets. West Virginia University Hospitals, Incorporated receivables represent various administrative expenses incurred by the University on behalf of West Virginia University Hospitals, Incorporated for which reimbursement has not yet been received.

5. INVESTMENTS

As of June 30, 2006 and 2005, the University had the following investments (dollars in thousands):

Investment Type	2006 Fair Value	2005 Fair Value
Corporate Stocks - Domestic	\$ 953	\$ 1,004
Corporate Stocks - Foreign	93	44
Mutual Stock Funds	3,818	3,524
Corporate Bonds	1,257	1,274
Mutual Bond Funds	4	4
U.S. Government Agencies	2,151	2,434
U.S. Treasury Obligations	659	785
Guaranteed Investment Contract	76,295	99,622
Alternative Investments:		
Multi-Strategy Equity Fund	2,982	-
Multi-Strategy Bond Fund	999	-
Short-Term Fund	2,059	-
	\$ 91,270	\$ 108,691

Credit Risk. At June 30, 2006 and 2005, the University's investments in corporate bonds were rated Baa and A, respectively, by Moody's Investors Service and BBB and BBB, respectively, by Standard & Poor's rating services. The investments in U.S. Government Agencies were rated Aaa and Aaa, respectively, by Moody's Investors Service and AAA and AAA, respectively, by Standard & Poor's rating services. Investments in the mutual funds have not been rated. The investments in the short-term fund were rated AAA by Standard & Poor's.

Custodial Credit Risk. A significant portion of the 2004 revenue refunding and improvement bond proceeds is invested in a Guaranteed Investment Contract (GIC) with United Bank, Inc. (the "Trustee") under a master repurchase agreement with Citigroup Global Markets Inc. (the "Seller"). The GIC is guaranteed by the long-term senior unsecured debt rating of Citigroup Global Markets Holdings Inc. (the "Guarantor"). In the event such debt rating of the Guarantor falls below A+ by Standard & Poor's Rating Services or A1 by Moody's Investor Services, Inc., the Seller must either provide additional securities to satisfy the rating agencies' collateral requirements or terminate the agreement by repurchasing all securities and paying any price differentials.

Concentration of Credit Risk. More than 5% of the University's investments are in the Guaranteed Investment Contract as noted above. This investment represents 83.6% and 91.6% of the University's total investments at June 30, 2006 and 2005, respectively.

6. CAPITAL ASSETS

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

2006	<u>Beginning</u>			<u>Ending</u>
	<u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u>
Capital assets not being depreciated:				
Land	\$ 12,299	\$ 11,751	\$ -	\$ 24,050
Construction in progress	89,866	80,601	(27,384)	143,083
Total capital assets not being depreciated	<u>\$ 102,165</u>	<u>\$ 92,352</u>	<u>\$ (27,384)</u>	<u>\$ 167,133</u>
Other capital assets:				
Land improvements	\$ 10,278	\$ 991	\$ -	\$ 11,269
Buildings	641,756	14,728	(133)	656,351
Equipment	128,834	12,043	(8,949)	131,928
Library books	79,882	6,057	(322)	85,617
Software	45,888	953	(59)	46,782
Infrastructure	217,248	971	-	218,219
Total other capital assets	1,123,886	35,743	(9,463)	1,150,166
Less accumulated depreciation for:				
Land improvements	(5,844)	(828)	-	(6,672)
Buildings	(187,625)	(12,514)	36	(200,103)
Equipment	(82,036)	(11,470)	8,031	(85,475)
Library books	(62,076)	(4,812)	322	(66,566)
Software	(37,749)	(2,581)	30	(40,300)
Infrastructure	(173,511)	(7,231)	12	(180,730)
Total accumulated depreciation	<u>(548,841)</u>	<u>(39,436)</u>	<u>8,431</u>	<u>(579,846)</u>
Other capital assets, net	<u>\$ 575,045</u>	<u>\$ (3,693)</u>	<u>\$ (1,032)</u>	<u>\$ 570,320</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 102,165	\$ 92,352	\$ (27,384)	\$ 167,133
Other capital assets	1,123,886	35,743	(9,463)	1,150,166
Total cost of capital assets	1,226,051	128,095	(36,847)	1,317,299
Less accumulated depreciation	(548,841)	(39,436)	8,431	(579,846)
Capital assets, net	<u>\$ 677,210</u>	<u>\$ 88,659</u>	<u>\$ (28,416)</u>	<u>\$ 737,453</u>

2005	Beginning			Ending
	Balance	Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 12,166	\$ 133	\$ -	\$ 12,299
Construction in progress	45,828	72,753	(28,715)	89,866
Total capital assets not being depreciated	<u>\$ 57,994</u>	<u>\$ 72,886</u>	<u>\$ (28,715)</u>	<u>\$ 102,165</u>
Other capital assets:				
Land improvements	\$ 10,044	\$ 234	\$ -	\$ 10,278
Buildings	616,201	25,555	-	641,756
Equipment	135,665	11,352	(18,183)	128,834
Library books	74,257	5,888	(263)	79,882
Software	41,840	4,078	(30)	45,888
Infrastructure	214,460	2,788	-	217,248
Total other capital assets	<u>1,092,467</u>	<u>49,895</u>	<u>(18,476)</u>	<u>1,123,886</u>
Less accumulated depreciation for:				
Land improvements	(5,183)	(664)	3	(5,844)
Buildings	(175,387)	(12,238)	-	(187,625)
Equipment	(85,761)	(12,505)	16,230	(82,036)
Library books	(57,922)	(4,417)	263	(62,076)
Software	(34,159)	(3,596)	6	(37,749)
Infrastructure	<u>(165,447)</u>	<u>(8,018)</u>	<u>(46)</u>	<u>(173,511)</u>
Total accumulated depreciation	<u>(523,859)</u>	<u>(41,438)</u>	<u>16,456</u>	<u>(548,841)</u>
Other capital assets, net	<u>\$ 568,608</u>	<u>\$ 8,457</u>	<u>\$ (2,020)</u>	<u>\$ 575,045</u>
Capital Assets Summary:				
Capital assets not being depreciated	\$ 57,994	\$ 72,886	\$ (28,715)	\$ 102,165
Other capital assets	<u>1,092,467</u>	<u>49,895</u>	<u>(18,476)</u>	<u>1,123,886</u>
Total cost of capital assets	1,150,461	122,781	(47,191)	1,226,051
Less accumulated depreciation	<u>(523,859)</u>	<u>(41,438)</u>	<u>16,456</u>	<u>(548,841)</u>
Capital assets, net	<u>\$ 626,602</u>	<u>\$ 81,343</u>	<u>\$ (30,735)</u>	<u>\$ 677,210</u>

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 or recognized for financial statement purposes.

The University capitalized interest on borrowings, net of interest earned on related debt of \$2.0 and \$1.7 million during fiscal year 2006 and fiscal year 2005, respectively.

7. LONG-TERM LIABILITIES

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

2006	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 52,913	\$ 5,445	\$ -	\$ 58,358	\$ 19,088
College system debt owed to the Commission	1,995	-	(829)	1,166	202
Advances from federal government	27,390	23	(68)	27,345	-
Debt service assessment payable to the Commission	112,422	341	(4,226)	108,537	4,698
Leases payable	11,718	1,815	(4,265)	9,268	3,558
Bonds payable	218,923	-	(2,815)	216,108	2,964
Notes payable	333	-	(95)	238	95
Other noncurrent liabilities	2,658	6,976	(575)	9,059	1,050
Total long-term liabilities	<u>\$ 428,352</u>	<u>\$ 14,600</u>	<u>\$ (12,873)</u>	<u>\$ 430,079</u>	<u>\$ 31,655</u>

2005	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	\$ 52,971	\$ -	\$ (58)	\$ 52,913	\$ 17,995
College system debt owed to the Commission	2,208	-	(213)	1,995	229
Advances from federal government	26,860	620	(90)	27,390	-
Debt service assessment payable to the Commission	116,730	-	(4,308)	112,422	4,485
Leases payable	14,644	580	(3,506)	11,718	3,584
Bonds payable	64,964	218,625	(64,666)	218,923	1,706
Notes payable	428	-	(95)	333	95
Other noncurrent liabilities	3,056	489	(887)	2,658	1,021
Total long-term liabilities	<u>\$ 281,861</u>	<u>\$ 220,314</u>	<u>\$ (73,823)</u>	<u>\$ 428,352</u>	<u>\$ 29,115</u>

8. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30 (dollars in thousands):

2006

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Health or life insurance benefits	\$ 1,525	\$ 39,270	\$ 40,795
Vacation leave	17,563	-	17,563
	<u>\$ 19,088</u>	<u>\$ 39,270</u>	<u>\$ 58,358</u>

2005

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Health or life insurance benefits	\$ 1,396	\$ 34,918	\$ 36,314
Vacation leave	16,599	-	16,599
	<u>\$ 17,995</u>	<u>\$ 34,918</u>	<u>\$ 52,913</u>

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2006 and 2005, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled \$1,393,245 and \$1,431,268, respectively. As of June 30, 2006 and 2005, there were 592 and 570 retirees currently receiving these benefits, respectively. As of June 30, 2006 and 2005, there were an additional 867 and 816 active employees eligible to receive these benefits in the future, respectively.

9. LEASES PAYABLE

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2006 are as follows:

Fiscal Year Ended June 30,	
2007	\$ 7,772
2008	4,646
2009	4,388
2010	3,972
2011	3,711
2012-2016	16,093
2017-2021	9,979
2022-2026	9,880
2027-2031	9,880
2032-2036	5
2037-2041	5
2042-2046	5
2047-2051	5
2052-2056	5
2057-2058	3
Total	<u>\$ 70,349</u>

Total rental expense for the years ended June 30, 2006 and 2005 was \$8.9 million and \$9.5 million, respectively. The University leases 6 floors of a seven floor office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University has no non-cancelable leases.

- b. *Capital* – The University leases certain property, plant and equipment under capital leases. Leased assets totaled \$21.4 million and \$22.1 million at June 30, 2006 and 2005, 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,	
2007	\$ 3,876
2008	3,565
2009	2,120
2010	190
2011	<u>81</u>
Minimum lease payments	9,832
Less amount representing interest	<u>(564)</u>
Present value of minimum lease payments	9,268
Current Portion	<u>3,558</u>
Noncurrent Portion	<u><u>\$ 5,710</u></u>

10. BONDS PAYABLE

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

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>2006 Principal Amount Outstanding</u>	<u>2005 Principal Amount Outstanding</u>
Auction Rate Certificates Federally Taxable Revenue Refunding and Improvemen, 2004 Series A due through 2035, variable rate		\$ 975 to 4,200	22,575	25,900
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	55,430	55,430
Revenue Improvement Bonds, 2004 Series C, due through 2035	4.3-5.0%	0 to 12,780	138,710	138,710
Unamortized Bond Premium			4,904	5,152
Loss on Bond Defeasance			(5,511)	(6,269)
Net Bonds Payable			216,108	218,923
Curent Portion			2,964	1,706
Noncurrent Portion			<u>\$ 213,144</u>	<u>\$ 217,217</u>

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

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

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

Refunded Debt

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

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of \$25.9 million. The 2004 A Bonds are federally taxable 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 5.10% and 5.28%, respectively, at June 30, 2006 and 3.20% and 3.34%, respectively, at June 30, 2005. 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. \$70.9 million of the proceeds of 2004 Series A and B Bonds were placed into the 2004 Bonds Escrow Account with an escrow agent to provide for all future debt service payments on the 1997 refunded bonds. As a result, the 1997 series bonds are considered to be defeased and the related assets and liabilities of the defeased bonds are not included in the financial statements of the University. Defeased bonds outstanding, held by the escrow agent, at June 30, 2006 and 2005 were \$63.4 million and \$65.0 million, respectively.

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

Approximately \$76.5 million and \$99.7 million at June 30, 2006 and 2005, respectively, represents unexpended proceeds of bond issuance, and is restricted to expenditures for capital improvements and bond related costs. This includes \$76.3 million and \$99.6 million in investments and approximately \$156,000 and \$138,000 in cash at June 30, 2006 and 2005, respectively. The investments are classified as noncurrent, but are available for immediate withdrawal.

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

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2007	\$ 3,475	\$ 10,343	\$ 13,818
2008	3,650	10,181	13,831
2009	3,825	10,012	13,837
2010	4,025	9,833	13,858
2011	4,200	9,647	13,847
2012-2016	23,305	45,657	68,962
2017-2021	28,840	39,858	68,698
2022-2026	37,000	31,703	68,703
2027-2031	47,470	21,229	68,699
2032-2036	60,925	7,771	68,696
Bonds Payable	216,715	<u>\$ 196,234</u>	<u>\$ 412,949</u>
Unamortized Bond Premium	4,904		
Loss on Bond Defeasance	(5,511)		
Net Bonds Payable	216,108		
Current Portion	2,964		
Noncurrent Portion	<u>\$ 213,144</u>		

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

With the transfer of WVUIT from the State College System to the University System of West Virginia effective July 1, 1997, in accordance with the provisions of Senate Bill 591, WVUIT is required to make annual payments through 2012 to the Policy Commission for purposes of the State College System's debt service. The college system debt owed to the Commission as of June 30, 2006 and 2005 was \$1.2 million and \$2.0 million, respectively.

12. 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. New hires have the choice of either plan. As of June 30, 2006 and 2005, 45 and 28 employees, respectively, were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University's contributions to the STRS were at the rate of 15% of each enrolled employee's total annual salaries in both 2006 and 2005. Required employee contributions were at the rate of 6% of total annual salaries in both 2006 and 2005. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years of salary out of the last 15) multiplied by the number of years of service.

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

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

Fiscal Year Ending				
June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>	
2006	\$ 2,000	\$ 1,000	\$ 3,000	
2005	3,000	1,000	4,000	
2004	3,000	1,000	4,000	

The TIAA-CREF and Great-West 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 3-6% of their total annual compensation. The University simultaneously matches the employees' 3-6% 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,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2006	\$ 17,000	\$ 17,000	\$ 34,000
2005	16,000	16,000	32,000
2004	15,000	15,000	30,000

The University's total payroll for fiscal years 2006 and 2005 was \$326.1 million and \$306.9 million, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$15.0 million and \$281.2 million in fiscal year 2006 and \$15.2 million and \$266.2 million in fiscal year 2005, respectively.

13. NONMONETARY TRANSACTIONS

The Corporation entered into a land swap agreement with the West Virginia High Technology Consortium Foundation (the "WVHTC Foundation") that involved a transfer of a 1.16 acre parcel of the Corporation's property located in the I-79 Technology Park in exchange for a 1.16 acre parcel of the WVHTC Foundation's land. Accounting for the land exchange is based on the recorded amount of the Corporation's property.

14. 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 \$11.1 million and \$9.7 million in fiscal years 2006 and 2005, respectively. The University anticipates 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 \$85.5 million at June 30, 2006.
- c. *Other Commitments* – On September 7, 2005, the Board of Directors of the West Virginia University Research Corporation approved a borrowing plan by the Corporation of up to \$24.4 million to finance certain improvements at the University's Health Sciences Center (HSC). The West Virginia University Board of Governors has approved the Corporation entering into such transaction. The Corporation has entered into construction loan and pledge 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 will make a construction and term loan in the principal amount of up to \$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.

WVEDA loan. WVEDA will make a construction and term loan in the principal amount of up to \$9.0 million for the purpose of financing a portion of the Blanchette Rockefeller Neurosciences Institute building.

IJDC loan. IJDC will make a construction and term loan in the principal amount of up to \$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.

The Corporation did not draw down any funds on these lines of credit during fiscal year 2006.

15. 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; University Health Associates; the Physician's Office of Charleston; Potomac State College Alumni Association; Tech Alumni Association; West Virginia University at Parkersburg Foundation, Incorporated; 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 Statement No. 39. 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 Facility 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 State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from UHA.

Total funds disbursed to UHA and total funds collected from UHA totaled \$2.86 million and \$14.0 million in fiscal year 2006 and \$1.68 million and \$14.7 million in fiscal year 2005, respectively. There was \$0 and \$108,900 due from UHA at June 30, 2006 and 2005, respectively, for such items as facility rental fees and utility cost reimbursement. There were no amounts due to UHA at June 30, 2006 and 2005.

- b. *West Virginia University Hospitals, Incorporated* - West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the University's Health Sciences Center (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 State Legislature reallocated West Virginia University Health Sciences Center state appropriations to the Medicaid program in Health and Human Services. The University Health Sciences Center currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal year 2006 and 2005, \$20.1 million and \$19.6 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for steam costs, rent and gas expenses. Accounts receivable at June 30, 2006 and 2005 include \$1.15 million and \$948,500, respectively, due from WVUH for such items. During fiscal year 2006 and 2005, \$439,700 and \$763,100, respectively, was paid to WVUH for nursing services in conducting clinical trials, facilities support services, autopsy services, family practice residents' salaries under the Community Residency Support Program, and capital projects. Accounts payable at June 30, 2006 and 2005 include \$59,300 and \$203,500, respectively, due to WVUH for such items.

16. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED (Unaudited)

The West Virginia University Foundation, Incorporated (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 in GASB Statement No. 39. 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 \$802.1 million and \$717.8 million at June 30, 2006 and 2005, respectively, with net assets of \$456.9 million and \$408.3 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$40.6 million and \$25.8 million in fiscal years 2006 and 2005, respectively.

Total funds expended by the Foundation in support of University activities totaled \$40.3 million and \$35.8 million in fiscal years 2006 and 2005, respectively. This support and the related expenditures are primarily recorded in the University’s combined financial statements.

17. 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 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.

18. SUBSEQUENT EVENTS

During September 2006, the University entered into a lease purchase agreement in the amount of \$7.8 million with First Security Leasing, Inc. to finance a performance energy contract with Siemens Building Technologies, Inc. (“Siemens”). Under the contract, Siemens will furnish construction, equipment and provide services to the University in connection with performance energy projects, phases, and building control systems integration. The performance energy contract is designed to reduce energy consumption, reduce deferred maintenance, implement life safety improvements, and advance operational enhancements throughout the University.

19. SEGMENT INFORMATION

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

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

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

On November 1, 2004 the Board issued \$25,900,000 of 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bonds 1997 Series A, and the \$3,250,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds; and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

On November 1, 2004 the Board also issued 2004 Series B and C Bonds in the amounts of \$55,430,000 and \$138,710,000, respectively. The 2004 Series B Bonds are being used (1) to advance refund the \$4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the \$10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the \$3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the \$38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds.

The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs of issuance.

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

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

	AUXILIARIES As of/Year Ended 2006	AUXILIARIES As of/Year Ended 2005
CONDENSED STATEMENTS OF NET ASSETS		
Assets:		
Current Assets	\$ 17,438	\$ 30,603
Noncurrent and Capital Assets *	353,157	335,861
Total Assets	<u>370,595</u>	<u>366,464</u>
Liabilities:		
Current Liabilities	16,811	11,938
Long-Term Liabilities	<u>215,103</u>	<u>220,462</u>
Total Liabilities	<u>231,914</u>	<u>232,400</u>
Net Assets:		
Invested in Capital Assets, net of related debt	57,246	12,651
Restricted	76,462	99,626
Unrestricted	<u>4,973</u>	<u>21,787</u>
Total Net Assets	<u>\$ 138,681</u>	<u>\$ 134,064</u>
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS		
Auxiliary and Capital Fees	\$ 23,463	\$ 15,261
Operating Revenues	75,029	72,729
Operating Expenses	<u>(92,941)</u>	<u>(72,194)</u>
Net Operating Income	5,551	15,796
Nonoperating Revenues/Expenses:		
Investment Income	2,664	1,544
Other Nonoperating Income	3,677	-
Gifts	4,752	-
Other Nonoperating Expenses	(1,580)	-
Interest Expense*	<u>(10,447)</u>	<u>(4,574)</u>
Increase in Net Assets	<u>4,617</u>	<u>12,766</u>
Net Assets - Beginning of Year	<u>134,064</u>	<u>121,298</u>
Net Assets - End of Year	<u>\$ 138,681</u>	<u>\$ 134,064</u>
CONDENSED STATEMENTS OF CASH FLOWS		
Net Cash Provided by Operating Activities	\$ 22,359	\$ 29,322
Net Cash Flows Provided by (Used in)		
Capital and Related Financing Activities	(62,429)	77,079
Net Cash Flows Provided by (Used in)		
Investing Activities	<u>28,625</u>	<u>(96,619)</u>
Increase (Decrease) in Cash	(11,445)	9,782
Cash - Beginning of Year	<u>29,340</u>	<u>19,558</u>
Cash - End of Year	<u>\$ 17,895</u>	<u>\$ 29,340</u>
Reconciliation of cash		
Cash classified as current assets	<u>\$ 17,895</u>	<u>\$ 29,340</u>
	<u>\$ 17,895</u>	<u>\$ 29,340</u>

* Interest of \$1.3 million and \$811,000 was capitalized for fiscal year 2006 and 2005, respectively.

20. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

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

Functional Classification	Year Ended June 30, 2006										
	Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 129,046	\$ 41,949	\$ -	\$ 196	\$ 19,532	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 190,723
Research	53,158	20,599	-	510	27,146	-	-	-	-	-	101,413
Public Service	29,471	8,535	-	41	11,974	-	-	-	-	-	50,021
Academic Support	19,153	5,318	-	93	8,188	-	-	-	-	-	32,752
Student Services	13,978	4,645	-	48	4,821	-	-	-	-	-	23,492
Operation and Maintenance of Plant	17,131	6,937	-	18,931	15,648	-	-	-	-	-	58,647
General Institutional Support	33,244	9,748	-	39	29,331	-	-	-	-	78	72,440
Student Financial Aid	-	-	24,077	-	-	-	-	-	-	-	24,077
Auxiliary Enterprises	30,877	8,429	-	6,648	33,745	-	-	-	-	-	79,699
Depreciation	-	-	-	-	-	39,436	-	-	-	-	39,436
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,235	-	-	2,235
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	332	-	332
Loan Cancellations and Write Offs	-	-	-	-	-	-	249	-	-	-	249
Total Expenses	\$ 326,058	\$ 106,160	\$ 24,077	\$ 26,506	\$ 150,385	\$ 39,436	\$ 249	\$ 2,235	\$ 332	\$ 78	\$ 675,516

Year Ended June 30, 2005

Functional Classification	Year Ended June 30, 2005										
	Natural Classification										
	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation	Loan Cancellations & Write Offs	Assessments by the Commission	Waivers in Support	Other Operating Expenses	Total
Instruction	\$ 119,130	\$ 34,614	\$ -	\$ 154	\$ 16,357	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 170,255
Research	49,550	19,663	-	449	28,526	-	-	-	-	-	98,188
Public Service	30,961	7,847	-	55	14,196	-	-	-	-	-	53,059
Academic Support	18,422	5,003	-	67	6,093	-	-	-	-	-	29,585
Student Services	13,702	4,087	-	34	4,436	-	-	-	-	-	22,259
Operation and Maintenance of Plant	16,386	5,505	-	16,778	11,477	-	-	-	-	-	50,146
General Institutional Support	31,335	8,457	-	103	29,047	-	-	-	-	6	68,948
Student Financial Aid	-	-	20,324	-	-	-	-	-	-	-	20,324
Auxiliary Enterprises	27,440	7,618	-	5,588	29,485	-	-	-	-	-	70,131
Depreciation	-	-	-	-	-	41,438	-	-	-	-	41,438
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,131	-	-	2,131
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	355	-	355
Loan Cancellations and Write Offs	-	-	-	-	-	-	380	-	-	-	380
Total Expenses	\$ 306,926	\$ 92,794	\$ 20,324	\$ 23,228	\$ 139,617	\$ 41,438	\$ 380	\$ 2,131	\$ 355	\$ 6	\$ 627,199

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the West Virginia University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2006, and have issued our report thereon dated September 28, 2006. 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.

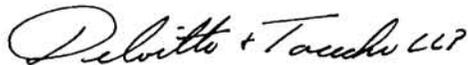
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

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



September 28, 2006

Officers of the University

David C. Hardesty, Jr.	<i>President</i>
Gerald E. Lang	<i>Provost and Vice President for Academic Affairs and Research</i>
Narvel G. Weese, Jr.	<i>Vice President, Administration, Finance and Human Resources</i>
Robert M. D'Alessandri	<i>Vice President, Health Sciences</i>
Kenneth D. Gray	<i>Vice President, Student Affairs</i>
Christine Martin	<i>Vice President for University Advancement and Marketing</i>
John D. Weete	<i>Vice President for Research and Economic Development</i>
Margaret Phillipps	<i>Chief of Staff</i>
Thomas Dorer	<i>General Counsel</i>
Jennifer A. McIntosh	<i>Executive Officer for Social Justice</i>
Russell K. Dean	<i>Senior Associate Provost</i>
Cheryl Torsney	<i>Associate Provost for Academic Programs</i>
C. B. Wilson	<i>Associate Provost for Academic Personnel</i>
Lawrence S. Cote	<i>Associate Provost for Extension and Public Service</i>
Sydney Morrison	<i>Associate Provost for Information Technology</i>
Daniel A. Durbin	<i>Associate Vice President for Finance</i>
Elizabeth P. Reynolds	<i>Associate Vice President for Planning and Treasury Operations</i>
Joseph Fisher	<i>Associate Vice President for Facilities</i>
David Stewart	<i>Dean of Students</i>
Fred R. Butcher	<i>Senior Associate Vice President for Health Sciences</i>
James K. Hackett	<i>Associate Vice President for Finance-Health Sciences</i>
Hilda R. Heady	<i>Associate Vice President for Rural Health</i>
Thomas M. Saba	<i>Associate Vice President for Health Sciences–Research & Graduate Studies</i>
Clark Hansbarger	<i>Associate Vice President for Health Sciences–Charleston Division</i>
Charles Jacques	<i>Associate Vice President for Health Sciences–Eastern Division</i>
Beverly Jo Harris	<i>President of the Community and Technical College of West Virginia University Institute of Technology</i>
Charles Bayless	<i>Regional Vice President and President of WVUIT</i>
Kerry Odell	<i>Provost, Potomac State College</i>
Marie Foster Gnage	<i>Regional Vice President and President of WVU–Parkersburg</i>
Stephen A. Douglas	<i>President, West Virginia University Alumni Association</i>
Bruce McClymonds	<i>President, West Virginia University Hospitals, Inc.</i>
Michael Lastinger	<i>Chair, West Virginia University Faculty Senate</i>
Terry A. Nebel	<i>Chair, West Virginia University Staff Council</i>
Jason Gross	<i>President, West Virginia University Student Body</i>
David E. Miller	<i>Special Assistant to the President for External Affairs</i>
Virginia J. Petersen	<i>Special Assistant to the President and Provost</i>
Sara A. Master	<i>Executive Assistant to the President</i>

West Virginia Higher Education Policy Commission

Mary Clare Eros, *Chair*
Elliot J. Hicks, *Vice Chair*
Michael Garrison, *Secretary*
Richard M. Adams
J. Thomas Jones

David Tyson
Steven L. Paine, *Ex-officio*
Kay H. Goodwin, *Ex-officio*
Nelson Robinson, *Ex-officio*

West Virginia University is an equal opportunity/affirmative action institution. The University does not discriminate on the basis of race, sex, age, handicap, veteran status, religion, sexual orientation, color, or national origin, as defined by the applicable laws and regulations. Further, faculty, staff, students, and applicants are protected from retaliation for filing complaints or assisting in an investigation under the University's Equal Opportunity Policy/Affirmative Action Plan. Inquires regarding the University's nondiscrimination policy may be directed to the Executive Officer for Social Justice, West Virginia University – Office of the President.

West Virginia University Board of Governors

Douglas J. Leech, *Chair*
Curtis H. (Hank) Barnette
Joseph Campbell
Jason Gross
Elizabeth E. (Betty) Chilton
Thomas S. Clark
Thomas Dover
Stephen B. Farmer
Stephen P. Goodwin

Michael Lastinger
Russell L. Isaacs
Mark A. Manchin
John T. Mattern
Paul R. Martinelli
Parry G. Petroplus
Rodney K. Thorn
Robert A. Wells

West Virginia University at Parkersburg Board of Advisors

Joe Campbell, *Chair*
Linda Dickirson, *Vice Chair*
Jim Mylott
George Kellenberger
Trudy Seitza
James B. Hayhurst, Jr.
Michael Hastings
Joyce Okes

William Niday
Gregory K. Smith
Robert J. D'Avria
Tony Playtis
Kelli Barton
Cindy Kelley
Violet Mosser

Potomac State College of West Virginia University Board of Visitors

Jennings R. Stickley, *Chair*
Pete Dougherty
Tilden Hackworth
Richard Hamblin
Linda J. Hicks
Gary Horowitz

Nathan Thompson
Michelle House (*classified staff*)
Phillip Douthitt (*faculty*)
Faith Foley (*student*)
Janet Rexrode Southby

West Virginia University Institute of Technology (WVUIT) Board of Advisors

Edward L. Robinson, *Chair*
Mike P. Miller
Nancy M. Thomas
Patsy Hardy
Cecil Roberts
James Fauver (*classified staff*)

Elaine D. Chiles
Sally E. Smith
Ralph H. Goolsby
Chuck Smith
John David (*faculty*)
John Segsworth (*student*)

The Community and Technical College at WVUIT Board of Advisors

Thomas Dover, *Chair*
Ralph Sevy
Gloria Flowers
Phillip Dobbins
Sally Smith
Keith Spangler
Charles Gavin, III (*student*)

Thomas Isaacs
Anita Caldwell-Holt
Karen Price
Wetzel Harvey
Nancy Giacomo
Talmadge Hager

