WEST VIRGINIA UNIVERSITY

Combined Financial Statements
for the Years Ended June 30, 2008 and 2007
and Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined statements of net assets of West Virginia University (the "University") as of June 30, 2008 and 2007 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, 2008 and 2007, 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.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, the University adopted Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions.*

The Management's Discussion and Analysis on pages 2 to 16 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 October 20, 2008, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 20, 2008

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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, 2008 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2007 compared to fiscal year 2006.

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, 2008, the University's total net assets increased from the previous year-end by $90.0 million, primarily due to increases in capital assets, net of depreciation, net accounts receivable including due from the Higher Education Policy Commission (HEPC or the "Commission"), cash and cash equivalents, and net loans receivable as well as decreases in compensated absences liability, debt service assessment payable to the Commission, bonds payable and accounts payable. This increase in net assets was partially offset by a decrease in investments and other assets as well as increases in notes payable, deferred revenue, leases payable, other post employment benefits (OPEB) liability, other liabilities, and accrued payroll.

Total revenues grew by 3.0%, mainly due to an increase in revenues from tuition and fees, auxiliary enterprises, state appropriations, payments on behalf of the University, grants and contracts revenues, gifts and other operating revenues. Total expenses increased 9.2% from prior year mainly because of increased salaries and benefits, supplies and other services, depreciation, interest on capital related debt, and scholarship expense.

This increase is slightly less than the increase in total net assets from fiscal year 2006 to fiscal year 2007, which was mainly due to an increase in net capital assets, other assets and net accounts receivable.

Net Assets

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

Net Assets are displayed in three major categories:

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

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

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

Condensed Statements of Net Assets (in thousands)

	As of June 30		
	2008	**2007**	**2006**
Assets			
Current Assets	$ 169,054	$ 184,839	$ 191,816
Noncurrent Assets	1,109,251	1,006,738	868,516
Total Assets	$ 1,278,305	$ 1,191,577	$ 1,060,332
Liabilities			
Current Liabilities	$ 138,447	$ 129,889	$ 107,038
Noncurrent Liabilities	397,173	408,961	398,424
Total Liabilities	$ 535,620	$ 538,850	$ 505,462
Net Assets			
Invested in Capital Assets, Net of Related Debt	$ 614,525	$ 548,310	$ 467,295
Restricted for:			
Nonexpendable	4,528	4,777	4,098
Expendable	32,079	36,679	33,993
Unrestricted	91,553	62,961	49,484
Total Net Assets	$ 742,685	$ 652,727	$ 554,870

Total assets of the University increased by $86.7 million to a total of $1,278.3 million as of June 30, 2008. The increase was primarily due to an increase in net capital assets, net accounts receivable, cash and cash equivalents, and net loans receivable. These increases were partially offset by a decrease in investments and other assets. Capital assets followed an upward trend from prior years.

- Capital assets, net increased by $94.2 million primarily due to completion of buildings and building improvements during fiscal year 2008, including Oglebay Hall, Potomac State College Residence Halls and Administration Building, Mountainlair Parking Garage, Colson Hall, upgrades under the Energy Performance Contract Phase I and Jackson's Mill State Fire Academy. An additional increase was due to completion of land improvements related to WVU Research Park and the WVU Alumni Center. The increase is also attributable to acquisition of equipment and donated forensic software from Cogent Systems, Inc. The increase in capital assets, net from fiscal year 2006 to fiscal year 2007 was primarily due to additions of construction-in-progress and completion of buildings.

- Net accounts receivable increased by $5.6 million mainly due to liquidated damages receivable under a settlement agreement and mutual release (the "Agreement") entered into between the WVU Board of Governors, the Regents of the University of Michigan and Richard Rodriguez (former head football coach of WVU). With Richard Rodriguez's resignation from and termination of his employment with WVU in December 2007, such damages became receivable by WVU as part of a buyout clause in his employment contract with WVU. Liquidated damages receivable from the University of Michigan are recorded at face value and those payable by Richard Rodriguez in three annual installments are recorded at the present value of the expected payments.

  The increase in net accounts receivable is also attributable to increases in amounts receivable from various granting agencies and the West Virginia University Hospitals, Inc. for outstanding mission support payments and reimbursement for residents' salaries. This increase was partially offset by a decrease in amounts due from the Commission. Accounts receivable balances had increased from fiscal year 2006 to fiscal year 2007 due to amounts due from various granting agencies, students and the Commission as a result of reimbursements due at fiscal year-end for approved capital expenditures from the 2004 Commission Revenue Bonds.

- Cash and cash equivalents increased by $4.6 million compared to prior year. Bond proceeds from the 2004 WVU revenue refunding and improvement bonds were invested in a guaranteed investment contract that matured in February 2008. According to the terms of the bond indenture, such matured funds were deposited in a money market fund by the Trustee, thereby increasing restricted cash balances. This increase was partially offset by investment in the Short Term Bond Fund with the Board of Treasury Investments and investment of WVU Research Corporation cash with the WVU Foundation. Cash and cash equivalents had decreased from fiscal year 2006 to fiscal year 2007 primarily due to investment of operating cash into the Senate Bill 603 investment program, investment of additional cash into escrow accounts for professional liability coverage at the WVU Foundation and an increase in unreimbursed capital expenditures at fiscal year end.

- Loans receivable, net increased by $2.5 million from prior year, which is attributable to increased activity in the Medical loan program and a change in the estimation of the loan allowance. Net loans receivable balances had increased from fiscal year 2006 to fiscal year 2007 as a result of increased activity in the Perkins loan program.

- Investments decreased by $16.5 million primarily due to investment of the matured guaranteed investment contract into a cash equivalent money market fund during fiscal year 2008. This decrease was offset by the following increases: investment of WVU Research Corporation cash with the WVU Foundation, investment in the Short Term Bond Fund with the Board of Treasury Investments, and the acquisition of its own auction rate certificates by the University pursuant to SEC guidance that permitted municipal issuers to repurchase their own debt. Investments had experienced an increase from fiscal year

2006 to fiscal year 2007 primarily due to investment of operating funds of the University with the WVU Foundation as authorized by Senate Bill 603 under WV Code §12-1-12d and deposit of additional funds with the WVU Foundation in an escrow account for professional liability coverage.

- Other assets decreased by $2.9 million compared to previous year primarily due to amortization of three-year right-to-use software donated by Schlumberger Technology and Landmark Graphics Corporations in fiscal years 2007 and 2008. Other assets had significantly increased from fiscal year 2006 to fiscal year 2007 primarily due to the donation of three-year right-to-use software from the Schlumberger Technology and Landmark Graphics Corporations.

Total liabilities for the year decreased by $3.2 million. This decrease is primarily attributable to a decrease in compensated absences liability, the reported debt service assessment payable to the Commission, bonds payable and accounts payable. These decreases were partially offset by increases in notes payable, deferred revenue, leases payable, OPEB liability, other liabilities and accrued payroll.

- Compensated absences liability decreased by $33.1 million mainly due to reversal of accumulated sick leave liability as of June 30, 2007 resulting from the implementation of GASB Statement No. 45 by the University effective July 1, 2007. This decrease was partially offset by an increase in the vacation leave liability and associated salary-related payments for active employees accruing annual leave. Compensated absences liability had decreased from fiscal year 2006 to fiscal year 2007 due to a decrease in the monthly Medicare retiree premiums.

- Debt service assessment payable to the Commission decreased by $4.9 million due to scheduled debt service (principal) payments in fiscal year 2008. This decrease is consistent with the decrease in such liability from fiscal year 2006 to fiscal year 2007.

- Bonds payable decreased by $3.1 million due to scheduled bond principal payments and amortization of net original issue bond premium related to the 2004 revenue refunding and improvement bonds during fiscal year 2008 as well as amortization of the loss on refunding related to the 1997 refunded bonds. Bonds payable had experienced a similar decrease from fiscal year 2006 to fiscal year 2007 due to principal payments and amortization of bond premium and loss on refunding.

- Accounts payable decreased by $1.2 million mainly due to a decrease in unpaid construction-related vendor invoices at the end of fiscal year 2008. Accounts payable had increased from fiscal year 2006 to fiscal year 2007 as a result of significant invoices due to vendors for capital additions at the end of fiscal year 2007.

- Notes payable increased by $11.0 million as a result of the WVU Research Corporation drawing down on lines of credit established with the West Virginia Housing Development Fund and the West Virginia Economic Development Authority to finance construction costs of the Health Sciences Center Laboratory and Library addition as well as the Neurosciences Center. This category had experienced an increase from fiscal year 2006 to fiscal year 2007 due to such line-of-credit draw down for the construction of the Biomedical Research building.

- Deferred revenue increase of $9.0 million is primarily attributable to an increase in deferred student tuition and fee revenue related to the 2008 Summer session, increased deferral of athletics football ticket and parking sales for the 2008 season, and receipt of several scheduled or advance payment sponsored awards during fiscal year 2008. Additionally, an escrow deposit received from the City of Morgantown for the transfer of property at the Square at Falling Run also caused an increase in deferred revenue. Deferred revenue had experienced an increase from fiscal year 2006 to fiscal year 2007 primarily due to an increase in deferred student tuition and fee revenue caused by a change from two to one summer session instruction.

- Leases payable increased by $9.0 million primarily due to phase II of a lease purchase agreement in the amount of $12.5 million with SunTrust Leasing Corporation to finance the acquisition and installation of energy saving equipment under a performance energy contract with Siemens Building Technologies, Inc. Leases payable had increased from fiscal year 2006 to fiscal year 2007 primarily due to two major lease agreements entered into during fiscal year 2007 – Energy Performance Contract Phase I and financing renovations at WVU Institute of Technology.

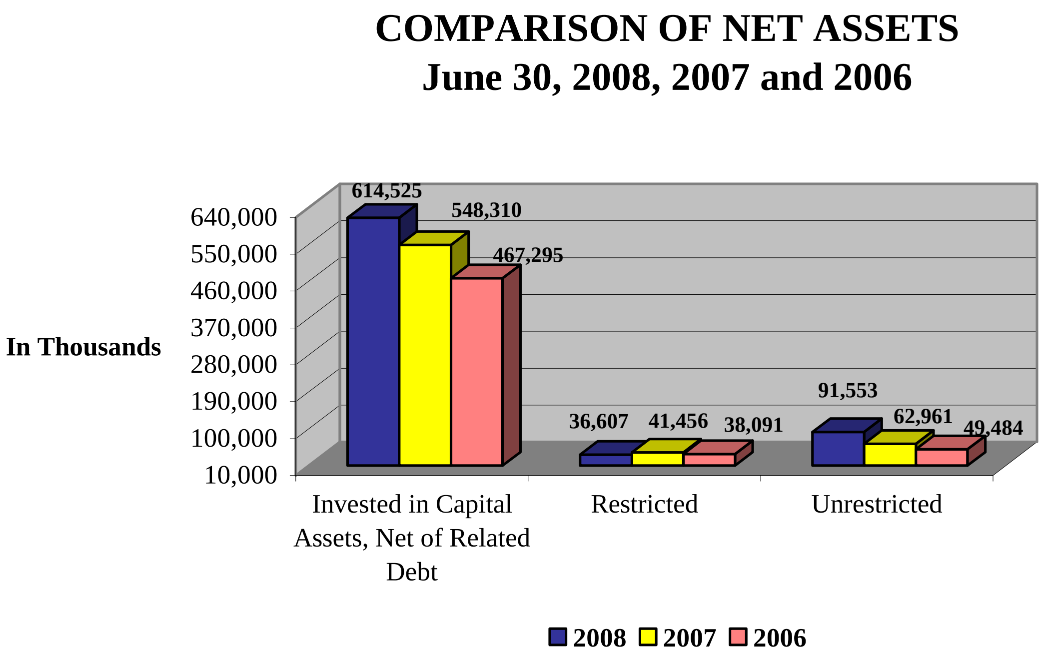
- OPEB liability increased by $6.5 million due to the implementation of GASB Statement No. 45 during fiscal year 2008. The WV State Legislature established a West Virginia Retiree Health Benefit Trust Fund (the "Trust") in fiscal year 2006 to accumulate and manage funds for retiree health benefits under a defined benefit cost-sharing multiemployer OPEB plan (the "Plan"). The Public Employees Insurance Agency (PEIA) has been assigned the responsibility for the administration of the Trust. PEIA invoices the University, a participant in the State's OPEB Plan, on a monthly basis, its contractually required contribution based on current health insurance policy holders. The State and PEIA have transferred monies from their general revenues and excess reserves into the Trust as contributions. The net amount outstanding is reported as the University's OPEB liability. The OPEB liability did not exist at the end of fiscal year 2007.

- Other liabilities increased by $2.9 million mainly due to the accrual of projected future claims related to medical malpractice litigation cases. Additional funds were deposited during fiscal year 2008 into the escrow accounts established at the WV State Treasurer's Office and the WVU Foundation to fund these potential liabilities. The accrual of projected future claims related to medical malpractice litigation cases had caused other liabilities to increase from fiscal year 2006 to fiscal year 2007.

- Accrued payroll increased by $1.3 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 2008. West Virginia State Legislature requires that employees hired after July 1, 2002 be paid in arrears. An additional increase was caused by a legislatively stipulated increase in the annual increment per employee. The increase in accrued payroll was expected and is consistent with the increase in accrued payroll from fiscal year 2006 to fiscal year 2007.

The University's current assets of $169.0 million were sufficient to cover current liabilities of $138.4 million indicating that the University has sufficient available resources to meet its current obligations.

The following is a comparative illustration of net assets.



Invested in capital assets, net of related debt increased by $66.2 million primarily due to an increase in capital assets, net, and decreases in debt assessment payable to the Commission and bonds payable. This increase is comparable to, but lower than, the increase in this category from fiscal year 2006 to fiscal year 2007.

Restricted net assets decreased by $4.9 million primarily due to a decrease in the restricted for sponsored programs category. This decrease is primarily due to amortization of three-year right-to-use software donated by Schlumberger Technology and Landmark Graphics Corporations in fiscal years 2007 and 2008 as well as an increase in deferred revenue due to receipt of several scheduled or advance payment sponsored awards during fiscal year 2008. This decrease was partially offset by an increase in restricted net assets for loans as a result of draw down of lines of credit with WVHDF and WVEDA for construction of facilities at the Health Sciences Center. Restricted net assets had increased from fiscal year 2006 to fiscal year 2007 mainly due to donation of software from Schlumberger Technology and Landmark Graphics Corporations to be used by the Department of Petroleum and Natural Gas Engineering and the Department of Geology and Geography for instruction and research purposes.

Unrestricted net assets increased by $28.6 million as a result of positive operations and reversal of accumulated sick leave liability as of June 30, 2008 as a result of implementation of GASB Statement No. 45. This net asset category had experienced an increase from fiscal year 2006 to fiscal year 2007 due to reclassification of fund balances from restricted for capital projects net asset category.

Revenues, Expenses and Changes in Net Assets

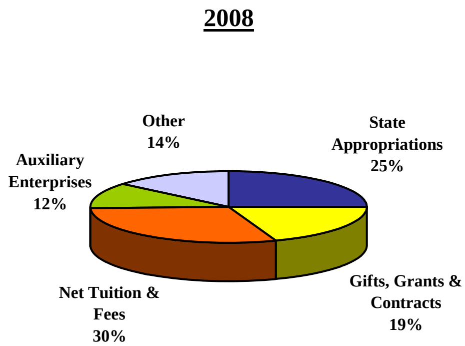
The statements of revenues, expenses and changes in net assets present the operating revenues, operating expenses, nonoperating revenues and expenses and other revenues, expenses, gains or losses of the University for the fiscal years.

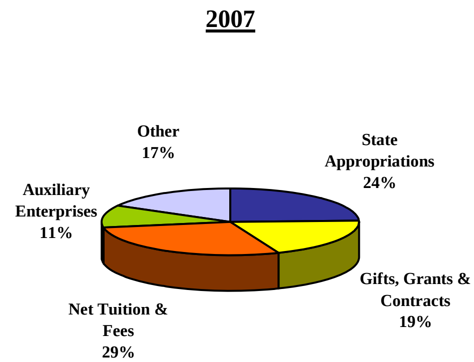
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because state appropriations are provided by the West Virginia Legislature (the "Legislature") to the University without the Legislature directly receiving commensurate goods and services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

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

	Years Ended June 30		
	2008	**2007**	**2006**
Operating Revenues	$ 560,353	$ 519,263	$ 480,305
Operating Expenses	784,932	718,913	675,516
Operating Loss	(224,579)	(199,650)	(195,211)
Net Nonoperating Revenues	230,505	213,802	201,480
Income before Other Revenues, Expenses, Gains or Losses	5,926	14,152	6,269
Capital grants and gifts	39,219	56,538	17,819
Bond proceeds/capital projects proceeds from the Commission	10,081	27,167	19,306
Increase in Net Assets Before Cumulative Effect	55,226	97,857	43,394
Cumulative Effect of Adoption of Accounting Principle	34,732	-	-
Net Assets at Beginning of Year	652,727	554,870	511,476
Increase in Net Assets	89,958	97,857	43,394
Net Assets at End of Year	$ 742,685	$ 652,727	$ 554,870

Revenues:
The following charts illustrate the composition of revenues by source for 2008 and 2007.





The total revenues for fiscal year 2008 were $857.4 million, an increase of $24.9 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 $20.5 million primarily due to an increase in the fee rate and an increase in non-resident student enrollment. This increase is consistent with increases in prior years.

- Auxiliary revenue increased by $11.0 million primarily due to an increase in athletics revenue and room and dining services revenue. Athletics revenue increased because of higher football and basketball ticket sales, an increase in ticket prices and additional revenue sharing from the Big East as a result of the football team's participation in a Bowl Championship Series game and the basketball team's participation in the NCAA tournament. Room and dining services revenue increased primarily due to the opening and operation of University Hall, a new residence hall with over 300 beds at Potomac State College, during fiscal year 2008 as well as an increase in room and board fees. This increase in auxiliary revenue is consistent with the increase in this category from fiscal year 2006 to fiscal year 2007.

- State appropriations increased by $10.5 million primarily due to an increase in legislative appropriations for activities at the Health Sciences Center, Main Campus and Potomac State College of the University. An additional increase is attributable to new appropriations from the State for laboratory renovations at WVU Institute of Technology associated with ABET accreditation. This increase is consistent with, but higher than, the increase in state appropriations from fiscal year 2006 to fiscal year 2007.

- Payments on behalf of the University increased by $10.4 million as a result of transfer of funds by the State and PEIA from their general revenues and excess reserves into the Trust fund. The excess reserves transferred by PEIA benefit all active health insurance policy holders at the University; however, the general revenues transferred by the State benefit only those employees who are compensated from the general revenues pool. This is the first time the University has received such payments on its behalf.

- Grants and contracts revenue (non-capital related) increased by $6.2 million mainly due to increased revenues from several new and existing state and non-governmental grants. Grants and contracts revenue had decreased from fiscal year 2006 to fiscal year 2007 due to a decline in expenditures and the associated revenues from existing awards and closure of several grants in fiscal year 2007.

- Other operating revenue increased by $3.6 million from prior year as a result of recognition of liquidated damages as revenue under a settlement agreement and mutual release (the "Agreement") entered into between the WVU Board of Governors, the Regents of the University of Michigan and Richard Rodriguez (former head football coach of WVU). With Richard Rodriguez's resignation from and termination of his employment with WVU in December 2007, such damages became revenue to WVU as part of a buyout clause in his employment contract with WVU. No significant increase was noted in this category from fiscal year 2006 to fiscal year 2007.

- Gift revenue increased by $3.4 million primarily due to an increase in WVU Foundation support for the Strategic Research Plan at Health Sciences Center and other support provided to the Mary Babb Randolph Cancer Center, the School of Medicine and the School of Pharmacy. An additional increase was caused by increased support from the WVU Foundation for the University's football program and financial aid awards from third parties. Gift revenue had decreased from fiscal year 2006 to fiscal year 2007 mainly because of a decrease in WVU Foundation funds to pay for salaries, benefits and Athletics' share of debt service payments.

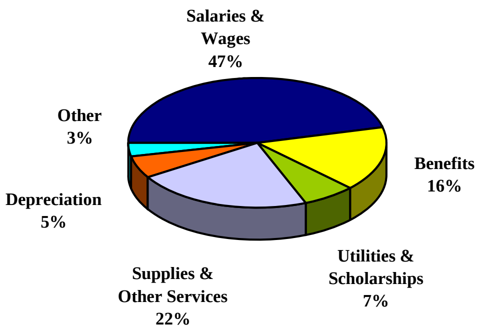
- Capital grants & gifts decreased by $17.3 million over prior year primarily due to reduced revenues from existing capital grants such as grants related to the construction of the Blanchette Rockefeller Neurosciences Institute, Oglebay Hall and the Fire Academy and Mount Vernon Dining Hall at Jackson's Mills. This decrease was partially offset by additional revenue related to donation of a three-year right-to-use software by Schlumberger Technology Corporation and WVU Foundation funded capital projects for Athletics. Capital grants and gifts had experienced a significant increase from fiscal year 2006 to fiscal year 2007 attributable to donated software and increased revenues from existing capital grants and revenues from new capital grants received during fiscal year 2007.

- Bond/capital projects proceeds from the Commission decreased by $17.1 million primarily because a majority of the projects financed by such proceeds have been completed and few projects remain that require reimbursement of construction expenditure from the Higher Education Facilities 2004 Series B bonds issued by the Commission. This category had experienced an increase from fiscal year 2006 to fiscal year 2007 due to an increase in expenses incurred by the University and reimbursed by the Commission from the 2004 HEPC Bond.

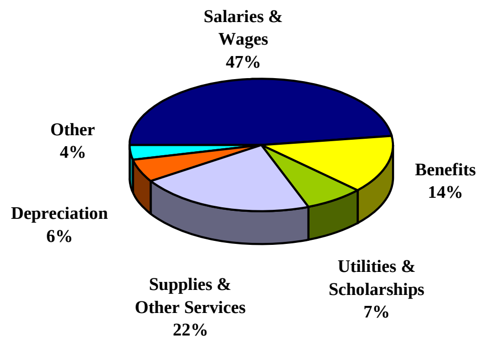
- Investment income decreased by $6.1 million due to reduced returns on investments reflecting market performance. The University's portfolio of investments with the WVU Foundation including deposits to fund potential claims related to medical malpractice litigation cases and investments made under legislative authority granted by Senate Bill 603 experienced negative returns for the fiscal year 2008. Additionally, interest earnings on the Board of Treasury Investments Money Market fund decreased in correlation to the decrease in the Federal Funds rate during fiscal year 2008. Declining unspent bond proceeds with the Trustee also contributed to a decrease in investment income. Investment income had increased from fiscal year 2006 to fiscal year 2007 primarily because of interest earnings on additional investments made during fiscal year 2007.

Expenses:
The following is a graphic comparison of total expenses by category between 2008 and 2007.

2008



2007



Total expenses for fiscal year 2008 were $802.2 million, an increase of $67.6 million from prior year. This increase is consistent with, but higher than, the increase noted in total expenses from fiscal year 2006 to fiscal year 2007. This increase is primarily due to an increase in several categories of expenses as detailed below.

- Benefits expense increased by $24.4 million primarily due to the recognition of OPEB expense as a result of implementation of GASB Statement No. 45. During fiscal year 2008. PEIA began invoicing the University, a participant in the State's OPEB Plan, on a monthly basis, its contractually required contribution based on current health insurance policy holders. The State and PEIA have transferred monies from their general revenues and excess reserves into the Trust as contributions. The net amount outstanding is reported as the University's OPEB expense. The increase can also be attributable to an increase in vacation leave liability and salary-related payments associated with such liability. Benefits expense had experienced a decrease from fiscal year 2006 to fiscal year 2007 due to a decrease in the monthly Medicare retiree health insurance premiums and increase in employee health insurance premiums and accrual for retiree post employment benefits.

- Supplies and other services increased by $20.5 million mainly due to amortization of software maintenance support services provided by Schlumberger Technology and Landmark Graphics Corporations, and increases in travel expense, contractual and professional services, computer services and supplies and telecommunication expenses. Supplies and other services had increased from fiscal year 2006 to fiscal year 2007 due to an increase in student bad debt expense, expenses related to the study abroad programs, non-capital general expense and household items purchased.

- Salaries and wages increased by $19.8 million from the prior year mainly due to a mid-year salary increase program for all University employees, implemented in October 2007 (fiscal year 2008). An increase in the number of non-classified staff and the Research Corporation payroll also contributed to the increase. A similar, but slightly higher, increase was noted in salaries and wages from fiscal year 2006 to fiscal year 2007.

- Depreciation expense increased by $2.6 million over prior year mainly as a result of increase in depreciation associated with buildings, land improvements, and software completed or acquired and added as assets during fiscal year 2008. Depreciation expense had experienced a similar, but slightly lower, increase from fiscal year 2006 to fiscal year 2007 due to an increase in depreciation expense associated with buildings.

- Interest on capital related debt increased by $1.6 million as a result of an increase in interest related to amounts drawn down by WVU Research Corporation on loan commitments established with the West Virginia Housing Development Fund and the West Virginia Economic Development Authority to finance construction costs of the Health Sciences Center Laboratory and Library addition as well as the Neurosciences Center. Additionally, during the prior fiscal year additional capitalized interest was recognized which had the impact of reducing the interest expense during fiscal year 2007. Interest on capital related debt had decreased from fiscal year 2006 to fiscal year 2007 primarily due to additional capitalized interest on debt funded construction expenditures in fiscal year 2007.

- Scholarship and fellowship expenses increased by $1.6 million over the prior year. This increase is attributable to an increase in student enrollment and a corresponding increase in tuition and fees as well as additional student financial assistance funds distributed under the PELL grants and the Scholars program. Scholarship and fellowship expenses have shown an increasing trend over the past few years, including those from fiscal year 2006 to fiscal year 2007.

- Other operating expenses decreased by $1.5 million compared to prior year. During fiscal year 2007, old software donated by Landmark Graphics Corporation was written off thereby increasing this expense category last year. This decrease was partially offset by amortization of new three-year right-to-use software donated by Schlumberger Technology and Landmark Graphics Corporations. This category had experienced a significant increase from fiscal year 2006 to fiscal year 2007 due to amortization of donated software from Schlumberger Technology and Landmark Graphics Corporations.

- Utilities decreased by approximately $900,000 primarily due to lower steam and natural gas expenses. Effective October 1, 2006, the University favorably renegotiated the price of steam with Morgantown Energy Associates and started paying a reduced price per thousand pounds of steam used compared to prior year. Additionally, the upgrades made under the Energy Performance Contract Phase I has resulted in savings in energy costs. This decrease is consistent with, but slightly lower than, the decrease in this category from fiscal year 2006 to fiscal year 2007.

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.

Condensed Statements of Cash Flows (in thousands)

	Years Ended June 30		
	2008	**2007**	**2006**
Cash Provided By (Used In):			
Operating Activities	$ (145,500)	$ (142,527)	$ (143,858)
Noncapital Financing Activities	225,374	216,709	201,099
Capital Financing Activities	(97,770)	(89,730)	(74,437)
Investing Activities	22,497	10,979	25,924
Increase (Decrease) in Cash and Cash Equivalents	4,601	(4,569)	8,728
Cash and Cash Equivalents, Beginning of Year	148,542	153,111	144,383
Cash and Cash Equivalents, End of Year	$ 153,143	$ 148,542	$ 153,111

Total cash and cash equivalents increased by $4.6 million during fiscal year 2008 to $153.1 million.

- Net cash used in operating activities increased by $2.9 million primarily due to increases in payments to employees and suppliers. These increases in outflows were partially offset by increases in cash inflows from tuition and fees, grants and contracts and auxiliary enterprise. In contrast, cash used in operating activities had decreased from fiscal year 2006 to fiscal year 2007.

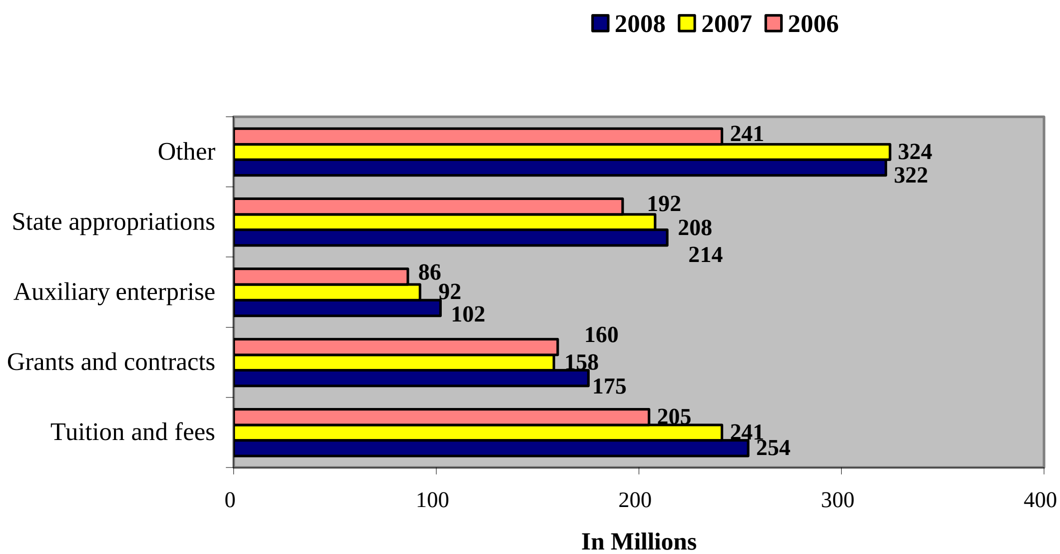
- Net cash provided by noncapital financing activities increased by $8.7 million primarily due to an increase in cash inflows from state appropriations and gift receipts. This category had experienced an increase from fiscal year 2006 to fiscal year 2007 due to an increase in cash inflows from state appropriations.

- Net cash used in capital financing activities increased by $8.0 million as a result of increase in cash outflows for purchase of capital assets and a decrease in cash inflows from capital grants and gifts and capital projects proceeds from the Commission and the Trustee. This increase was partially offset by an increase in cash inflows from loan proceeds. During fiscal year 2007, cash was used to purchase capital assets.

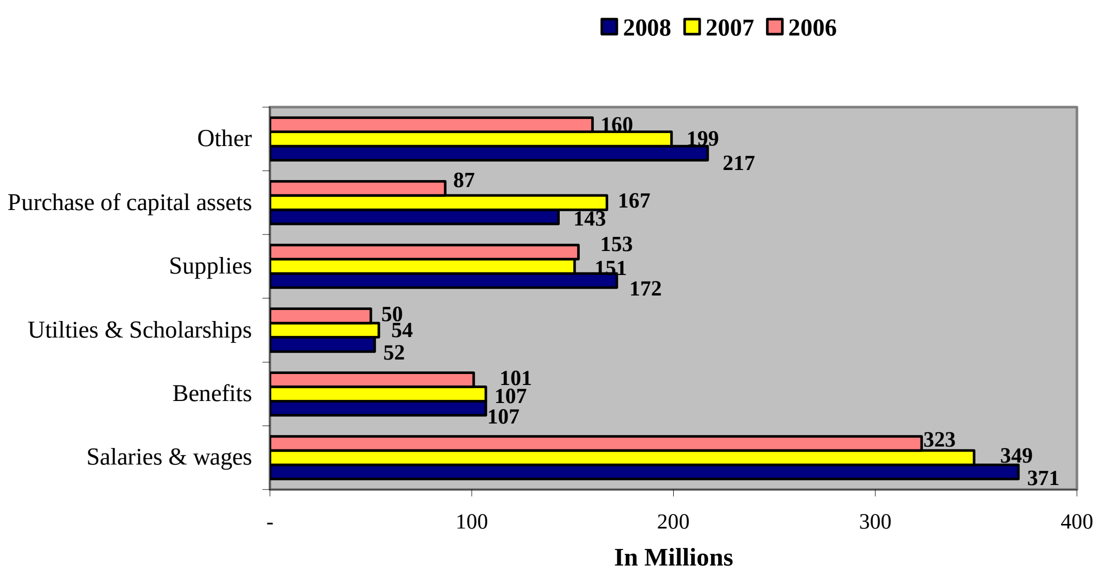
- Net cash provided by investing activities increased by $11.5 million as a result of proceeds from sale of investments during fiscal year 2008. This increase was partially offset by an increase in cash outflow from purchase of investments. During fiscal year 2007, cash was used for purchase of investments.

The following graphs illustrate the sources and uses of cash –

SOURCES OF CASH



USES OF CASH



Capital Asset and Long Term Debt Activity

The University had significant construction and capital activity in fiscal year 2008, financed by bond proceeds, loan proceeds, leases, grants, gifts and other University funds.

- The University completed construction of the housing facilities on the campus of Potomac State College of WVU; renovations to Colson Hall, Oglebay Hall, the Mountainlair parking garage and Jackson's Mill State Fire Academy and Mount Vernon Dining Hall; and upgrades to facilities under the Energy Performance Contract Phase I. Other activity included expansion of the Engineering Sciences Building; construction of a student housing facility on the Downtown campus; construction of a chiller plant associated with the Downtown Infrastructure project; improvements to the player locker rooms at the Milan Puskar Center; and upgrades to the PRT heating system. Grant funds and loan proceeds were used for the construction of the Health Sciences Biomedical Science Research Center, the Blanchette Rockefeller Neurosciences Institute building, and the National Education and Technology Center.

- The University capitalized costs associated with the implementation of SciQuest, a supplier enablement and spend management solution including the purchase of SciQuest's software modules. The University also capitalized costs associated with the implementation of an Electronic Student Evaluation of Instruction system and Self-Service Human Resources project that would allow employees to view, add or update their personal information in Oracle.

- During December 2007, the University entered into a lease purchase agreement in the amount of $12.5 million with SunTrust Leasing Corporation to finance phase II of a performance energy contract with Siemens Building Technologies, Inc. The performance energy contract is designed to reduce energy consumption, reduce deferred maintenance, implement life safety improvements, and advance operational enhancements throughout the University. Energy performance projects will be undertaken at Morgantown, Parkersburg and Montgomery campuses of the University. The funds are deposited in an escrow account with BB&T. BB&T paid $3.4 million during fiscal year 2008 to Siemens for progress payments related to such contract.

The University, including the Health Sciences Center and its regional campuses, has planned capital expenditures of approximately $317.2 million for an on-going capital plan and approximately $5.0 million 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.

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 $98.9 million is reported as debt service assessment payable to the Commission by the University.

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

Economic Outlook

The Governmental Accounting Standards Board (GASB) has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective from fiscal year 2008. The adoption of GASB Statement No. 45 by the University resulted in a cumulative effect adjustment of $34.7 million which increased net assets. The fiscal year 2008 expense, net of State revenue from payments made on behalf of the University, was less than this adjustment. However, there is no commitment of any additional funding from the State for years after fiscal year 2009, at this time. The State has appropriated $91.1 million from its Excess Lottery, General Revenue, and State Debt Reduction funds to the WV Retiree Health Benefit Trust fund in fiscal year 2009. Accordingly, in approximately three years, the GASB Statement No. 45 liability is expected to exceed this one-time positive impact of the cumulative adjustment.

The University's financial position is closely tied to that of the State of West Virginia. As such, the University is always at the risk of reallocations or reductions of its State appropriations. In prior years, the University's State appropriations have declined as a percentage of total institutional operating and nonoperating revenues. However, this trend changed in fiscal year 2008 as the level of State appropriated revenue increased over the fiscal year 2007 level but not in proportion to growth in other resources, most notably student fees. Although the continuation of this trend is doubtful, it does display the State's willingness to commit scarce resources to the University and its mission.

Although the University has experienced an increase in its State appropriations, they are insufficient to maintain pace with increasing academic and program needs. This void necessitates the University to constantly focus on cost control and revenue generation strategies through enrollment management (growth and quality) and tuition increases. In FY 2009, the University increased its tuition and fees by an average of 8.0% while experiencing the largest enrollment levels in its history. Continuing high demand is evidenced by record number of applications and first year students electing to attend WVU. WVU increased enrollment by 7.9% or over 400 entering freshmen.

University researchers rely on competitive federal and other grant programs to support a large and growing fraction of their salaries and other expenses. As federal deficits increase and funding becomes scarce, an increased competition for limited funds will make funded research grants more difficult to secure in the future. The University is attempting to meet those challenges by sponsoring grant-writing seminars, workshops and mentorship programs; through new faculty start-up programs (funded from Research Corporation) and collaborative partnerships; and by bringing new, state of the art, research facilities on line.

While the University remains cautiously optimistic regarding the predicted State appropriation levels, it will continue to address priority requirements for investments in employees, physical infrastructure, leveraging opportunities, and technology, through its well established and proven strategic planning process. The University's senior leadership is actively engaged in developing processes to generate additional revenues, reduce expenditures and achieve efficiencies while enhancing the effectiveness of its mission.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 115,627	$ 133,495
Accounts receivable, net of allowances for doubtful accounts of $4,047 and $4,098	47,160	39,785
Due from the Commission	1,360	4,526
Loans receivable, current portion	2,162	3,609
Inventories	1,726	1,632
Prepaid expenses	887	1,660
Bond issuance cost, current portion	132	132
Total current assets	169,054	184,839
Noncurrent Assets:		
Restricted cash and cash equivalents	37,516	15,047
Investments	76,077	92,559
Accounts receivable	1,365	-
Loans receivable, net of allowances for doubtful accounts of $4,199 and $5,135	36,545	32,560
Bond issuance cost, net	1,387	1,519
Other assets, net	11,153	14,015
Capital assets, net	945,208	851,038
Total noncurrent assets	1,109,251	1,006,738
TOTAL ASSETS	$ 1,278,305	$ 1,191,577

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET ASSETS (CONTINUED)
AS OF JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
LIABILITIES		
Current Liabilities:		
Accounts payable	$ 37,430	$ 38,665
Accrued liabilities	3,247	3,558
Accrued payroll	14,034	12,749
Deposits	2,651	2,467
Deferred revenue	46,508	37,544
Due to the Commission	459	225
Compensated absences, current portion	22,531	22,343
College system debt owed to the Commission, current portion	211	204
Debt service assessment payable to the Commission, current portion	5,115	4,901
Leases payable, current portion	2,899	3,999
Bonds payable, current portion	3,314	3,139
Notes payable, current portion	48	95
Total current liabilities	138,447	129,889
Noncurrent Liabilities:		
Compensated absences	-	33,313
Other post employment benefits liability	6,548	-
College system debt owed to the Commission	550	761
Advances from federal government	26,891	27,351
Debt service assessment payable to the Commission	93,823	98,937
Leases payable	30,943	20,825
Bonds payable	206,690	210,005
Notes payable	15,000	3,928
Other noncurrent liabilities	16,728	13,841
Total noncurrent liabilities	397,173	408,961
TOTAL LIABILITIES	$ 535,620	$ 538,850
NET ASSETS		
Invested in capital assets, net of related debt	$ 614,525	$ 548,310
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	3,918	4,167
Other	525	525
Total nonexpendable	4,528	4,777
Expendable:		
Scholarships and fellowships	244	221
Sponsored programs	10,612	15,415
Loans	19,495	17,634
Capital projects	-	1,387
Debt service	699	824
Other	1,029	1,198
Total expendable	32,079	36,679
Unrestricted	91,553	62,961
TOTAL NET ASSETS	$ 742,685	$ 652,727

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $26,726 and $23,282	$ 256,406	$ 235,923
Federal land grants	8,350	7,940
Local land grants	1,089	885
Federal grants and contracts	93,481	92,576
State grants and contracts	36,613	32,877
Local grants and contracts	389	325
Nongovernmental grants and contracts	37,462	36,014
Sales and services of educational departments	14,018	14,300
Auxiliary enterprises, net of scholarship allowances of $5,705 and $4,854	100,862	90,276
Interest on student loans receivable	579	651
Other operating revenues (including revenue from outsourced enterprise of $1,176 and $1,163)	11,104	7,496
Total operating revenues	560,353	519,263
OPERATING EXPENSES		
Salaries and wages	370,832	351,008
Benefits	128,646	104,253
Scholarships and fellowships	29,315	28,713
Utilities	24,193	25,100
Supplies and other services	178,904	158,368
Depreciation	43,290	40,706
Loan cancellations and write-offs	522	277
Assessments by the Commission for operations	2,511	2,349
Waivers in support of other State institutions	477	434
Other operating expenses	6,242	7,705
Total operating expenses	784,932	718,913
OPERATING LOSS	(224,579)	(199,650)

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007

(Dollars in Thousands)

	2008	2007
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 213,726	$ 203,195
Payments on behalf of the University	10,346	-
Gifts	17,486	14,050
Investment income	6,203	12,269
Interest on capital asset-related debt	(10,453)	(8,879)
Assessments by the Commission for debt service	(5,374)	(5,534)
Other nonoperating expenses - net	(1,429)	(1,299)
Net nonoperating revenues	230,505	213,802
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	5,926	14,152
Capital grants and gifts	39,219	56,538
Bond/capital projects proceeds from the Commission	10,081	27,167
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	55,226	97,857
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	34,732	-
INCREASE IN NET ASSETS	89,958	97,857
NET ASSETS--BEGINNING OF YEAR	652,727	554,870
NET ASSETS--END OF YEAR	$ 742,685	$ 652,727

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 254,240	$ 240,507
Federal and local land grants	9,440	8,825
Grants and contracts	175,222	158,372
Payments to suppliers	(171,509)	(151,255)
Payments to employees	(371,191)	(349,075)
Payments for benefits	(107,337)	(106,928)
Payments for utilities	(24,104)	(24,249)
Payments for scholarships and fellowships	(27,704)	(30,158)
Loan advances (returned to) from federal government	(460)	3
Disbursements of loans to students	(3,060)	(1,490)
Interest earned on loans to students	579	651
Auxiliary enterprise charges	102,072	91,582
Sales and service of educational departments	13,932	14,106
Other receipts	4,380	6,582
Net cash used in operating activities	(145,500)	(142,527)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	213,726	208,131
Gifts	17,206	14,050
Assessments by the Commission for debt service	(5,374)	(5,534)
William D. Ford direct lending receipts	150,381	136,713
William D. Ford direct lending payments	(150,689)	(136,718)
Other nonoperating receipts	124	67
Net cash provided by noncapital financing activities	225,374	216,709
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(5,104)	(4,910)
Bond/capital projects proceeds from the Commission	13,337	23,259
Capital gifts and grants received	32,521	55,495
Purchases of capital assets	(143,035)	(167,006)
Capital projects proceeds from trustees	12,500	18,598
Principal paid on capital debt and leases	(7,693)	(7,668)
Interest paid on capital debt and leases	(11,416)	(11,378)
Proceeds from loan	11,120	3,880
Net cash used in capital financing activities	(97,770)	(89,730)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	47,294	31,654
Investment income	9,472	10,519
Purchase of investments	(15,874)	(31,194)
Purchase of Research Corporation investments	(18,395)	-
Net cash provided by investing activities	22,497	10,979
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,601	(4,569)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	148,542	153,111
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 153,143	$ 148,542

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
YEARS ENDED JUNE 30, 2008 AND 2007
(Dollars in Thousands)

	2008	2007
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (224,579)	$ (199,650)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	53,102	42,839
Expenses paid on behalf of University	10,346	-
Changes in assets and liabilities:		
Accounts receivable, net	(7,799)	(10,892)
Due from the Commission	(91)	(13)
Loans receivable, net	(2,538)	(1,213)
Prepaid expenses	774	(392)
Inventories	(94)	31
Accounts payable	5,015	14,459
Accrued liabilities	9,834	7,828
Deposits	184	19
Deferred revenue	8,964	7,267
Due to the Commission	234	(111)
Compensated absences	1,608	(2,705)
Advances from federal government	(460)	6
Net cash used in operating activities	$ (145,500)	$ (142,527)
Noncash Transactions:		
Cumulative effect of adoption of accounting principle	$ 34,732	$ -
Construction in progress additions in accounts payable	$ 5,434	$ 10,255
Equipment purchased on capital lease	$ 588	$ 1,151
Donated capital assets	$ 857	$ 1,044
Unrealized (loss) gain on investments	$ (3,457)	$ 1,748
Bond discount amortization	$ 642	$ 642
Loss on dispositions	$ 772	$ 702
Land swap	$ -	$ 1,115
Other post employment benefits liability	$ 6,548	$ -
Expenses paid on behalf of WVU	$ 10,346	$ -
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	$ 115,627	$ 133,495
Cash and cash equivalents classified as noncurrent assets	37,516	15,047
	$ 153,143	$ 148,542

See notes to combined financial statements.

1. ORGANIZATION

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

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

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

During fiscal year 2008, House Bill 3215 was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of West Virginia University will have established their own Boards of Governors. The newly established Boards of Governors and the Board of Governors of West Virginia University shall jointly agree on a division of assets and liabilities of West Virginia University, on or before December 1, 2008. The division of all assets and liabilities shall be effective retroactively to July 1, 2008. The amount of net assets to be transferred out from West Virginia University to the separately established community and technical colleges is not determinable as of June 30, 2008. West Virginia University and the separately established community and technical colleges shall oversee a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking and athletics through fiscal year 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), 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 ("WVUIT"), including the Community and Technical College at West Virginia University Institute of Technology, and West Virginia University at Parkersburg (the "Regional Campuses") and the West Virginia University Research Corporation (the "Corporation"). The Tech Research and Development Corporation was included in prior years. During fiscal year 2008, the Tech Research and Development Corporation was dissolved. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 16 and 17) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB 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 16 and 17) 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 are reported when materials or services are received. All accounts and transactions between the University, the Regional Campuses and the Corporation have been eliminated.

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

Cash and cash equivalents on deposit with the West Virginia Treasurer's Office (the "Treasurer") are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Board of Treasury Investments (BTI). Cash and cash equivalents invested in the WV Money Market Pool with the BTI is pooled by the BTI with other available funds of the state to maximize investment income. These funds are transferred to the BTI and the BTI invests these funds in specific external investment pools in accordance with West Virginia Code and policies set by the BTI. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. Balances in the investment pools are recorded at fair value, or amortized cost which approximates fair value. Fair value is determined by a third party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. The amounts in the WV Money Market Pool, formerly known as the Cash Liquidity Pool, and the WV Government Money Market Pool are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

The BTI maintains the Consolidated Fund investment fund which consists of seven investment pools and participant-directed accounts, three of which the state and local governmental agencies manage. 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 can be invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd., Room E-122, Charleston, WV 25305 or http://www.wvbti.com .

The returns on Auction Rate Certificates are deposited into a Money Market account which is classified as cash and cash equivalents.

Cash and cash equivalents also includes all outside bank accounts, cash on hand, and certain bond proceeds.

d. *Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. Regulatory oversight for investments on deposit with the Treasurer is provided by the State's Board of Treasury Investments 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.

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

Permissible investments for all agencies, including the University, 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.

During fiscal year 2008, the University invested in the BTI's WV Short Term Bond Pool. The WV Short Term Bond Pool is a bond mutual fund which was created to invest moneys of participants which have a perceived longer term investment horizon. The goal of the portfolio is to earn incremental returns over the WV Money Market Pool with an objective of capital growth rather than current income. The portfolio is restricted to monthly contributions and withdrawals and calculates a per-unit price each month. The risk factor on this portfolio is higher than the WV Money Market Pool. As of June 30, 2008, the investment was $12.2 million.

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

The University, through its Board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Starting in December 2007, the market for ARCs and other Auction Rate Securities experienced significant turmoil. To address the ARC market's ability to function, the Securities and Exchange Commission (SEC) issued a letter which allowed issuers and/or their affiliates to bid on such ARCs to allow for a more reasonable interest rate relative to the issuers credit rating.

Based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and on a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the University's ARCs in the April 23, 2008 auction. Of the $15.45 million of the University's ARCs outstanding, the Corporation owned $6.50 million, or 42%, at June 30, 2008. The University's ARCs mature in October 2012. The University intends to issue additional bonds before the ARCs mature, the proceeds of which may be used to retire the ARCs.

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.

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

h. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, 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. Under 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 as of June 30, 2008 and 2007.

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

j. *Compensated Absences and Other Post Employment Benefits*– The University accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

   Effective July 1, 2007, the University adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other than Pensions*. This statement provided standards for the measurement, recognition, and display of other post employment benefit ("OPEB") expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for post employment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency ("PEIA"), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or http://www.wvpeia.com.

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

The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance premiums when they retire. Effective July 1, 2007, the liability is provided for under the multiple employer cost sharing plan sponsored by the State (see Note 8).

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and 5 years extend health insurance for one year of family coverage.

For the year ended June 30, 2007, the estimate of the liability for the extended health or life insurance benefit was made on the vesting method in accordance with the provisions of GASB Statement No.16. Under that method, the University had identified the accrued sick and annual leave benefit earned to date by each employee and 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 or OPEB benefits are recorded as a component of benefits expense on the statement of revenues, expenses, and changes in net assets.

k. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the "Severance Plan") to provide incentives for the voluntary severance of the University's classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants that elected the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed $45,000. Participants that elected the January 15, 2004 exit date will receive their fiscal year 2003 base salary less $5,000 not to exceed $40,000. The total payment for either exit date is divided into 96 equal consecutive monthly payments. If the employee was over age 59 at the time his or her payments began, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67th birthday. Any employee age 66 or older at the time his or her benefits began received his or her payment in a lump sum. The University's total liability as of June 30, 2008 and 2007 was $682,000 and $1.1 million, respectively, which includes approximately $49,000 and $76,000 for employee benefits as of June 30, 2008 and 2007, respectively.

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

m. *Net Assets* – GASB 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 accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

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

The West Virginia State Legislature, 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, 2008 and 2007, the University had no restricted balances remaining in these funds.

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

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

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

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal land grants, and (5) sales and services of educational activities.

Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB 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, 2008 or 2007.

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

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

q. *Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net assets, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed $150.7 million in fiscal year 2008 and $136.7 million in fiscal year 2007 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 2008 and

2007, the University received and disbursed \$25.6 million and \$23.2 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 liability, medical malpractice liability, property, and auto insurance coverage to the University and its employees, including those physicians employed by the University and related to the University's academic medical center hospital. Such coverage is provided to the University through a self-insurance program maintained by BRIM for general liability, medical malpractice liability, and auto insurance coverage. BRIM maintains a self-insurance program to pay the first \$1,000,000 of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1,000,000. The BRIM self-insurance programs may involve experience and exposure related premiums.

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

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

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit \$3 million and \$2 million as of June 30, 2008 and 2007, respectively, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit \$13.3 million and \$11.3 million as of June 30, 2008 and 2007, respectively, in an investment earnings account with the Foundation to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program and premium levels determined by BRIM, the University has recorded a liability of $15.2 million and $12.8 million to reflect projected claim payments at June 30, 2008 and 2007, respectively.

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

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

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

x. *Recent Statements Issued By GASB* – The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. The University has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The University has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements.

The GASB has issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair value to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. The University has not yet determined the effect that the adoption of GASB Statement No. 52 may have on its financial statements.

The GASB has issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. The University has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

2008

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ 67,498	$ 680	$ 68,178
West Virginia University - Auxiliaries	26,517	-	26,517
Cash on deposit with Trustee or MBC	-	33,823	33,823
Deposits with BRIM Escrow Account Treasurer	-	3,013	3,013
Cash in Bank	21,536	-	21,536
Cash on Hand	47	-	47
Cash in Money Market	29	-	29
	$ 115,627	$ 37,516	$ 153,143

2007

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ 80,690	$ 619	$ 81,309
West Virginia University - Auxiliaries	19,388	-	19,388
Cash on deposit with Trustee or MBC	-	12,395	12,395
Deposits with BRIM Escrow Account Treasurer	-	2,033	2,033
Cash in Bank	31,104	-	31,104
Cash on Hand	44	-	44
Cash in Money Market	2,269	-	2,269
	$ 133,495	$ 15,047	$ 148,542

Cash on Deposit with the Treasurer. During fiscal year 2007, the Main Campus of the University requested and was granted the ability to invest directly with the BTI. Previously, all campuses of the University participated in the BTI investment program through the Commission. The direct participation of the Main Campus in the BTI program commenced on May 1, 2007. The regional campuses continue to participate in BTI through the Commission.

Amounts with the Treasurer, including deposits with the BRIM escrow account, and the Municipal Bond Commission as of June 30, 2008 and 2007 are comprised of the following investment pools.

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI’s Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI’s Consolidated Fund. Of the BTI’s Consolidated Fund pools and accounts which the University may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield Pool).

Credit Risk

WV Money Market (Formerly Cash Liquidity Pool) - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2008, the WV Money Market Pool has been rated AAAm by Standard & Poor’s. A Fund rated “AAAm” has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. “AAAm” is the highest principal stability fund rating assigned by Standard & Poor’s. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor’s (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor’s and P1 by Moody’s. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2008, the WV Money Market Pool investments had a total carrying value of $2,358,470,000, of which the University’s ownership represents 3.02 %.

The following table provides information on the credit ratings of the WV Money Market Pool’s investments (in thousands) at June 30, 2007:

Security Type	Credit Rating* Moody's	S & P	2007 Carrying Value	Percent of Pool Assets
Investments:				
Commercial paper	P1	A-1	$1,015,926	48.89%
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	Aa3	AA	20,001	0.96
	Aa3	A	23,002	1.11
	Aa2	AA	15,000	0.72
	Aa2	A	27,000	1.30
	Aa1	AA	77,023	3.71
	Aa	AA		
	Aa	A		
			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities):				
U.S. agency notes	Aaa	AAA	246,821	11.88
Deposits:				
Nonnegotiable certificates of deposit	NR	NR	50,000	2.41
			$1,831,010	100%

*NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007, the University's ownership represents 3.46% of these amounts held by the BTI.

WV Government Money Market Pool (formerly Government Money Market Pool) - For the year ended June 30, 2008, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2008, the WV Government Money Market Pool investments had a total carrying value of $187,064,000, of which the University's ownership represents .03 %.

The following table provides information on the credit ratings of the WV Government Money Market Pool's investments (in thousands) at June 30, 2007:

	Credit Rating		**2007**	
Security Type	**Moody's**	**S & P**	**Carrying Value**	**Percent of Pool Assets**
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46%
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P-1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	-
Repurchase agreements (underlying securities):				
U.S. Treasury notes	Aaa	AAA	51,400	22.39
			51,400	22.39
			$ 229,551	100.00%

At June 30, 2007, the University's ownership represented .13% of these amounts held by the BTI.

WV Short Term Bond Pool (formerly Enhanced Yield Pool) - The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A (A- in 2007) 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 WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating* Moody's	S & P	2008 Value	Percent of Pool Assets	2007 Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$		$ 42,122	18.40%
	Aaa	AAA	48,663	13.75		
	Aaa	NR	2,179	0.62		
	NR	AAA	1,135	0.32		
	AA3	AA	192	0.06		
			$ 52,169	14.75%	$ 42,122	18.40
Commercial paper	P1	A-1	7,971	2.25		
	Aaa	AAA	13,146	3.72	1,667	0.73
	Aa1	AA	12,613	3.56	6,431	2.81
	Aa2	AA	20,860	5.89	950	0.41
	Aa2	A	1,061	0.30	2,177	0.95
	Aa3	AA	11,488	3.25	7,857	3.43
	Aa3	A	4,548	1.28	3,905	1.70
	A1	AA	4,305	1.22	3,034	1.32
	A1	A	8,361	2.36	10,706	4.68
	A2	AA	847	0.24	747	0.33
	A2	A	26,585	7.51	8,188	3.58
	A3	A	10,917	3.08	6,958	3.04
	Baa1	AA-	593	0.17		
	Baa1	A-	2,028	0.57		
	Baa3	BB+	645	0.18		
			117,997	33.33	52,620	22.98
U.S. agency bonds	Aaa	AAA	71,840	20.29	46,075	0.20
U.S. Treasury notes**	Aaa	AAA	81,875	23.13	55,877	24.41
U.S. agency mortgage backed securities***	Aaa	AAA	5,345	1.51	11,741	5.13
Repurchase agreements (underlying securities): U.S. agency notes	Aaa	AAA	16,782	4.74	20,485	8.95
			$ 353,979	100%	$ 228,920	100%

*NR = Not Rated

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

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

At June 30, 2008 and 2007, the University's ownership represents 3.57% and .19%, respectively, of these amounts held by the BTI.

Interest Rate Risk

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

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

	2008		2007	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 371,163	1	$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	150,058	1	185	1
	$ 2,358,470	40	$ 2,077,831	48

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

Security Type	2008 Carrying Value (In Thousands)	2008 WAM (Days)	2007 Carrying Value (In Thousands)	2007 WAM (Days)
Repurchase agreements	$ 53,400	1	$ 51,400	2
U.S. Treasury bills	29,929	58	36,379	29
U.S. agency discount notes	43,249	77	74,143	106
U.S. agency bonds/notes	60,420	84	67,620	60
Money market funds	66	1	9	1
	$ 187,064	54	$ 229,551	49

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

Security Type	2008 Carrying Value (In Thousands)	2008 WAM (Days)	2007 Carrying Value (In Thousands)	2007 WAM (Days)
Repurchase agreements	$ 16,782	1	$ 20,485	2
U.S. Treasury bonds/notes	81,875	744	55,877	1092
Corporate notes	117,997	675	52,620	557
Corporate asset backed securities	52,169	341	42,122	421
U.S. agency bonds/notes	71,840	1231	46,075	927
U.S. agency mortgage backed securities	5,345	570	11,741	814
Commercial paper	7,971	50		
	$ 353,979	707	$ 228,920	700

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in 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's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Custodial Credit Risk

Deposits - Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

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 Investment Management Board (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, 2008 and 2007 was $21.5 million and $31.1 million, respectively, as compared with combined bank balances of $24.4 million and $34.1 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.

At June 30, 2008 and June 30, 2007, deposits with Huntington National Bank ("Huntington") for the Corporation in the amount of $16.0 and $21.0 million, respectively, were subject to custodial credit risk. The uninsured deposits are collateralized with Huntington through a Repurchase Agreement. The collateral pool for the Repurchase Agreement consists of securities issued by the U.S. Treasury, and federally guaranteed or sponsored agencies with a market value equal to or greater than 102% of the Corporation's bank balance and are held by Huntington in the name of the Corporation.

Cash in Money Market. Deposits with the money market funds are collateralized by securities held as collateral by the bank.

4. ACCOUNTS RECEIVABLE

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

	2008	2007
Student tuition and fees, net of allowances for doubtful accounts of $3,121 and $3,195	$ 4,616	$ 4,567
Grants and contracts receivable, net of allowances for doubtful accounts of $515 and $362	30,821	29,825
Due from West Virginia University Hospitals, Incorporated	3,947	1,026
Auxiliary services, net of allowances for doubtful accounts of $399 and $532	1,345	1,203
Investment earnings receivable	189	-
Other, net of allowances for doubtful accounts of $12 and $9	7,315	2,756
Due from other State agencies	292	408
Total accounts receivable	48,525	39,785
Less noncurrent portion	1,365	-
Current portion	$ 47,160	$ 39,785

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, 2008 and 2007, the University had the following investments (dollars in thousands):

Investment Type	2008 Fair Value	2007 Fair Value
Corporate Stocks - Domestic	$ -	$ 1,093
Corporate Stocks - Foreign	-	56
Mutual Stock Funds	3,904	4,548
Corporate Bonds	-	1,071
Mutual Bond Funds	4	4
U.S. Government Agencies	-	1,773
U.S. Treasury Obligations	-	664
Auction Rate Certificates	6,500	
BTI Investments - Short-Term Bond Pool	12,205	
Guaranteed Investment Contract	-	46,539
Global Fixed Income Fund Investment Grade - Brandywine	1,131	1,016
Stock Fund - Dodge and Cox	2,849	9,509
International Stock Fund - Dodge and Cox	1,748	-
U.S. Bonds/TIPS Fund - IRM	6,613	12,129
State Street Cash Account	28	-
SSGA Prime Money Market Fund - State Street	1,537	67
Investments without a readily determinable market value:		
Short-Term Fund - Commonfund	1,002	2,393
Multi-Strategy Equity Fund - Commonfund	11,922	6,435
Multi-Strategy Bond Fund - Commonfund	7,384	2,465
Multi-Strategy Equity Fund - Commonfund Institutional	4,492	-
Multi-Strategy Bond Fund - Commonfund Institutional	7,486	-
Multi-Strategy Commodities Fund - Commonfund Institutional	2,581	992
Real Estate Securities Fund - Commonfund	-	228
Absolute Return Investors B Blue - Commonfund	3,173	-
Robeco-Sage Capital International	1,518	1,577
	$ 76,077	$ 92,559

The University believes that the carrying amount of its investments without a readily determinable fair value is a reasonable estimate of market value as of June 30, 2008 and 2007. Because investments without a readily determinable fair value are not readily marketable, the estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market existed.

The University, including the Corporation, has several investment strategies that it deploys. Historically, the University was unable to invest excess operating funds outside of the Treasurer. In 2005, the West Virginia State Legislature passed Senate Bill 603 ("S.B. 603"). S.B. 603 granted the University the ability to invest a limited amount of funds with the West Virginia University Foundation, Incorporated (the "Foundation"). The University invested the maximum allowed by S.B. 603 with the Foundation in October 2006. Also in 2006, an investment strategy was initiated between the University's Health Science Center and BRIM in conjunction with the Treasurer. The goals were 1) to provide an asset pool to settle medical professional liability claims and 2) to provide an investment pool for medical professional liability premiums with the goal of self-funding premiums in the future. This investment pool is managed by the Foundation through an agency agreement. In August 2007, the University's Treasury Operations unit, along with the Corporation's Treasurer, completed an analysis of the Corporation's operations and identified "deep core" assets that were not needed in the near term and could be invested with a "quasi endowment – type" strategy and time frame. As such, on August 1, 2007 the Corporation invested $10 million with the Foundation. The Corporation adds to this investment quarterly if circumstances indicate such investment is prudent. In May 2008, the University invested in the BTI's Short Term Bond Pool an amount which represents long-term investment monies of the University.

The University, through its Board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARC's are variable rate debt that reset at auction every 28 days. Based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the ARC's in the April 23, 2008 auction. The University also has investments - the Wood investments – from the estate of donors with restricted purposes.

*Credit Risk***.** At June 30, 2007, the University's investments in corporate bonds were rated Baa by Moody's Investors Service and BBB by Standard & Poor's rating services. The investments in U.S. Government Agencies were rated Aaa by Moody's Investors Service and AAA by Standard & Poor's rating services. Investments in the mutual funds and equities have not been rated. At June 30, 2008 and 2007, the investments in the Short-Term Fund - Commonfund were rated AAA and AAA, respectively, by Standard & Poor's. The investments in the Multi-Strategy Bond Fund - Commonfund were rated AA and AA, respectively, by Standard & Poor's. The investments in the Multi-Strategy Commodities Fund - Commonfund Institutional were rated AA+ and AA+, respectively, by Standard & Poor's. The investments in IRM were rated AA+ and AA+, respectively, by Standard & Poor's. The investments in Brandywine were rated A+ and AA+, respectively, by Standard & Poor's. At June 30, 2008, the investments in the Multi-Strategy Bond Fund – Commonfund Institutional were rated AA by Standard & Poor's. The investments in the Multi-Strategy Equity Fund - Commonfund, Multi-Strategy Equity Fund - Commonfund Institutional, Absolute Return Investors B Blue, SSGA Money Market, Auction Rate Certificates, Robeco-Sage Capital International, International Stock Fund - Dodge and Cox, Stock Fund - Dodge and Cox and State Street Cash Account have not been rated.

Custodial Credit Risk. Until February 2008, a significant portion of the 2004 revenue refunding and improvement bond proceeds was 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 was 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 fell below A+ by Standard & Poor's Rating Services or A1 by Moody's Investor Services, Inc., the Seller must have either provided additional securities to satisfy the rating agencies' collateral requirements or terminated the agreement by repurchasing all securities and paying any price differentials. The GIC expired during fiscal year 2008.

Concentration of Credit Risk. At June 30, 2008, more than 5% of the University's investments were in the Mutual Stock Funds, Auction Rate Certificates, BTI Investments-Short-Term Bond Pool, Multi-Strategy Equity Fund - Commonfund, Multi-Strategy Equity Fund – Commonfund Institutional, Multi-Strategy Bond Fund - Commonfund, Multi-Strategy Bond Fund – Commonfund Institutional, and U.S. Bonds/TIPS Fund – IRM. At June 30, 2007, more than 5% of the University's investments were in the Guaranteed Investment Contract, Multi-Strategy Equity Fund - Commonfund, Dodge and Cox, and the IRM investments as noted above. The Guaranteed Investment Contract investment represented 50.3% of the University's total investments at June 30, 2007.

Foreign Currency Risk. At June 30, 2008, $579,000 of the Global Fixed Income Fund Investment Grade – Brandywine was denominated in foreign currency, or .76% of total investments.

Interest rate risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University's investments in the fixed income portfolio are subject to interest rate risk.

6. CAPITAL ASSETS

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

2008	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 25,906	$ 2,177	$ (1,358)	$ 26,725
Construction in progress	149,543	112,058	(144,657)	116,944
Total capital assets not being depreciated	$ 175,449	$ 114,235	$ (146,015)	$ 143,669
Other capital assets:				
Land improvements	$ 13,217	$ 11,327	$ -	$ 24,544
Buildings	776,682	131,567	(6,216)	902,033
Equipment	129,848	17,922	(7,125)	140,645
Library books	92,846	7,673	(235)	100,284
Software	41,995	1,179	(28)	43,146
Infrastructure	223,433	7,549	-	230,982
Total other capital assets	1,278,021	177,217	(13,604)	1,441,634
Less accumulated depreciation for:				
Land improvements	(7,424)	(1,522)	(4)	(8,950)
Buildings	(215,604)	(16,697)	34	(232,267)
Equipment	(79,450)	(11,486)	5,693	(85,243)
Library books	(71,799)	(5,774)	215	(77,358)
Software	(40,220)	(924)	(277)	(41,421)
Infrastructure	(187,935)	(6,887)	(34)	(194,856)
Total accumulated depreciation	(602,432)	(43,290)	5,627	(640,095)
Other capital assets, net	$ 675,589	$ 133,927	$ (7,977)	$ 801,539
Capital Assets Summary:				
Capital assets not being depreciated	$ 175,449	$ 114,235	$ (146,015)	$ 143,669
Other capital assets	1,278,021	177,217	(13,604)	1,441,634
Total cost of capital assets	1,453,470	291,452	(159,619)	1,585,303
Less accumulated depreciation	(602,432)	(43,290)	5,627	(640,095)
Capital assets, net	$ 851,038	$ 248,162	$ (153,992)	$ 945,208

2007	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 24,050	$ 1,857	$ (1)	$ 25,906
Construction in progress	143,083	135,628	(129,168)	149,543
Total capital assets not being depreciated	$ 167,133	$ 137,485	$ (129,169)	$ 175,449
Other capital assets:				
Land improvements	$ 11,269	$ 1,948	$ -	$ 13,217
Buildings	656,351	120,705	(374)	776,682
Equipment	131,928	17,128	(19,208)	129,848
Library books	85,617	7,307	(78)	92,846
Software	46,782	253	(5,040)	41,995
Infrastructure	218,219	5,327	(113)	223,433
Total other capital assets	1,150,166	152,668	(24,813)	1,278,021
Less accumulated depreciation for:				
Land improvements	(6,672)	(848)	96	(7,424)
Buildings	(200,103)	(15,473)	(28)	(215,604)
Equipment	(85,475)	(11,549)	17,574	(79,450)
Library books	(66,566)	(5,297)	64	(71,799)
Software	(40,300)	(439)	519	(40,220)
Infrastructure	(180,730)	(7,100)	(105)	(187,935)
Total accumulated depreciation	(579,846)	(40,706)	18,120	(602,432)
Other capital assets, net	$ 570,320	$ 111,962	$ (6,693)	$ 675,589
Capital Assets Summary:				
Capital assets not being depreciated	$ 167,133	$ 137,485	$ (129,169)	$ 175,449
Other capital assets	1,150,166	152,668	(24,813)	1,278,021
Total cost of capital assets	1,317,299	290,153	(153,982)	1,453,470
Less accumulated depreciation	(579,846)	(40,706)	18,120	(602,432)
Capital assets, net	$ 737,453	$ 249,447	$ (135,862)	$ 851,038

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

The University capitalized interest on borrowings, net of interest earned on related debt of $1.4 million and $2.4 million during fiscal years 2008 and 2007, respectively.

7. LONG-TERM LIABILITIES

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

2008	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	$ 55,656	$ 1,692	$ (34,817)	$ 22,531	$ 22,531
College system debt owed to the Commission	965	-	(204)	761	211
Advances from federal government	27,351	73	(533)	26,891	-
Debt service assessment payable to the Commission	103,838	-	(4,900)	98,938	5,115
Other post employment benefits liability	-	6,548	-	6,548	-
Leases payable	24,824	13,086	(4,068)	33,842	2,899
Bonds payable	213,144	-	(3,140)	210,004	3,314
Notes payable	4,023	11,120	(95)	15,048	48
Other noncurrent liabilities	14,740	3,750	(1,014)	17,476	748
Total long-term liabilities	$ 444,541	$ 36,269	$ (48,771)	$ 432,039	$ 34,866

2007	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Compensated absences	$ 58,358	$ -	$ (2,702)	$ 55,656	$ 22,343
College system debt owed to the Commission	1,166	-	(201)	965	204
Advances from federal government	27,345	95	(89)	27,351	-
Debt service assessment payable to the Commission	108,537	-	(4,699)	103,838	4,901
Leases payable	9,268	19,750	(4,194)	24,824	3,999
Bonds payable	216,108	-	(2,964)	213,144	3,139
Notes payable	238	3,880	(95)	4,023	95
Other noncurrent liabilities	9,059	6,736	(1,055)	14,740	899
Total long-term liabilities	$ 430,079	$ 30,461	$ (15,999)	$ 444,541	$ 35,580

8. COMPENSATED ABSENCES AND OTHER POST EMPLOYMENT BENEFITS

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

2008

	Current	Noncurrent	Total
Vacation leave/paid time off	$ 22,531	$ -	$ 22,531

2007

	Current	Noncurrent	Total
Health or life insurance benefits	$ 1,419	$ 33,313	$ 34,732
Vacation leave/paid time off	20,924	-	20,924
	$ 22,343	$ 33,313	$ 55,656

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by the University was based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled $1,437,123. As of the year ended June 30, 2007, there were 630 retirees receiving these benefits.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was $6,548,270. For the year ended June 30, 2008, the University recorded a cumulative effect of the adoption of this accounting principle of $34,731,840, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $31.6 million and $14.7 million, respectively, during 2008. As of the year ended June 30, 2008, there were 605 retirees receiving these benefits.

9. LEASES PAYABLE

a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2008 are as follows (dollars in thousands):

Fiscal Year Ended June 30,		
2009	$	6,677
2010		4,680
2011		4,285
2012		3,916
2013		3,722
2014-2018		13,836
2019-2023		9,880
2024-2028		9,880
2029-2033		5,930
2034-2038		5
2039-2043		5
2044-2048		5
2049-2053		5
2054-2058		5
Total	$	62,831

Total rental expense for the years ended June 30, 2008 and 2007 was $7.1 million and $7.9 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 $51.9 million and $27.9 million at June 30, 2008 and 2007, 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,	
2009	$ 4,021
2010	2,879
2011	2,587
2012	11,348
2013	1,845
2014-2024	21,150
Minimum lease payments	43,830
Less amount representing interest	(9,988)
Present value of minimum lease payments	33,842
Current Portion	2,899
Noncurrent Portion	$ 30,943

10. BONDS PAYABLE

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

	Original Interest Rate	Annual Principal Installment Due	2008 Principal Amount Outstanding	2007 Principal Amount Outstanding
Auction Rate Certificates				
Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2035, variable rate		$ 975 to 4,200	$ 15,450	$ 19,100
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			4,408	4,656
Unamortized Loss on Bond Defeasance			(3,994)	(4,752)
Net Bonds Payable			210,004	213,144
Curent Portion			3,314	3,139
Noncurrent Portion			$ 206,690	$ 210,005

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

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

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

Refunded Debt

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

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of $25.9 million. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. The 2004 Subseries A-1 and A-2 Bonds bear interest at an auction rate which was 2.232% and 2.232%, respectively, at June 30, 2008 and 5.22% and 5.22%, respectively, at June 30, 2007. 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. Such defeased bonds were called during fiscal year 2008 so that none were outstanding at June 30, 2008. Defeased bonds outstanding, held by the escrow agent, at June 30, 2007 were $61.9 million.

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 $26.6 million and $46.7 million at June 30, 2008 and 2007, respectively, represents unexpended proceeds of bond issuance, and is restricted to expenditures for capital improvements and bond related costs. This includes $0 and $46.5 million in investments and approximately $26.6 million and $195,000 in cash and cash equivalents at June 30, 2008 and 2007, respectively. At June 30, 2007, the investments were classified as noncurrent, but were 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**
2009	$ 3,825	$ 10,012	$ 13,837
2010	4,025	9,833	13,858
2011	4,200	9,647	13,847
2012	4,395	9,478	13,873
2013	4,550	9,316	13,866
2014-2018	25,045	43,658	68,703
2019-2023	31,865	36,837	68,702
2024-2028	40,870	27,828	68,698
2029-2033	52,455	16,244	68,699
2034-2036	38,360	2,858	41,218
Bonds Payable	209,590	$ 175,711	$ 385,301
Unamortized Bond Premium	4,408		
Loss on Bond Defeasance	(3,994)		
Net Bonds Payable	210,004		
Current Portion	3,314		
Noncurrent Portion	$ 206,690		

11. NOTES PAYABLE

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

WVHDF loan. WVHDF 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.

During fiscal year 2007, the Corporation drew down on the WVHDF loan commitments in the amount of $3.88 million which is recorded as a note payable. During fiscal year 2008, an additional $2.12 million was drawn down, which is recorded as a note payable.

The proceeds of the WVHDF loan are disbursed on a draw basis as construction progresses. The principal balance of the WVHDF loan bears interest at a fixed rate of 5.11% per annum. The rate is calculated on the basis of a 360-day year on amounts advanced. The note is due 240 months from the closing date of October 24, 2005. Interest is due and payable quarterly.

A note modification agreement dated April 26, 2007 allows the Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009 and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2008 and June 30, 2007 was $305,000 and $65,000, respectively.

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

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

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

WVEDA loan. WVEDA 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.

During fiscal year 2008, the Corporation drew down the entire WVEDA loan commitment in the amount of $9.0 million which is recorded as a note payable.

The proceeds of the WVEDA loan are disbursed on a draw basis as construction progresses. The principal balance of the WVEDA loan bears interest at a fixed rate of 5.51% per annum. The note is due 240 months from the closing date of October 24, 2005. Interest is due and payable monthly.

Interest on the loan will accrue but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest will be amortized and paid over the remaining term of the loan. Accrued interest as of June 30, 2008 was $354,000.

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

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

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

IJDC loan. IJDC 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. No amounts were drawn down on the IJDC loan commitment as of June 30, 2008.

Total principal and interest payments remaining to be paid at June 30, 2008 are approximately $26.8 million. Total facilities and administrative revenues earned by the HSC during fiscal year 2008 were $8.16 million. Total pledged revenue was $2.98 million.

12. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

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

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

13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan. As of June 30, 2008 and 2007, 80 and 66 employees, respectively, were enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2008 and 2007. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2008 and 2007. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The contribution rate is set by the 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,	**WVU**	**Employees**	**Total**
2008	$ 2,000	$ 1,000	$ 3,000
2007	2,000	1,000	3,000
2006	2,000	1,000	3,000

The TIAA-CREF and Educators Money are defined-contribution benefit plans in which benefits are based upon amounts contributed plus investment earnings. Each employee who elects to participate in these plans is required to make a contribution equal to 3 or 6% of their total annual compensation. The University simultaneously matches the employees' 3 or 6% contribution. Contributions are immediately and fully vested.

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

Fiscal Year Ending June 30,	**WVU**	**Employees**	**Total**
2008	$ 19,000	$ 19,000	$ 38,000
2007	18,000	18,000	36,000
2006	17,000	17,000	34,000

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

Fiscal Year Ending June 30,	**WVU**	**Employees**	**Total**
2008	$ 200	$ 200	$ 400
2007	160	160	320
2006	90	90	180

The University's total payroll for fiscal years 2008 and 2007 was $370.8 million and $351.0 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were $15.0 million, $324.4 million and $3.3 million in fiscal year 2008 and $14.8 million, $305.1 million and $2.7 million in fiscal year 2007, respectively.

14. NONMONETARY TRANSACTIONS

During fiscal year 2007, the University entered into a like-kind exchange agreement with Michel Real Estate Partnership, LLP ("Michel") that involved a transfer of 1.5 acre parcel of the University's Mileground Road property together with an approximately 12,000 square foot building constructed by the University in exchange for a 0.90 acre parcel of Michel land and building on such land. The Monongalia County Development Authority facilitated the property transfer. Accounting for the property exchange was based on the net book value of the University's property. No gain or loss was recorded on the exchange.

15. COMMITMENTS

a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. The University's total payments for steam purchased under the agreement were $7.9 million and $8.5 million in fiscal years 2008 and 2007, respectively. An additional $94,000 and $142,000, respectively, was accrued at June 30, 2008 and June 30, 2007 to record the University's liability to meet the minimum purchase requirement for the contract years ended September 30, 2008 and September 30, 2007. 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 $51.0 million at June 30, 2008.

16. AFFILIATED ORGANIZATIONS (Unaudited)

The University has affiliations with separately incorporated organizations including West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated; the Center for Entrepreneurial Studies and Development, 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 Facilities and Services Division.

Related Party Transactions

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

The University is reimbursed by UHA for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses UHA for costs associated with the services it provides to the University. During fiscal year 2004, the 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 $3.1 million and $24.6 million in fiscal year 2008 and $3.0 million and $23.0 million in fiscal year 2007, respectively. Accounts receivable at June 30, 2008 includes $214,000 due from UHA for such items as facility rental fees and utility cost reimbursement. There were no amounts due from UHA at June 30, 2007 for such costs. There were no amounts due to UHA at June 30, 2008 and 2007.

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 2008 and 2007, $25.5 million and $23.9 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, 2008 and 2007 include $3.9 million and

$1.13 million, respectively, due from WVUH for such items. During fiscal year 2008 and 2007, $352,000 and $378,200, 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, 2008 and 2007 include $70,000 and $60,100, respectively, due to WVUH for such items.

17. 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 $971.3 million and $988.1 million at June 30, 2008 and 2007, respectively, with net assets of $540.9 million and $546.5 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled $47.4 million and $59.0 million in fiscal years 2008 and 2007, respectively.

Total funds expended by the Foundation in support of University activities totaled $43.7 million and $43.2 million in fiscal years 2008 and 2007, respectively. This support and the related expenditures are primarily recorded in the University's combined financial statements.

18. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rule and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2008 or 2007.

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.

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.

Total principal and interest payments remaining to be paid at June 30, 2008 are approximately \$385.3 million. Total gross pledged revenue for fiscal year 2008 was \$85.2 million.

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

		AUXILIARIES As of/Year Ended 2008		AUXILIARIES As of/Year Ended 2007
CONDENSED STATEMENTS OF NET ASSETS				
Assets:				
Current Assets	$	28,624	$	22,049
Noncurrent and Capital Assets *		422,264		413,704
Total Assets		450,888		435,753
Liabilities:				
Current Liabilities		30,311		23,470
Long-Term Liabilities		207,321		213,017
Total Liabilities		237,632		236,487
Net Assets:				
Invested in Capital Assets, net of related debt		211,729		198,675
Restricted		27		49
Unrestricted		1,500		542
Total Net Assets	$	213,256	$	199,266
CONDENSED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Auxiliary and Capital Fees	$	21,929	$	21,278
Operating Revenues		87,894		79,972
Operating Expenses		(103,649)		(94,216)
Net Operating Income		6,174		7,034
Nonoperating Revenues/Expenses:				
Investment Income		1,057		1,939
Net Transfers from the University		7,335		22,276
Other Nonoperating Income		9,073		3,960
Gifts		4,020		4,040
Other Nonoperating Expenses		(3,837)		(4,152)
Interest Expense*		(9,832)		(8,918)
Increase in Net Assets		13,990		26,179
Net Assets - Beginning of Year		199,266		173,087
Net Assets - End of Year	$	213,256	$	199,266
CONDENSED STATEMENTS OF CASH FLOWS				
Net Cash Provided by Operating Activities	$	7,156	$	16,457
Net Cash Flows Used in Capital and Related Financing Activities		(22,299)		(55,334)
Net Cash Flows Provided by Investing Activites		48,350		33,593
Increase (Decrease) in Cash		33,207		(5,284)
Cash - Beginning of Year		19,815		25,099
Cash - End of Year	$	53,022	$	19,815
Reconcilation of cash				
Cash classified as current assets	$	26,409	$	19,815
Cash classified as noncurrent assets		26,613		-
	$	53,022	$	19,815

* Interest of $427,000 and $1.6 million was capitalized for fiscal year 2008 and 2007, respectively.

20. FUNCTIONAL CLASSIFICATION OF EXPENSES

(Dollars in Thousands)

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

Year Ended June 30, 2008

Natural Classification

Functional 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	$ 147,506	$ 49,703	$ -	$ 252	$ 25,331	$ -	$ -	$ -	$ -	$ 1,186	$ 223,978
Research	60,798	25,886	-	561	35,811	-	-	-	-	4,923	127,979
Public Service	30,937	8,750	-	43	12,075	-	-	-	-	40	51,845
Academic Support	21,081	6,512	-	87	8,130	-	-	-	-	-	35,810
Student Services	17,160	5,932	-	9	7,628	-	-	-	-	1	30,730
Operation and Maintenance of Plant	20,250	9,236	-	17,033	17,785	-	-	-	-	-	64,304
General Institutional Support	40,912	12,727	-	70	26,374	-	-	-	-	33	80,116
Student Financial Aid	-	-	29,315	-	-	-	-	-	-	-	29,315
Auxiliary Enterprises	32,188	9,900	-	6,138	45,770	-	-	-	-	59	94,055
Depreciation	-	-	-	-	-	43,290	-	-	-	-	43,290
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,511	-	-	2,511
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	477	-	477
Loan Cancellations and Write Offs	-	-	-	-	-	-	522	-	-	-	522
Total Expenses	$ 370,832	$ 128,646	$ 29,315	$ 24,193	$ 178,904	$ 43,290	$ 522	$ 2,511	$ 477	$ 6,242	$ 784,932

Year Ended June 30, 2007

Natural Classification

Functional 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	$ 139,187	$ 40,547	$ -	$ 217	$ 22,587	$ -	$ -	$ -	$ -	$ 2,710	$ 205,248
Research	57,887	22,766	-	568	25,622	-	-	-	-	4,263	111,106
Public Service	29,717	7,494	-	45	11,769	-	-	-	-	24	49,049
Academic Support	19,745	4,681	-	93	12,426	-	-	-	-	-	36,945
Student Services	15,943	4,796	-	22	6,355	-	-	-	-	-	27,116
Operation and Maintenance of Plant	18,529	6,020	-	17,628	15,263	-	-	-	-	-	57,440
General Institutional Support	37,185	9,554	-	57	28,422	-	-	-	-	654	75,872
Student Financial Aid	-	-	28,713	-	-	-	-	-	-	-	28,713
Auxiliary Enterprises	32,815	8,395	-	6,470	35,924	-	-	-	-	54	83,658
Depreciation	-	-	-	-	-	40,706	-	-	-	-	40,706
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,349	-	-	2,349
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	434	-	434
Loan Cancellations and Write Offs	-	-	-	-	-	-	277	-	-	-	277
Total Expenses	$ 351,008	$ 104,253	$ 28,713	$ 25,100	$ 158,368	$ 40,706	$ 277	$ 2,349	$ 434	$ 7,705	$ 718,913

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

To the West Virginia University Board of Governors:

We have audited the accompanying combined financial statements of the West Virginia University (the "University") as of June 30, 2008, and have issued our report thereon dated October 20, 2008. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the University's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

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

Compliance and Other Matters

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

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

Deloitte & Touche LLP

October 20, 2008