# West Virginia State University Research and Development Corporation

Financial Statements as of and for the
Years Ended June 30, 2010 and 2009, and
Independent Auditors' Report and
Reports Required by OMB Circular A-133 for the
Year Ended June 30, 2010

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

We have audited the accompanying statements of net assets of West Virginia State University Research and Development Corporation (the "Corporation") as of June 30, 2010 and 2009, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the Corporation. 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 financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation'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 the 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, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 3 through 9, which is the responsibility of the Corporation's management, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements of the Corporation taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2010, on our consideration of the Corporation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

December 20, 2010

# West Virginia State University
# Research and Development Corporation

## Management Discussion and Analysis
Fiscal Year Ended June 30, 2010

## I. Introduction

A. *Historical Background*

Incorporated in 1991, West Virginia State University Research and Development Corporation (the Corporation) serves as the University's (the University) primary fiscal agent for federal, state, municipal, corporate, and foundation grants, contracts, and gifts awarded to the institution. The Corporation operates as a nonprofit entity exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended.

B. *Overview of the Financial Statements and the Financial Analysis*

West Virginia State University is a Historically Black University founded in 1891 as an 1890 Land-Grant institution of higher education. The University's chief mission is to provide its State's citizens and stakeholders with quality instruction, research opportunities, and public educational outreach. In the last decade, propitiated by the regaining of its research and extension functions, as well as the establishment of graduate programs, the University continues to evolve into a more intensive research and service-oriented institution. Thus, external supplemental support has become particularly more important in the enhancing of the delivery of the University's mission. Furthermore, the University encourages its faculty, administrators, and staff to actively pursue sponsored programs that can result in the advancement of its educational activities. The University has experienced a gradual increase in external support which is reflected in the steady growth of the Corporation's operating revenues and expenses, as well as in its assets and liabilities during the last 11 consecutive years.

The discussion and analysis of the Corporation's financial statements are required supplemental information prescribed by the Governmental Accounting Standards Board ("GASB") No. 34 & 35. This financial information is structured into an *activity-based* reporting format and provides an overview of the Corporation's fiscal activities focusing on the year ended June 30, 2010. The analysis is based on the position of three main financial statements: (1) Net Assets, (2) Revenues, Expenses, and Changes in Net Assets, and (3) Cash Flows. Additional information relevant to fiscal years 2009 and 2008 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

## II. Statement of Net Assets

The "Statement of Net Assets" reflects the Corporation's assets, liabilities, and its net assets status at the end of the fiscal year. This statement provides to the University's stakeholders fiscal information of the Corporation at a point in time (June 30, 2010).

Net assets are divided into three main categories: (1) invested in capital assets, net of debt, (2) restricted net assets, and (3) unrestricted net assets. The first asset category provides information on the Corporation's interest in property, and plant and equipment owned by the institution. The second category is further divided into non-expendable and expendable restricted net assets. Non-expendable restricted net assets are only available for investment purposes; usually the Corporation does not operate non-expendable restricted net assets. Expendable restricted assets are assets to be expended by the institution for the purpose in which donors and/or grantors have intended (time and purpose restriction). Finally, unrestricted net assets are not restricted as to use, but are available to the institution for allowable expenditures.

**Condensed Statements of Net Assets**

| | FY 2010 | FY 2009 | FY 2008 |
|---|---|---|---|
| **Assets** | | | |
| Current assets, excluding cash and cash equivalents | $1,065,958 | $707,125 | $812,532 |
| Cash and cash equivalents | 435,110 | 572,091 | 451,327 |
| Non-current assets: | | | |
| Capital assets, net | 1,150,062 | 982,466 | 1,186,709 |
| **Total Assets** | **$2,651,130** | **$2,261,682** | **$2,450,568** |
| **Liabilities** | | | |
| Current liabilities | 558,151 | 494,490 | 530,955 |
| Non-current liabilities | 939,112 | 486,956 | 375,061 |
| **Total Liabilities** | **1,497,263** | **981,446** | **906,016** |
| **Net Assets** | | | |
| Invested in capital assets | 1,150,062 | 982,466 | 1,186,709 |
| Restricted – expendable | | | 146,125 |
| Unrestricted | 3,805 | 297,770 | 211,717 |
| **Total Net Assets** | **1,153,867** | **1,280,236** | **1,544,552** |
| **Total Liabilities and Net Assets** | **$2,651,130** | **$2,261,682** | **$2,450,568** |

In fiscal year 2010, the Corporation's total assets increased by $389,448 (17% increase) from the previous year. The portion of the total current assets also increased in similar proportion from the previous year by $221,852 (17%). The two major contributors of the portion of the current assets derived from grants and contracts receivable and cash and cash equivalents. In fact, the portion of grants and contracts receivable increased by $339,797 (59% increase) this year. In terms of non-current assets, the value of capital assets net increased by $167,596 (17%) from the previous year. The overall increase in total assets was due to an increase in current assets and capital assets; despite a decrease in the value of cash and cash equivalents this year by $136,981(24%). The cash and cash equivalents position of the Corporation varies from year to year and its value depends on the level of grant activity during the year and at the time this report is prepared. In other words, it is affected by receivables and payables in transit as well as by outstanding items (checks).

The balance of total liabilities during the current fiscal year increased from $981,446 to $1,497,263; an increase of $515,817 (53%). This increase was driven by a large increase in non-current liabilities (93%) relative to the previous year. More specifically the value of other post employment benefits more than doubled (from $403,643 to $913,399) due to the OPEB contribution imposed by the State Legislature to all of its state subsidiaries. The non-current portion of the compensated absences actually decreased (as expected) as a result of the Corporation introducing a time limit in carryover of sick and annual leave within its employee policies, in an effort to manage (reduce) this liability to a predetermined threshold. Non-current liabilities increased this year by $452,156 (93%) compared to the previous year. The increase in non-current liabilities resulted by an increase in other post employment benefits liabilities (97% of non-current liabilities portion). The value of current liabilities increased this year by only 13%, compared to the previous year. Accounts payable values increased slightly ($73,490). Accounts payable are variable throughout the year and vary from year to year as this value depends upon the level of activity related to the Corporation's primary activities. Current and non-current liabilities this year contributed 37% and 63%, respectively, in relation to the total liabilities' value.

The value of total net assets contracted slightly by $126,369 (10% reduction) from the previous year; which was caused largely by a reduction effect in terms of the Corporation's unrestricted assets ($293,965); in spite of a modest increase related to investment in capital assets (17%). This year change in net capital assets was positive compared to the negative values experienced in previous years. Investment in capital assets comprises the purchase of fixed assets that are required to fulfill the goals and objectives established for each of the grants and contracts. The slight increase in capital assets ($456,849) this year can be explained by a higher demand in equipment and related assets required to run the active programs which these grants support. Unrestricted net assets are utilized by the Corporation as supporting funding to cover for expenses of reimbursable grants in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in conducting research or other educational grants. The Corporation's unrestricted net assets mainly derived from external donors and the recovery of indirect costs from grants and sponsored agreements.

## III. Revenue, Expenses, and Changes in Net Assets

The statement of "Revenue, Expenses, and Changes in Net Assets" reveals the financial activities that contributed to changes in the total net assets. The main purpose of this statement is to show the revenues earned and the expenses incurred by the Corporation during the ensued fiscal year. Both, the revenues earned and the expenses incurred by the Corporation, are disclosed as operating and non-operating. Any other revenues, expenses, gains, and losses are also part of this statement.

Operating revenues generally derived from grants, contracts, and sponsored agreements to cover for providing goods and services to the Corporation's funding agencies or constituents. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the Corporation. Non-operating revenues are those revenues not linked to the providing of goods and/or services.

## Condensed Statements of Revenues, Expenses and Changes in Net Assets

| | FY 2010 | FY 2009 | FY 2008 |
|---|---|---|---|
| Operating revenues | $12,324,470 | $11,896,010 | $11,735,310 |
| Operating expenses | 12,905,136 | 12,230,058 | 12,870,572 |
| **Operating Loss** | **(580,666)** | **(334,048)** | **(1,135,262)** |
| Non-operating revenues (expenses) and other: | 454,297 | 69,732 | 628,403 |
| **Decrease in Net Assets** | (126,369) | (264,316) | (506,859) |
| **Net Assets – Beginning of Year** | 1,280,236 | 1,544,552 | 2,051,411 |
| **Net Assets – End of Year** | **$1,153,867** | **$1,280,236** | **$1,544,552** |

The Corporation's operating revenues derive from federal, state, and private funding sources. Operating revenues this year increased by 4% ($428,460) compared to 1, 9 and 5% increases in the respective previous three years. This year's moderate increase in operating revenues resulted from increases in federal ($523,792) and state ($195,904) funding; a 6% and 9% increase, respectively. The modest increase in the level of federal funds was derived from a corresponding increase in competitive grants and increases in formula funds (Land-Grant and Title III-B) used to enhance the University's educational research and extension activities. The private funds contracted this year ($291,236) by 23% compared to the previous year. The Corporation's revenue composition varies from year to year depending upon the availability of funds from each revenue source, and the overall level of combined efforts exercised by the Corporation and University's faculty, staff and administrators. Overall, a positive growth trend, in relation to the Corporation's operating revenues for the past 4 years continues (5% average). This positive trend in the Corporation's growth reflects a proactive effort in actively and continuously seeking to enhance educational programs via external sources of funds by the University's faculty, staff, and administrators.

The Corporation's total operating expenses this year increased by 6%, compared to a 5% reduction in the previous year. The operating expenses increased from $12,230,058 to $12,905,136. Normally, operating expenses are proportionally associated to the level of operating revenues. The more revenues the Corporation attains, the higher the level of expenditures incurred by the Corporation. This slight increase ($675,078) in the Corporation's total operating expenses was due to an associated increase in all the expense components (with the exception of employee benefits and depreciation) including salaries and wages (11%), payments to suppliers (3%), utilities (7%), and depreciation (5%) expenses, compared to the previous year. Expenditures related to employee's benefits slight decrease (by 5%); as the workforce remained at comparable levels compared to the previous year.

The Statement of Revenues, Expenses, and Changes in Net Assets, shows an operating loss for the year of $580,666, compared to last year's loss of $334,048. Operating losses this year were mainly attributed to the cost of depreciation and OPEB, as well as a decrease in private revenues. The activity-based financial reporting format, to which the Corporation subscribes through GASB 34 and 35, must account for the value of depreciation of its capital assets. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are recorded as capital expenses and capitalized by the Corporation or the University's fiscal entities. The cost of depreciation of these assets is rarely recovered by the institution due to the fact that it cannot be charged back to federal or state grants and/or contracts in preceding years. Thus, accumulated depreciation affects the value of assets acquired in a particular year. Another factor affecting the status of the Corporation's operating activity (gains or losses) is the reimbursable nature of its revenue.

Non-operating revenues and expenses had a large increase this year from $69,732 to $454,297, in relation to the previous year. Capital grants and gifts to the institution increased significantly this year from $70,993 to $456,849. The operating deficit between the Corporation's operating revenues and expenses, also resulted in an overall decrease ($126,369) in relation to its net assets. However this deficit was lower compared to the $264,316 from the previous year. The lost value of net assets was again mainly attributed to the level of depreciation relative to the investment in capital assets, as well as increase in non-current liabilities (OPEB effect).

## IV. Cash Flows

The last financial statement presented by the Corporation is the "Statement of Cash Flows". This statement provides detail information regarding the Corporation's cash activities during the year's end. The statement of cash flows is comprised of five parts. The first component relates to operating cash flows, which shows the net cash used by the Corporation in carrying out its operating activities. The second section reflects the cash flow activities from non-capital financial activities. This section reflects the cash received and spent for non-operating, non-investing, and non-capital financial purposes. The third component provides information on cash flows from investing activities, which shows the level of purchases, proceeds, and interests received from investing activities. The Corporation does not purposely engage in investing activities. The fourth part provides information on cash flows from capital and related financing activities. The Corporation engages in the acquisition of fixed assets and construction activities as per agreements with funding agencies. The last section reconciles the net cash used to the operating income or losses reflected on the Statement of Revenues, Expenses, and Changes in Nest Assets.

**Cash Flows**

| | FY 2010 | FY 2009 | FY 2008 |
|---|---|---|---|
| **Cash provided by (used in):** | | | |
| Operating activities | ($137,108) | $119,861 | ($572,750) |
| Investing activities | 127 | 903 | 1,646 |
| Capital and related financing activities | 0 | 0 | 0 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | **(136,981)** | **120,764** | **(571,104)** |
| Cash, beginning of year | 572,091 | 451,327 | 1,022,431 |
| **Cash, end of year** | **$435,110** | **$572,091** | **$451,327** |

The Corporation's cash and cash equivalents as of June 30, 2010 was $435,110. The lower value compared to last year can be attributed to a deficit from the cash provided by operating activities ($137,108). The cash and cash equivalents of the previous two years were $572,091 and $451,327, respectively. Cash flow provided by financing activities was negligible and represented only $127 derived from interest income. Interest income derived from federal and state accounts is always minimized by drawing down cash only on a reimbursable or encumbrance basis. Investment gain in the form of interests from these funds is not a primary target activity. The combined carrying amount of cash in bank at June 30, 2010 and 2009 was $435,110 and $572,091. The difference is primarily caused by outstanding checks and items in transit.

The total value of cash and cash equivalents, in relation to the total value of operating revenues for fiscal year 2009 was 4% which is a comparable value compared to 5 and 4% of the previous consecutive two years. This level of overall cash, as a percentage of operating revenues, suggests that the Corporation has maintained consistency in terms of similar levels of cash to operate and meet its obligations in relation to the previous two years.

## V. Capital Assets and Debt Administration

The Corporation's central goal is the fiscal management of all grants, contracts, and sponsored agreements for the University. A number of these grants allow purchases of capital assets including educational and research equipment, land and buildings, new construction and renovation of educational facilities, infrastructural development, and motored vehicles. This year, the purchase of capital assets in terms of additions totaled $456,849 compared to the $70,993 and $270,278 additions from the respective previous two years. It is the Corporation's policy that major assets (excluding vehicles), such as real state and capital improvements, be generally titled to the University and recorded on the University's financial statements. Thus, these major assets are normally recorded as expenditures within the Corporation and transferred to the University as assets. The assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2009 or 2010.

## VI. Economic Outlook

West Virginia State University continues evolving its capabilities of delivering teaching, research, and outreach programs, as an 1890 Land-Grant Institution of higher education. While the institution maintains its tradition of excellence in teaching, it also continues to strengthen research and outreach programming, which require the support of additional external resources. The regaining of the University's Land-Grant and University statuses and the implementation of graduate programs has augmented activities related to research, teaching and public service. To that end, the University continues encouraging its academic faculty and research and outreach staff to seek opportunities for enhancing research, teaching, and public service through external sponsored funding. As a land-grant institution the University currently receives federal and state entitlements, including formula funds and associated state matching appropriations and other entitlements exclusive to 1890 Universities. However, a great portion of the external support received by the University comes from competitive grants and unsolicited requests. Although government-derived resources have become scarcer in the last few years, the University has managed to modestly increased (or at least maintain) their level of revenues, derived from these sources, in the last 10 consecutive years. The University also actively seeks resources from non-traditional sources such as partnerships with the private and non-private institutions and foundations, and generating program income through the sale of services and the establishment of intellectual property. As externally sponsored resources become increasingly more prominent within the University, the West Virginia State University Research and Development Corporation has managed to adjust to this continuous demand and growth. Because of the institutional commitment, in terms of enhancing the University's mission and service to its constituents, it is expected that this growing trend transcends throughout the next decade.

Presently the University is exploring a reorganization to more efficiently and effectively manage external and internal resources which are obtained to conduct research and outreach programming. This reorganization will also support the establishment of additional graduate programs at the University and their associated research and public service. To that end, the University is actively seeking funding from various federal agencies including the U.S. Department of Education, the U.S. Department of Agriculture, and the National Science Foundation (to name a few) to support current (and future) graduate programs. Furthermore, the institution is seeking to increase participation in statewide initiatives, along with other state Universities, related to research infrastructural development which could in turn translate into regional economic development. As these endeavors materialize, there will also be greater administrative activity and more opportunities for the University to continue the quest of enhancing its mission via external funding.

The Corporation will continue playing a vital role in the administration and advancement of research, teaching and public service for the University. The Corporation has managed to sustain a moderate increase in revenues in spite of an overall latent economy. All funding streams captured by the University and administered by the Corporation continue having positive impacts on the economic development, research capacity, and expansion of educational facilities of the University and the communities served throughout the state.

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## STATEMENTS OF NET ASSETS
## AS OF JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 435,110 | $ 572,091 |
| Grants and contracts receivable | 915,908 | 576,111 |
| Other receivables | 10,347 | 843 |
| Due from West Virginia State University | 2,640 | 15,778 |
| Prepaid expense | 137,063 | 114,393 |
| Total current assets | 1,501,068 | 1,279,216 |
| NONCURRENT ASSETS — Capital assets — net | 1,150,062 | 982,466 |
| TOTAL | $2,651,130 | $2,261,682 |
| **LIABILITIES AND NET ASSETS** | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 330,944 | $ 257,454 |
| Compensated absences — current portion | 227,207 | 237,036 |
| Total current liabilities | 558,151 | 494,490 |
| NONCURRENT LIABILITIES: | | |
| Compensated absences — noncurrent portion | 25,713 | 83,313 |
| Other post employment benefits liability | 913,399 | 403,643 |
| Total noncurrent liabilities | 939,112 | 486,956 |
| Total liabilities | 1,497,263 | 981,446 |
| NET ASSETS: | | |
| Invested in capital assets | 1,150,062 | 982,466 |
| Unrestricted | 3,805 | 297,770 |
| Total net assets | 1,153,867 | 1,280,236 |
| TOTAL | $2,651,130 | $2,261,682 |

See notes to financial statements.

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
## FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| OPERATING REVENUES — Contracts and grants: | | |
| Federal | $ 8,834,981 | $ 8,311,189 |
| State | 2,502,643 | 2,306,739 |
| Private | 986,846 | 1,278,082 |
| Total operating revenues | 12,324,470 | 11,896,010 |
| OPERATING EXPENSES: | | |
| Salaries and wages | 5,962,237 | 5,380,857 |
| Supplies and other services | 5,292,917 | 5,144,567 |
| Benefits | 1,310,311 | 1,382,101 |
| Depreciation | 286,574 | 273,072 |
| Utilities | 53,097 | 49,461 |
| Total operating expenses | 12,905,136 | 12,230,058 |
| OPERATING LOSS | (580,666) | (334,048) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Investment income | 127 | 903 |
| Loss on disposal of capital assets | (2,679) | (2,164) |
| Net nonoperating expenses | (2,552) | (1,261) |
| LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | (583,218) | (335,309) |
| CAPITAL GRANTS AND GIFTS | 456,849 | 70,993 |
| DECREASE IN NET ASSETS | (126,369) | (264,316) |
| NET ASSETS — Beginning of year | 1,280,236 | 1,544,552 |
| NET ASSETS — End of year | $ 1,153,867 | $ 1,280,236 |

See notes to financial statements.

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2010 AND 2009

| | 2010 | 2009 |
|---|---|---|
| CASH FLOWS (USED IN) PROVIDED BY OPERATING ACTIVITIES: | | |
| Contracts and grants | $ 11,988,307 | $ 12,049,357 |
| Payments to and on behalf of employees | (6,830,221) | (6,644,538) |
| Payments to suppliers | (5,242,097) | (5,235,497) |
| Payments to utilities | (53,097) | (49,461) |
| Net cash (used in) provided by operating activities | (137,108) | 119,861 |
| CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES: | | |
| Capital grants and gifts received | 456,849 | 70,993 |
| Purchases of capital assets | (456,849) | (70,993) |
| Net cash provided by capital financing activities | - | - |
| CASH FLOWS PROVIDED BY INVESTING ACTIVITIES: | | |
| Investment income | 127 | 903 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (136,981) | 120,764 |
| CASH AND CASH EQUIVALENTS — Beginning of year | 572,091 | 451,327 |
| CASH AND CASH EQUIVALENTS — End of year | $ 435,110 | $ 572,091 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating loss | $ (580,666) | $ (334,048) |
| Adjustments to reconcile net operating loss to net cash (used in) provided by operating activities: | | |
| Depreciation expense | 286,574 | 273,072 |
| Changes in assets and liabilities: | | |
| Grants/contracts receivable | (339,797) | 141,319 |
| Other receivable | (9,504) | 12,909 |
| Due from West Virginia State University | 13,138 | (881) |
| Prepaid expenses | (22,670) | (47,940) |
| Accounts payable | 73,490 | (42,990) |
| Compensated absences and other post employment benefits liability | 442,327 | 118,420 |
| NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES | $ (137,108) | $ 119,861 |

See notes to financial statements

### 1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government and encourages the acceptance of gifts, grants, contracts, and equipment and the sharing of facilities, equipment, technical assistance, and instructional programs in the State. The Corporation is governed by a Board of Directors, the Chairperson of which is the President of the University.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The Corporation 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 has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

**Reporting Entity** — The Corporation is included in the financial statements of the University (its Parent), as the University is the sole member of the nonstock not-for-profit corporation. 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 West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), 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.

**Financial Statement Presentation** — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a basis to focus on the Corporation as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the Corporation as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance." Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of University obligations. The Corporation's net assets are classified as follows:

*Invested in Capital Assets* — This represents the Corporation's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt. The Corporation has no capital-related debt.

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

*Restricted Net Assets, Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The Corporation does not have any restricted nonexpendable net assets at June 30, 2010 or 2009.

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

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

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

**Allowance for Doubtful Accounts** — It is the Corporation's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances, and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts. As of June 30, 2010 and 2009, respectively, the Corporation has not recorded an allowance for doubtful accounts.

**Capital Assets** — Capital assets include property, plant, and equipment, software, 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 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, 5 years for software, and 3 to 10 years for furniture and equipment. The Corporation's threshold for capitalizing capital assets is $5,000.

**Compensated Absences and Other Post Employment Benefits Liability** — The Corporation accounts for compensated absences in accordance with the provisions of GASB.

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

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

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

The estimated expense incurred for the vacation leave or OPEB are recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net assets.

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

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

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

*Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) most federal, state, local, and nongovernmental grants and contracts, (2) federal appropriations, and (3) sales and services of educational activities.

*Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as investment income.

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

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

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

**Tax Status** — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

**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 expenditures during the reporting period. Actual results could differ from those estimates.

**Newly Adopted Statements Issued by the Governmental Accounting Standards Board** — During 2010, the Corporation adopted Statement No. 51, *Accounting and Financial Reporting for Intangible Assets.* This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on its financial statements.

The Corporation also adopted 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 adoption of this statement did not have a material impact on its financial statements.

**Recent Statements Issued by the Governmental Accounting Standards Board** — The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. The Corporation has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

## 3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2010 and 2009, was $435,110 and $572,091, respectively, compared with the combined bank balance of $758,383 and $889,815, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2010 and 2009, $628,520 and $616,757, respectively, were covered by Federal Deposit Insurance Corporation, while $129,863 and $273,058, respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

## 4. CAPITAL ASSETS

A summary of capital asset transactions for the years ended June 30, 2010 and 2009, is as follows:

| 2010 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Capital assets: | | | | |
| Equipment | $3,594,346 | $ 325,485 | $(180,278) | $3,739,553 |
| Motor vehicles | 365,758 | 131,364 | (82,050) | 415,072 |
| Software | 340,069 | | | 340,069 |
| Library books | 205,945 | | | 205,945 |
| Total capital assets | 4,506,118 | 456,849 | (262,328) | 4,700,639 |
| Less accumulated depreciation for: | | | | |
| Equipment | 2,613,242 | 271,936 | (177,599) | 2,707,579 |
| Motor vehicles | 364,396 | 14,638 | (82,050) | 296,984 |
| Software | 340,069 | | | 340,069 |
| Library books | 205,945 | | | 205,945 |
| Total accumulated depreciation | 3,523,652 | 286,574 | (259,649) | 3,550,577 |
| Capital assets — net | $ 982,466 | $ 170,275 | $ (2,679) | $1,150,062 |
| Capital asset summary: | | | | |
| Capital assets | $4,506,118 | $ 456,849 | $(262,328) | $4,700,639 |
| Less accumulated depreciation | 3,523,652 | 286,574 | (259,649) | 3,550,577 |
| Capital assets — net | $ 982,466 | $ 170,275 | $ (2,679) | $1,150,062 |

| 2009 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Capital assets: | | | | |
| Equipment | $3,727,601 | $ 70,993 | $ (204,248) | $3,594,346 |
| Motor vehicles | 365,758 | | | 365,758 |
| Software | 340,069 | | | 340,069 |
| Library books | 205,945 | | | 205,945 |
| Total capital assets | 4,639,373 | 70,993 | (204,248) | 4,506,118 |
| Less accumulated depreciation for: | | | | |
| Equipment | 2,568,543 | 246,783 | (202,084) | 2,613,242 |
| Motor vehicles | 344,739 | 19,656 | | 364,395 |
| Software | 340,069 | | | 340,069 |
| Library books | 199,313 | 6,633 | | 205,946 |
| Total accumulated depreciation | 3,452,664 | 273,072 | (202,084) | 3,523,652 |
| Capital assets — net | $1,186,709 | $ (202,079) | $ (2,164) | $ 982,466 |
| Capital asset summary: | | | | |
| Capital assets | $4,639,373 | $ 70,993 | $ (204,248) | $4,506,118 |
| Less accumulated depreciation | 3,452,664 | 273,072 | (202,084) | 3,523,652 |
| Capital assets — net | $1,186,709 | $ (202,079) | $ (2,164) | $ 982,466 |

Title for motor vehicles is with the University.

## 5. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, which are based upon actuarial determined amounts. At June 30, 2010 and 2009, the noncurrent liability related to OPEB costs was $913,399 and $403,643, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $913,399 and $0, respectively, during 2010 and $403,643 and $0, respectively, during 2009. As of the year ended June 30, 2010, there were zero retirees receiving these benefits.

## 6. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2010 and 2009, were $534,857 and $529,627, respectively, which consisted of equal contributions from the Corporation and covered employees in 2010 and 2009 of $267,429 and $264,814, respectively.

The Corporation's total payroll for the years ended June 30, 2010 and 2009, was $5,370,991 and $5,197,108, respectively; total covered employees' salaries for TIAA-CREF were $4,457,144 and $4,413,561 in 2010 and 2009, respectively.

## 7. CONTINGENCIES

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 Corporation's management believes disallowances, if any, will not have a significant financial impact on the Corporation's financial position.

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation 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 Corporation would not seriously affect the financial position of the institution.

## 8. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2010, are as follows:

| | |
|---|---|
| 2011 | $ 50,213 |
| 2012 | 50,213 |
| 2013 | 50,213 |

The total operating lease expense for the years ended June 30, 2010 and 2009, was $188,018 and $470,139, respectively. The Corporation does not have any noncancelable leases.

## 9. UNRESTRICTED NET ASSETS

At June 30, 2010 and 2009, the Corporation has no designated net assets.

## 10. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2010 and 2009, are as follows:

| 2010 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|
| Research | $1,809,684 | $ 393,704 | $ 1,300,275 | $16,274 | $ - | $ 3,519,937 |
| Public service | 557,855 | 124,012 | 903,701 | 12,571 | | 1,598,139 |
| General institutional | 3,572,047 | 788,909 | 2,830,627 | 22,291 | | 7,213,874 |
| support | | | | 1,961 | | 1,961 |
| Auxiliary enterprises | 22,651 | 3,686 | 258,314 | | | 284,651 |
| Depreciation | | | | | 286,574 | 286,574 |
| Total | $5,962,237 | $1,310,311 | $ 5,292,917 | $53,097 | $ 286,574 | $12,905,136 |

| 2009 | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Depreciation | Total |
|---|---|---|---|---|---|---|
| Research | $1,678,395 | $ 341,809 | $ 1,002,883 | $14,785 | $ - | $ 3,037,872 |
| Public service | 728,036 | 157,165 | 1,035,088 | 16,336 | | 1,936,625 |
| General institutional support | 2,951,026 | 881,438 | 2,784,166 | 17,791 | | 6,634,421 |
| Auxiliary enterprises | 23,400 | 1,689 | 322,430 | 549 | | 348,068 |
| Depreciation | | | | | 273,072 | 273,072 |
| Total | $5,380,857 | $1,382,101 | $ 5,144,567 | $49,461 | $ 273,072 | $12,230,058 |

* * * * * *

# SUPPLEMENTAL SCHEDULE

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2010

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | | Federal Expenditures |
|---|---|---|---|---|---|
| **RESEARCH AND DEVELOPMENT CLUSTER:** | | | | | |
| Bioplex 9 - Agricultural Waste Management Research Program Special Research Grant | D | 10.200 | | $ 124,045 | |
| Bioplex 10 - Agricultural Waste Management Research Program Special Research Grant | D | 10.200 | | 188,153 | |
| | | 10.200 Subtotal | | | 312,198 |
| Cooperative State Research Education and Extension Service Cooperative Research (Evans Allen—Section 1445) 1890 | D | 10.205 | | | 1,355,102 |
| Capacity Building Grant - BIOTECHNOLOGY | D | 10.216 | | 54,011 | |
| Capacity Building Grant - MGCT | D | 10.216 | | 1,016 | |
| Capacity Building Grant - SWEET POTATO | D | 10.216 | | 123,263 | |
| Capacity Building Grant - BACK TO GENES | D | 10.216 | | 42,239 | |
| Capacity Building Grant - CUCURBIT | D | 10.216 | | 181,017 | |
| Capacity Building Grant - FINFISHES | D | 10.216 | | 55,052 | |
| Capacity Building Program - HIBISCUS | I | 10.216 | Southern University | 32,425 | |
| | | 10.216 Subtotal | | | 489,023 |
| Sustainable Agriculture (SARE) 08 | I | 10.215 | West Virginia University (Research Corporation) | | 6,551 |
| WV BRIN 2010 | I | 93.389 | Marshall University (Research Corporation) | 99,005 | |
| WV INBRE FRA HANKINS | I | 93.389 | West Virginia University (Research Corporation) | 14,156 | |
| | | 93.389 Subtotal | | | 113,161 |
| EPSCOR Track 1- Nanotechnology | I | 47.076 | West Virginia Higher Educ | 30,234 | |
| EPSCOR Track 1- Supplemental | I | 47.076 | West Virginia Higher Educ | 70,698 | |
| | | 47.076 Subtotal | | | 100,932 |
| EPSCOR Track 1- Cyberinfrastructure | I | 47.082 | West Virginia Higher Education Policy | | 22,295 |
| Total Research and Development Cluster | | | | | 2,399,262 |
| **OTHER PROGRAMS:** | | | | | |
| Department of Agriculture: | | | | | |
| Organic Agriculture Research & Extension Initiative (OREI): | | | | | |
| Organic Vegetable | I | 10.303 | Ohio State University | 5,183 | |
| Solcap | I | 10.303 | Michigan State University | 4,923 | |
| | | | | | 10,106 |
| ARD Research Symposium | D | 10.500 | | 11,000 | |
| Cooperative State Research Education and Extension Service | | | | | |
| Cooperative Extension Service (Smith Lever- Section 1444) | D | 10.500 | | 1,351,314 | |
| 1890 Facilities Grant Extension Service | D | 10.500 | | 399,986 | |
| Renewable Resources Extension Act - RREA 08 | D | 10.500 | | 2,685 | |
| Expanded Food and Nutrition Education Program - EFNEP | D | 10.500 | | 457 | |
| Expanded Food and Nutrition Education Program - EFNEP 07 | D | 10.500 | | 11,468 | |
| Expanded Food and Nutrition Education Program - EFNEP 08 | D | 10.500 | | 71,889 | |
| Expanded Food and Nutrition Education Program - EFNEP 09 | D | 10.500 | | 43,453 | |
| Children, Youth and Families at Risk Program - CYFAR 09 | D | 10.500 | | 41,909 | |
| | | 10.500 Subtotal | | | 1,934,161 |

(Continued)

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
## FOR THE YEAR ENDED JUNE 30, 2010

| Federal Agency | Source | CFDA/ Contract Number | Indirect Agency | | Federal Expenditures |
|---|---|---|---|---|---|
| Department of Agriculture (continued): | | | | | |
| Summer Food Program 09 | D | 10.559 | | | $ 43,365 |
| USDA - Agricultural Research Service Soil & Turf Management Systems | D | 10.001 | | | 109,842 |
| Rural Business Services - RBS 08 | D | 10.856 | | 35 | |
| Rural Business Services - RBS 09 | D | 10.856 | | 29,295 | |
| Rural Business Services - RBS 10 | D | 10.856 | | 49,046 | |
| | | 10.856 Subtotal | | | 78,376 |
| Department of Agriculture Total | | | | | 2,175,850 |
| Louis Stock Alliance (LSAMP) 246 | I | 47.076 | University of Kentucky | 17,879 | |
| Louis Stock Alliance (LSAMP) 247 | I | 47.076 | University of Kentucky | 18,871 | |
| | | 47.076 Subtotal | | | 36,750 |
| Science, Engineering, Mathematics & Aerospace Academy (: | D | 43.001 | | | 130,008 |
| Title III-B-2009 Strengthening Historically Black Colleges & Universities | D | 84.031 | | 570,465 | |
| Title III-B-2010 Strengthening Historically Black Colleges & Universities | D | 84.031 | | 1,729,045 | |
| Title III Master | D | 84.031 | | 376,394 | |
| Title III CCRAA 2009 | D | 84.031 | | 454,054 | |
| Title III CCRAA 2010 | D | 84.031 | | 308,490 | |
| | | 84.031 Subtotal | | | 3,438,448 |
| Army Corp of Engineers | D | 12.W91237-09-P-0072 | | 9,360 | |
| Army Corp of Engineers | D | 12.W91237-09-P-007 | | 39,066 | |
| Army Corp of Engineers | D | 12.W91237-09-P-0102 | | 17,381 | |
| Army Corp of Engineers | D | 12.W91237-09-P-0246 | | 65,570 | |
| Total Army Corp | | | | | 131,377 |
| Historical Preservation Fund - HPF African Zion Church | D | 15.932 | | | 553 |
| STI 09 | I | 20.205 | WV Department of Transportation | | 44,207 |
| **TOTAL FEDERAL AWARDS** | | | | | 8,356,455 |

See notes to Schedule of Expenditures of Federal Awards. (Concluded)

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**
**FOR THE YEAR ENDED JUNE 30, 2010**

1. The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal grant activity of West Virginia State University Research and Development Corporation (the “Corporation”) for the year ended June 30, 2010, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

2. Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.

3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation’s indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management’s opinion, the likelihood of an adverse material outcome upon the Corporation’s financial position from those reviews and audits is unlikely.

4. Subrecipients — Of the federal expenditures presented in the Schedule, the Corporation provides federal awards to subrecipients of $254,936.

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# REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

We have audited the financial statements of West Virginia State University Research and Development Corporation (the "Corporation") as of and for the year ended June 30, 2010, and have issued our report thereon dated December 20, 2010. 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 Corporation'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 Corporation's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 a 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 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 internal control over financial reporting that we consider to be material weaknesses, as defined above.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Corporation'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 Board of Directors of West Virginia State University Research and Development Corporation, management of the Corporation, and West Virginia State University, 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

December 20, 2010

Deloitte.

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# REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors of
West Virginia State University
Research and Development Corporation:

## Compliance

We have audited West Virginia State University Research and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The Corporation's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grant agreements applicable to each of its major federal programs is the responsibility of the Corporation's management. Our responsibility is to express an opinion on the Corporation's compliance based on our audit.

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; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provided a reasonable basis for our opinion. Our audit does not provide a legal determination on the Corporation's compliance with those requirements.

In our opinion, the Corporation complied, in all material respects, with the requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

## Internal Control Over Compliance

The management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Corporation's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance 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 internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors of the West Virginia State University Research and Development Corporation, management of the Corporation and West Virginia State University, federal 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

December 20, 2010

# WEST VIRGINIA STATE UNIVERSITY
# RESEARCH AND DEVELOPMENT CORPORATION

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS
## FOR THE YEAR ENDED JUNE 30, 2010

## SECTION I — SUMMARY OF AUDITORS' RESULTS

### FINANCIAL STATEMENTS

Type of auditors' report issued: **Unqualified Opinion**

Internal control over financial reporting:

| | | | | |
|---|---|---|---|---|
| Material weakness(es) identified? | Yes | | No | X |
| Significant deficiencies identified that are not considered to be material weaknesses? | Yes | | None Reported | X |
| Noncompliance material to financial statements noted? | Yes | | No | X |

### FEDERAL AWARDS

Internal control over major programs:

| | | | | |
|---|---|---|---|---|
| Material weakness(es) identified? | Yes | | No | X |
| Significant deficiencies identified that are not considered to be material weaknesses? | Yes | | None Reported | X |
| Noncompliance material to financial statements noted? | Yes | | No | X |

Type of auditors' report issued on compliance for major programs: **Unqualified Opinion**

| | | | | |
|---|---|---|---|---|
| Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of Circular A-133? | Yes | | No | X |

Identification of major programs:

| Name of Federal Program or Cluster | CFDA Number |
|---|---|
| Department of Education | 84.031 |

Dollar threshold used to distinguish between Type A and Type B Programs: $ 300,000

| | | | | |
|---|---|---|---|---|
| Auditee qualified as a low-risk auditee? | Yes | X | No | |

## SECTION II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

## SECTION III. — FEDERAL AWARD FINDINGS AND QUESTIONED COSTS SECTION

No matters are reportable.