West Virginia State University Research and Development Corporation

Financial Statements as of and for the Years Ended June 30, 2011 and 2010, and Independent Auditors' Report and Reports Required by OMB Circular A-133 for the Year Ended June 30, 2011

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, 2011 and 2010, 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, 2011 and 2010, 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 February 22, 2012, 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

February 22, 2012

West Virginia State University
Research and Development Corporation

Management Discussion and Analysis
Fiscal Year Ended June 30, 2011

I. Introduction

A. *Historical Background*

As prescribed in W. Va. Code Chapter 18B, West Virginia State University Research and Development Corporation (the Corporation) was incorporated in 1991 to serve as the University's (the University) primary fiscal agent for sponsored 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 Revenues 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 central mission is to provide its State's citizens and stakeholders with quality instruction, research opportunities, and public educational outreach. In the last decade, precipitated by the regaining of its research and extension functions, as well as the establishment of graduate programs, the University continues evolving into a more intensive research and service-oriented institution. External supplemental support has become essential in the enhancing of the delivery of the University's mission. Therefore, the University encourages its faculty, administrators, and staff to actively pursue externally sponsored programs 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 since its inception, in 1991.

The discussion and analysis of the Corporation's financial statements are required supplemental information prescribed by the Governmental Accounting Standards Board ("GASB") Statements 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, 2011. 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 2010 and 2009 is also included in this analysis to give 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, 2011).

Net assets are divided into three main categories: (1) invested in capital assets, (2) restricted net assets, and (3) unrestricted net assets. The first asset category provides information on the Corporation's interest in property, 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. 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 only available to the institution for allowable expenditures.

Condensed Statements of Net Assets

	FY 2011	FY 2010	FY 2009
Assets			
Current assets	$1,349,508	$1,065,958	$707,125
Cash and cash equivalents	163,219	435,110	572,091
Non-current assets:			
Capital assets, net	1,411,981	1,150,062	982,466
Total Assets	**$2,924,708**	**$2,651,130**	**$2,261,682**
Liabilities			
Current liabilities	$524,482	$558,151	$494,490
Non-current liabilities	1,988,376	939,112	486,956
Total Liabilities	**2,512,858**	**1,497,263**	**981,446**
Net Assets			
Invested in capital assets	1,411,981	1,150,062	982,466
Unrestricted	(1,000,131)	3,805	297,770
Total Net Assets	**411,850**	**1,153,867**	**1,280,236**
Total Liabilities and Net Assets	**$2,924,708**	**$2,651,130**	**$2,261,682**

In fiscal year 2011, the Corporation's total assets increased by $273,578 (10% increase) from the previous year. The portion of the total current assets alone also increased from the previous year by $283,550 (27%); however, a significant decrease in the value of cash and cash equivalents was noted this year ($271,891 reduction). The major contributors of the current assets were grants and contracts receivable, cash and cash equivalents, and prepaid expenses. In fact, the portion of grants and contracts receivable increased by $265,796 this year. In terms of non-current assets, the value of capital assets net also increased by $261,919 (23%) from the previous year. Therefore the overall increase in total assets was due to an increase in current assets (27%) and capital assets net (23%), despite the decrease in cash and cash equivalents. The cash and cash equivalents value of the Corporation varies from year to year and depends on the level of grant activity and the time at which this report is prepared. Thus, 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 substantially increased from $1,497,263 to $2,512,858; an increase of $1,015,595 (68%). A large part of this increase resided within the non-current liabilities portion which was largely attributed to this year's as well as a corrective entry of outstanding other post-employment benefits (OPEB) from the previous two years. In fact, the non-current portion of the compensated absences increased only slightly (from $25,713 to $29,737), compared to the previous year. As for the current liabilities portion, there was a slight decrease (6% contraction) effected by a small reduction in the accounts payable ($52,196 less compared the previous year). Accounts payable is variable throughout the year and varies from year to year as this value depends upon the level of activity related to the Corporation's grant activity. Current and non-current liabilities this year contributed 21% and 79%, respectively, in relation to the total liabilities' value (almost an identical proportion in relation to last year's values).

The value of total net assets significantly contracted by $742,017 (64%), from the previous year, which was caused mainly by a large deficit in the portion of unrestricted net assets in spite of a 23% increase in the portion related to invested in capital assets. The drastic deficit in unrestricted net assets was, in turn, largely attributed to the booking of OPEB related to this year's as well as the corrective entries needed for the previous two years, as aforementioned. The value of depreciation expense ($364,564) and equipment reductions ($457,251), relative to the value of capital assets additions ($710,806), increased the overall value of capital assets net by $261,919, this year. Investment in capital assets comprised 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 this year can be explained by a higher demand in equipment and related assets required to run the ensued activities which these programs comprise. Unrestricted net assets, when available, are normally utilized by the Corporation as supporting funding to cover for expenses related to reimbursable costs in excess of the grant, and to reimburse the institution for facilities and administrative costs incurred in the conduct of research or other educational grants. The Corporation's unrestricted net assets derive mainly 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 expenses incurred in 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 2011	FY 2010	FY 2009
Operating revenues	$13,017,198	$12,324,470	$11,896,010
Operating expenses	14,385,795	12,905,136	12,230,058
Operating Losses	**(1,368,597)**	**(580,666)**	**(334,048)**
Non-operating revenues and expenses:	626,580	454,297	69,732
Decrease in Net Assets	(742,017)	(126,369)	(264,316)
Net – Assets Beginning of Year	1,153,867	1,280,236	1,544,552
Net Assets – End Year	**$411,850**	**$1,153,867**	**$1,280,236**

Operating revenues for the Corporation originate from federal, state, and private funding sources. Operating revenues this year increased by 6% ($692,728) compared to 4% and 1% increases in the respective previous two years. This year's moderate increase in operating revenues resulted from increases in federal ($682,230) and state ($127,329) funding; a 7.7% and 5.1 % increase, respectively. The increase in the level of federal funds was in turn derived from a corresponding increase in competitive grants and increases in formula funds (e.g. Land-Grant and Title III-B programs) used to enhance the University's instruction, research, and public services. Private funds contracted once more this year by almost 12% ($116,831); in 2010 private funds diminished by 24%. Increased efforts to secure more private funding are being considered and explored. 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 four years continues (5% average). This positive trend in the Corporation's growth reflects a continued effort in securing external sources of funds by the University's faculty, staff, and administrators.

The Corporation's total operating expenses this year increased by 11%, compared to a 6% increase in the previous year. The operating expenses increased from $12,905,136 to $14,385,795. Operating expenses typically are proportionally related to the level of operating revenues. The more revenues the Corporation attains, the higher the level of expenditures incurred by the Corporation. The relatively large increase ($1,480,659) in the Corporation's total operating expenses this year was due to an associated increase in all the expense components including depreciation expenditure (27%), salary and benefits (19.7%), payment to suppliers (8%), and utilities (3%), relative to the 2010 expenditure levels.

The Statement of Revenues, Expenses, and Changes in Net Assets shows an operating loss for the year of $1,368,597, compared to last year's operating loss of $580,666. Operating losses this year were again mainly attributed to the value of depreciation, the inclusion of the OPEB as a component of liability, and a decrease in private revenues. The activity-based financial reporting format, to which the Corporation subscribes through GASB 34 and 35, must also include and 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) at a given time is the reimbursable attribute of its mechanism for revenue collection.

Non-operating revenues and expenses increased by 38% this year, from $454,297 to $626,580, in relation to the previous year. In spite of a modest increase in capital grants and gifts to the institution this year, from $456,849 to $710,805, the overall value of net assets contracted to $742,017 deficit. The Corporation's net assets have followed a contracting trend for the past consecutive three years (losses of $742,017, $126,369, and $264,316, respectively). This downward trend period may suggest an association with the recording of OPEB.

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. 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.

Condensed Statements of Cash Flows

	FY 2011	FY 2010	FY 2009
Cash Provided (used) in:			
Operating activities	($271,989)	($137,108)	$119,861
Investing activities	98	127	903
Net Increase (Decrease) in Cash and Cash Equivalents	**(271,891)**	**(136,981)**	**120,764**
Cash, beginning of year	435,110	572,091	451,327
Cash, end of year	**$163,219**	**$435,110**	**$572,091**

The Corporation's cash and cash equivalents as of June 30, 2011 was $163,219. The cash and cash equivalents of the previous two years were $435,110 and $572,091, respectively. This year's lower value compared to last year can be attributed to a deficit from the cash provided by operating activities ($271,989). Cash flow provided by financing activities represented only $98, which derived from interest income. Interest income originated from federal and state sources is always minimized by drawing down cash only on a reimbursable or encumbrance basis. Investment gain in the form of interests from the majority of its operating funds is not a primary target activity of the Corporation. The combined carrying amount of cash in bank at June 30, 2011 and 2010 was $163,219 and $435,110, respectively, compared to the combined bank balance of $427,435 and $758,383, respectively. The difference is primarily caused by outstanding checks and items in transit.

The total ratio value between the level of cash and cash equivalents, and of operating revenues for fiscal year 2011 was only 1%, compared to the 4% and 5% recorded from the previous consecutive two years. This level of overall cash, as a percentage of operating revenues, suggests that the Corporation operated and meet its obligations with less cash in relation to the previous two years.

V. Capital Assets and Debt Administration

The Corporation, through an Affiliation Agreement, is charged with the fiscal management of all grants, contracts, and sponsored agreements for the University. Certain 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 $710,806 compared to $456,849 and $70,993 additions from the respective previous two years. It is the Corporation's policy that major assets (excluding vehicles), such as real estate 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 2010 or 2011.

VI. Economic Outlook

West Virginia State University continues strengthening 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 expand its 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 will continue to encourage 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 increase (or at least maintain) their level of revenues derived from these sources, in the last decade. The University recognizes that increased efforts must be pursued to improve and expand its funding sources derived 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 been able 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 (at the same or faster pace) throughout the next decade.

The University has recently undergone a reorganizational structure which permits a more efficient and effective way to obtain and manage external and internal resources for the conduct of research, instruction, and outreach programming. This reorganization supports the establishment of additional graduate programs at the University and their associated research and public service. Thus, the University will continue to seek to increase funding to support current (and future) programs. Furthermore, the institution will continue 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 national federal funding climate for the next two federal fiscal years expected to be flat at best. In some instances, however, there will be significant reductions in federal funding to higher education institutions. For example, the USDA, the University's federal land-grant partner, is projected to cut federal formula funds to colleges and universities by up to 20% for federal fiscal year 2012 and up to 10% in federal fiscal year 2013. West Virginia State University, like many other land-grant colleges and universities across the country, is being proactive in preparing for these cuts. These will include, but not be limited to, strategic staffing, freezing vacant positions, and possibly layoffs. As stated earlier, the University will continue to be aggressive in seeking funding via competitive grants and contracts in an attempt to both bring in resources to support the University's mission as well as offset pending cuts. The Corporation has, and will continue to be a foundational fiscal catalyst in increasing sponsored activities at the University.

The Corporation, as the designated fiscal manager of these externally sponsored resources, will continue playing a vital role in the administration and advancement of research, teaching, and public service for the University. As these financial statements reflect, 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, 2011 AND 2010

	2011	2010
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 163,219	$ 435,110
Grants and contracts receivable	1,181,704	915,908
Other receivables	12,001	10,347
Due from West Virginia State University	4,000	2,640
Prepaid expense	151,803	137,063
Total current assets	1,512,727	1,501,068
NONCURRENT ASSETS — Capital assets — net	1,411,981	1,150,062
TOTAL	$ 2,924,708	$ 2,651,130
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 278,748	$ 330,944
Compensated absences — current portion	245,734	227,207
Total current liabilities	524,482	558,151
NONCURRENT LIABILITIES:		
Compensated absences — noncurrent portion	29,737	25,713
Other post employment benefits liability	1,958,639	913,399
Total noncurrent liabilities	1,988,376	939,112
Total liabilities	2,512,858	1,497,263
NET ASSETS:		
Invested in capital assets	1,411,981	1,150,062
Unrestricted	(1,000,131)	3,805
Total net assets	411,850	1,153,867
TOTAL	$ 2,924,708	$ 2,651,130

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, 2011 AND 2010

	2011	2010
OPERATING REVENUES — Contracts and grants:		
Federal	$ 9,517,211	$ 8,834,981
State	2,629,972	2,502,643
Private	870,015	986,846
Total operating revenues	13,017,198	12,324,470
OPERATING EXPENSES:		
Salaries and wages	6,898,142	5,962,237
Supplies and other services	5,709,783	5,292,917
Benefits	1,358,738	1,310,311
Depreciation	364,564	286,574
Utilities	54,568	53,097
Total operating expenses	14,385,795	12,905,136
OPERATING LOSS	(1,368,597)	(580,666)
NONOPERATING REVENUES (EXPENSES):		
Investment income	98	127
Loss on disposal of capital assets	(84,323)	(2,679)
Net nonoperating expenses	(84,225)	(2,552)
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(1,452,822)	(583,218)
CAPITAL GRANTS AND GIFTS	710,805	456,849
DECREASE IN NET ASSETS	(742,017)	(126,369)
NET ASSETS — Beginning of year	1,153,867	1,280,236
NET ASSETS — End of year	$ 411,850	$ 1,153,867

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2011 AND 2010

	2011	2010
CASH FLOWS USED IN OPERATING ACTIVITIES:		
Contracts and grants	$ 12,748,388	$ 11,988,307
Payments to and on behalf of employees	(7,189,089)	(6,830,221)
Payments to suppliers	(5,776,720)	(5,242,097)
Payments to utilities	(54,568)	(53,097)
Net cash used in operating activities	(271,989)	(137,108)
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	710,806	456,849
Purchases of capital assets	(710,806)	(456,849)
Net cash provided by capital financing activities	-	-
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES — Investment income	98	127
DECREASE IN CASH AND CASH EQUIVALENTS	(271,891)	(136,981)
CASH AND CASH EQUIVALENTS — Beginning of year	435,110	572,091
CASH AND CASH EQUIVALENTS — End of year	$ 163,219	$ 435,110
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (1,368,597)	$ (580,666)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	364,564	286,574
Changes in assets and liabilities:		
Grants/contracts receivable	(265,796)	(339,797)
Other receivable	(1,654)	(9,504)
Due from West Virginia State University	(1,360)	13,138
Prepaid expenses	(14,740)	(22,670)
Accounts payable	(52,196)	73,490
Compensated absences and other post employment benefits liability	1,067,790	442,327
NET CASH USED IN OPERATING ACTIVITIES	$ (271,989)	$ (137,108)
NONCASH INVESTING AND FINANCING ACTIVITIES — Loss on disposal of capital assets	$ (84,323)	$ (2,679)

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 "Board of Directors"), the chairperson of which is the president of the University.

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 independent accredited community and technical colleges. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Kanawha Valley Community and Technical College Board of Governors and the Board of Directors of the WVSU Research and Development Corporation agreed on a division of assets to be transferred to the Kanawha Valley Community and Technical College.

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, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities*, 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, 2011 or 2010.

Unrestricted Net Assets — Unrestricted net assets include resources that are not subject to externally imposed stipulations. Such resources are derived from investment income and sales and services of educational activities. Unrestricted net assets are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Board of Directors.

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, 2011 and 2010, 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 GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes new categories for reporting fund balance and revised the definitions for governmental fund types. The adoption of this statement did not have a material impact on its financial statements.

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

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

The Governmental Accounting Standards Board has also issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. This statement improves financial reporting for a governmental financial reporting entity by improving guidance for including, presenting, and disclosing information about component units and equity interest transactions of the entity. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 61 may have on its financial statements.

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

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

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

3. CASH AND CASH EQUIVALENTS

The combined carrying amount of cash in bank at June 30, 2011 and 2010, was $ 163,219 and $435,110, respectively, compared with the combined bank balance of $427,435 and $758,383, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2011 and 2010, $427,435 and $628,520, respectively, were covered by Federal Deposit Insurance Corporation, while $0 and $129,863, 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, 2011 and 2010, is as follows:

2011	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$3,739,553	$639,586	$(457,251)	$3,921,888
Motor vehicles	415,072	71,220		486,292
Software	340,069			340,069
Library books	205,945			205,945
Total capital assets	4,700,639	710,806	(457,251)	4,954,194
Less accumulated depreciation for:				
Equipment	2,707,579	311,049	(372,928)	2,645,700
Motor vehicles	296,984	53,515		350,499
Software	340,069			340,069
Library books	205,945			205,945
Total accumulated depreciation	3,550,577	364,564	(372,928)	3,542,213
Capital assets — net	$1,150,062	$346,242	$ (84,323)	$1,411,981
Capital asset summary:				
Capital assets	$4,700,639	$710,806	$(457,251)	$4,954,194
Less accumulated depreciation	3,550,577	382,551	(390,915)	3,542,213
Capital assets — net	$1,150,062	$328,255	$ (66,336)	$1,411,981

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

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, 2011 and 2010, the noncurrent liability related to OPEB costs was $1,958,639 and $913,399, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,184,365 and $0, respectively, during 2011 and $509,756 and $0, respectively, during 2010. As of the year ended June 30, 2011, 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, 2011 and 2010, were $557,187 and $534,857, respectively, which consisted of equal contributions from the Corporation and covered employees in 2011 and 2010 of $278,583 and $267,429, respectively.

The Corporation's total payroll for the years ended June 30, 2011 and 2010, was $5,830,313 and $5,370,991, respectively; total covered employees' salaries for TIAA-CREF were $4,643,222 and $4,457,144 in 2011 and 2010, 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, 2011, are as follows:

Year Ended December 31,	
2012	$ 52,666
2013	52,666
2014	34,909
2015	31,112

The total operating lease expense for the years ended June 30, 2011 and 2010, was $66,596 and $188,018, respectively. The Corporation does not have any noncancelable leases.

9. UNRESTRICTED NET ASSETS

At June 30, 2011 and 2010, 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, 2011 and 2010, are as follows:

2011	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 1,959,393	$ 408,788	$ 1,579,490	$ 18,434	$ -	$ 3,966,105
Public service	716,090	173,287	1,236,963	17,090		2,143,430
General institutional support	4,197,367	775,357	2,544,625	19,044		7,536,393
Auxiliary enterprises	25,292	1,306	348,705			375,303
Depreciation					364,564	364,564
Total	$ 6,898,142	$ 1,358,738	$ 5,709,783	$ 54,568	$364,564	$ 14,385,795

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 support	3,572,047	788,909	2,830,627	22,291		7,213,874
Auxiliary enterprises	22,651	3,686	258,314	1,961		286,612
Depreciation					286,574	286,574
Total	$ 5,962,237	$ 1,310,311	$ 5,292,917	$ 53,097	$286,574	$ 12,905,136

* * * * * *

SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:					
U.S. Department of Agriculture					
Bioplex 10 — Agricultural Waste Management Research Program	D	10.200		$ 132,792	$ -
Bioplex 11 — Agricultural Waste Management Research Program	D	10.200		173,867	
		10.200 Subtotal			306,659
Cooperative State Research Education and Extension Service					
Cooperative Research (Evans Allen — Section 1445) 1890	D	10.205		1,349,069	
Cooperative Research (Evans Allen — Section 1445) 1890	D	10.205		22,134	
		10.205 Subtotal			1,371,203
Capacity Building Grant — SWEET POTATO	D	10.216		7,893	
Capacity Building Grant — BACK TO GENES	D	10.216		57,902	
Capacity Building Grant — CUCURBIT	D	10.216		106,290	
Capacity Building Grant — FINFISHES	D	10.216		46,080	
Capacity Building Grant — ALCORN PEPPERS	D	10.216		150	
Capacity Building Grant — VALUE ADDED PEPPERS	D	10.216		2,965	
Capacity Building Grant — BIO ENERGY COMM	D	10.216		115,368	
Capacity Building Grant — CROP EVOLUTION	D	10.216		17,486	
		10.216 Subtotal			354,134
Sustainable Agriculture (SARE) 09	I	10.215	University of Vermont	4,987	
Sustainable Agriculture (SARE) 10	D	10.215		3,022	
		10.215 Subtotal			8,009
Hibiscus	I	10.216	Southern University	10,525	
					10,525
National Institutes of Health (NIH)					
WV BRIN 2010	I	93.389	MarshallUniversityRC	4,396	
WV INBRE SUMMER 2010	I	93.389	MarshallUniversityRC	20,279	
WV INBRE 11	I	93.389	MarshallUniversityRC	112,625	
WV INBRE 12	I	93.389	MarshallUniversityRC	18,224	
WV INBRE STUDENT 11	I	93.389	MarshallUniversityRC	3,360	
		93.389 Subtotal			158,884
FRA HANKINS	I	43.389	West Virginia University	1,380	
WV INBRE FRA HANKINS	I	43.389	Marshall University	118,052	
		43.389 Subtotal			119,432

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
National Science Foundation (NSF)					
EPSCOR (Pass through WV HEPC)	I	47.076	WVRO HEPC	45,889	$ -
EPSCOR — Supplemental/OR	I	47.076	WVRO HEPC	(171)	
EPSCOR — Supplement R	I	47.076	WVRO HEPC	20,539	
		47.076 Subtotal			66,257
EPSCOR — Track 1	I	47.081	WVRO HEPC	205,684	
EPSCoR Track 2 — Cyberinfrastructure	I	47.082	WVRO HEPC	199,545	
		Subtotal			405,229
Total research and development cluster					2,800,332
US Department of Agriculture					
MCINTIRE STENNIS 10	D	10.202		14,305	
					14,305
Organic Vegetable	I	10.303	Ohio State University	9,347	
Solcap 2	D	10.303		5,172	
Solcap 3	D	10.303		598	
		10.303 Subtotal			15,117
Cooperative State Research Education and Extension Service					
Cooperative Extension Service (Smith Lever — Section 1444)	D	10.500		1,218,179	
1890 Facilities Grant Extension Service	D	10.500		17,717	
Renewable Resources Extension Act — RREA 09	D	10.500		2,914	
Renewable Resources Extension Act — RREA 10	D	10.500		1,902	
Expanded Food and Nutrition Education Program — EFNEP 09	D	10.500		60,002	
Expanded Food and Nutrition Education Program — EFNEP 10	D	10.500		66,808	
Children, Youth, and Families at Risk Program — CYFAR 10	D	10.500		54,059	
Children, Youth, and Families at Risk Program — CYFAR 11	D	10.500		85,167	
DOD Health Literacy	D	10.500		99,855	
		10.500 Subtotal			1,606,603
Summer Food Program 10	D	10.559		25,200	
					25,200
Rural Business Service — RBS 10	D	10.856		36,553	
Rural Business Service — RBS 11	D	10.856		54,851	
		10.856 Subtotal			91,404

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency		Federal Expenditures
Tomato Blight	I	10.200	Ohio State University	4,733	$ -
WV Cut Flowers	I	10.170	WV Dept. of Agriculture	347	
Speciality Lettuce	I	10.170	WV Dept. of Agriculture	5,254	
USDA ARS	D	10.001		84,540	
		Subtotal			94,874
National Science Foundation					
LSAMP 246	I	47.076	University of Kentucky	452	
LSAMP 247	I	47.076	University of Kentucky	4,535	
		47.076 Subtotal			4,987
U.S. Department of Education (D of Ed)					
Title III-B-2010 Strengthening Historically Black Colleges	D	84.031		515,583	
Title III-B-2011 Strengthening Historically Black Colleges	D	84.031		1,030,372	
Title III Master 2010	D	84.031		105,851	
Title III CCRAA 2010	D	84.031B		570,352	
Title III Part F	D	84.031 B		403,945	
		Subtotal			2,626,103
Title VII Master	D	84.382 G		134,366	
Masters Graduate	D	84.382 G		215,808	
		84.382 G Subtotal			350,174
African Zion Church	D	15.932		9,348	
					9,348
U.S. Department of Defense (DOD)					
Army Corp of Engineers	D	W91237-09-P-0078		7,085	
					7,085
U.S. Department of the Interior					
4-H Youth Mentoring	I	16.726	4-H	21,309	
					21,309
U.S. Department of Transportation (DOT)					
STI 10	I	20.205	WV DOT	40,820	
DOT DBE	I	20.205	WV DOT	199,003	
		20.205 Subtotal			239,823
TOTAL FEDERAL AWARDS					$ 7,906,663

See notes to schedule of expenditures of federal awards. (Concluded)

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011

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, 2011, 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 $233,389.

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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, 2011, and have issued our report thereon dated February 22, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and 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

February 22, 2012

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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, 2011. 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 provides 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, 2011.

Internal Control over Compliance

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 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

February 22, 2012

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011

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 OMB Circular A-133?	Yes ____	No X

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number
Research and Development	Various
Cooperation State Research and Extension Service	10.500
Title VII	84.382G

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.