AUDITED FINANCIAL STATEMENTS AND
OTHER FINANCIAL INFORMATION

West Virginia University Foundation, Incorporated
Years Ended June 30, 2012 and 2011
With Reports of Independent Auditors

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED

Audited Financial Statements and Other Financial Information

Years Ended June 30, 2012 and 2011

Contents

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Report of Independent Auditors

The Board of Directors
West Virginia University Foundation, Incorporated

We have audited the accompanying statements of financial position of West Virginia University Foundation, Incorporated (the "Foundation") as of June 30, 2012 and 2011, and the related statements of activity and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Foundation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of West Virginia University Foundation, Incorporated at June 30, 2012 and 2011, and the results of its activities and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 26, 2012

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West Virginia University Foundation, Incorporated

Statements of Financial Position

	June 30, 2012	June 30, 2011
Assets		
Cash and cash equivalents	$ 16,453,385	$ 11,401,864
Contributions receivable, net - Note 2	50,536,890	41,552,584
Other receivables, net - Note 2	3,537,631	4,046,838
Investments carried at fair value - Note 3	986,610,246	969,991,314
Equity investment in limited partnership - Note 6	3,658,895	3,693,215
Land, building, and equipment, net - Note 7	20,180,379	21,076,044
Beneficial interests in external trusts at fair value	25,971,696	24,273,504
Other assets - Note 8	3,495,974	9,777,871
Total assets	$ 1,110,445,096	$ 1,085,813,234
Liabilities and Net Assets		
Liabilities		
Bonds and notes payable, net - Note 12	$ 36,929,108	$ 27,512,125
Accounts payable and accrued expenses	5,594,523	3,874,197
Deferred revenue	10,774,668	3,148,468
Accrued retirement benefits and deferred compensation - Note 13	4,199,017	4,568,142
Annuities payable	12,668,912	13,169,005
Funds held in custody for others - Note 15	443,476,908	450,972,945
Total liabilities	513,643,136	503,244,882
Net assets		
Unrestricted	20,365,454	22,008,596
Net unrealized losses on donor restricted endowment assets below historical dollar value	(13,692,810)	(6,302,503)
Total unrestricted net assets	6,672,644	15,706,093
Temporarily restricted	205,585,869	216,643,974
Permanently restricted	384,543,447	350,218,285
Total net assets	596,801,960	582,568,352
Total liabilities and net assets	$ 1,110,445,096	$ 1,085,813,234

See notes to the financial statements.

West Virginia University Foundation, Incorporated

Statements of Activity

	Year Ended June 30, 2012				Year Ended June 30, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and gains (losses)								
Contributions	$ 707,385	$ 51,736,222	$ 34,714,243	$ 87,157,850	$ 1,184,352	$ 40,030,511	$ 34,829,961	$ 76,044,824
Investment earnings (losses)				-				
Net interest and dividends	7,876,686	3,028,899	-	10,905,585	7,772,030	489,668	-	8,261,698
Net realized gains	3,713,300	8,290,835	-	12,004,135	1,983,833	19,274,047	-	21,257,880
Net unrealized (losses) gains	(4,317,685)	(18,513,984)	-	(22,831,669)	5,406,996	39,855,797	-	45,262,793
Net change in donor restricted endowment assets below historical dollar value	(7,390,310)	7,390,310	-	-	17,362,745	(17,362,745)	-	-
Investment (losses) earnings	(118,009)	196,060	-	78,051	32,525,604	42,256,767	-	74,782,371
Lease revenue	1,975,000	-	-	1,975,000	1,810,417	-	-	1,810,417
Other revenue	2,564,910	3,105,577	-	5,670,487	2,242,855	596,984	-	2,839,839
Net assets released from restrictions	64,180,837	(64,180,837)	-	-	49,152,839	(49,152,839)	-	-
Total revenues and gains (losses)	69,310,123	(9,142,978)	34,714,243	94,881,388	86,916,067	33,731,423	34,829,961	155,477,451
Expenses and support								
University support								
Scholarships	14,511,598	-	-	14,511,598	12,424,205	-	-	12,424,205
Salaries and benefits	11,358,772	-	-	11,358,772	9,364,583	-	-	9,364,583
Travel	1,043,492	-	-	1,043,492	1,142,364	-	-	1,142,364
Meetings and events	3,200,642	-	-	3,200,642	3,234,425	-	-	3,234,425
Professional services	3,185,314	-	-	3,185,314	2,772,953	-	-	2,772,953
Capital projects and equipment	19,000,554	-	-	19,000,554	16,372,428	-	-	16,372,428
Other support	13,818,227	-	-	13,818,227	5,295,405	-	-	5,295,405
Total University support	66,118,599	-	-	66,118,599	50,606,363	-	-	50,606,363
Foundation support								
Fundraising	4,882,854	-	-	4,882,854	4,628,467	-	-	4,628,467
Fiduciary	4,288,240	-	-	4,288,240	3,973,535	-	-	3,973,535
Total Foundation support	9,171,094	-	-	9,171,094	8,602,002	-	-	8,602,002
Interest and depreciation								
Occupied asset	103,599	-	-	103,599	107,880	-	-	107,880
Leased asset	2,950,280	-	-	2,950,280	2,267,070	-	-	2,267,070
Total interest and depreciation	3,053,879	-	-	3,053,879	2,374,950	-	-	2,374,950
Total expenses before provision and revaluation	78,343,572	-	-	78,343,572	61,583,315	-	-	61,583,315
Provision for uncollectible receivables	-	649,878	(15,000)	634,878	-	473,760	93,264	567,024
Revaluation of beneficial interests in external trusts	-	-	404,081	404,081	-	-	3,422,031	3,422,031
Net loss on revaluation of annuities payable	-	1,265,249	-	1,265,249	-	585,552	-	585,552
Total expenses and support	78,343,572	1,915,127	389,081	80,647,780	61,583,315	1,059,312	3,515,295	66,157,922
Change in net assets	(9,033,449)	(11,058,105)	34,325,162	14,233,608	25,332,752	32,672,111	31,314,666	89,319,529
Net assets (deficit) at beginning of year	15,706,093	216,643,974	350,218,285	582,568,352	(9,626,659)	183,971,863	318,903,619	493,248,823
Net assets at end of year	$ 6,672,644	$ 205,585,869	$ 384,543,447	$ 596,801,960	$ 15,706,093	$ 216,643,974	$ 350,218,285	$ 582,568,352

West Virginia University Foundation, Incorporated

Statements of Cash Flows

	Years Ended June 30, 2012	2011
Reconciliation of change in net assets to net cash used in operating activities		
Change in net assets	$ 14,233,608	$ 89,319,529
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Actuarial loss on annuities payable	1,265,249	585,552
Revaluation of deferred compensation	(114,050)	(364,050)
Amortization of discount on bonds payable	797,875	36,000
Provision for uncollectible receivables	634,878	567,024
Contributions restricted for long-term purposes	(34,714,243)	(34,829,961)
Depreciation expense	1,066,766	1,182,835
Decrease in equity method investment	34,320	230,039
Net realized gains on investments	(12,004,135)	(21,257,880)
Net unrealized losses (gains) on investments	22,831,669	(45,262,793)
Noncash contributions of artwork / scoreboard	5,519,447	4,500,000
Revaluation of beneficial interest in external trusts	404,081	3,422,031
Changes in:		
Contributions receivable	(9,398,306)	(3,211,507)
Investments held in custody	9,084,037	(112,859,776)
Beneficial interest in external trusts	(2,102,273)	(1,463,332)
Accounts payable and accrued expenses	1,720,326	4,190
Deferred revenue	7,626,200	1,836,840
Funds held in custody for others	(7,496,037)	113,366,267
Operating assets and liabilities	(969,638)	560,563
Net cash used in operating activities	(1,580,226)	(3,638,429)
Cash flows from investing activities		
Purchase of land, building, and equipment	(171,101)	(109,004)
Purchases of investments	(199,632,566)	(183,108,004)
Proceeds from sales and liquidations of investments	163,102,063	155,279,281
Net cash used in investing activities	(36,701,604)	(27,937,727)
Cash flows from financing activities		
Proceeds from contributions restricted for long-term purposes	34,714,243	34,829,961
Promissory note proceeds	10,000,000	-
Mortgage note proceeds	24,000,000	-
Payments on bonds and notes payable	(25,380,892)	(700,000)
Net cash provided by financing activities	43,333,351	34,129,961
Increase in cash and cash equivalents	5,051,521	2,553,805
Cash and cash equivalents at beginning of year	11,401,864	8,848,059
Cash and cash equivalents at end of year	$ 16,453,385	$ 11,401,864
Supplemental Information		
Interest paid	$ 1,955,784	$ 1,264,490

See notes to the financial statements.

1. Significant Accounting Policies and Other Matters

The West Virginia University Foundation, Incorporated (the "Foundation") is a public 501(c)(3) tax-exempt organization incorporated in 1954. The Foundation's primary purpose is to enrich the lives of those touched by West Virginia University (the "University") by maximizing private charitable support and providing services to the University and its affiliated organizations. The Foundation is governed by an independently elected Board of Directors not otherwise affiliated with the University. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation.

Basis of Accounting – The financial statements presented herein have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The preparation of these statements requires management to make estimates and develop assumptions that affect the amounts reported in the financial statements and related footnotes. Actual results may differ significantly from management's estimates.

Fair Value Estimates – Fair value estimates are based on an assessment of the present status and expected future benefits and obligations associated with the respective financial asset or liability. External trusts are valued at the expected rate of return for similarly invested assets, which ranged from 3.59% to 6.31% at June 30, 2012, and were 5.9% at June 30, 2011. Split interest agreements are valued at the expected rate of return on the life income portfolio, which ranged from 4.87% to 5.68% at June 30, 2012, and were 5.9% at June 30, 2011. Individual contributions receivable are valued at unsecured consumer lending rates ranging from 3.52% to 4.15% and 3.98% to 5.45% at June 30, 2012 and 2011, respectively, based on the anticipated collection date of the receivable. Corporate contributions receivable are valued based on the current yield on corporate debt ranging from 0.43% to 1.91% and 0.93% to 3.2% at June 30, 2012 and 2011, respectively, based on the anticipated collection date of the receivable.

Cash and Cash Equivalents – The Foundation considers unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents. From time to time, the balance in certain Foundation deposit accounts may be in excess of the Federal Deposit Insurance Corporation (FDIC) insurance limit.

Contributions and Contributions Receivable – Contributions are recorded at estimated fair value and are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is met), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

1. Significant Accounting Policies and Other Matters (Continued)

Unconditional promises to give that are expected to be received within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be received in future years are recorded at the present value of their estimated future cash flows. Amortization of discounts is included in the contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

The Foundation uses the allowance method to determine the uncollectible portion of unconditional promises to give. The allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as overall economic conditions, current and historical loss experience, and recent contribution activity.

Student Loans – The Foundation provides funding for unsecured loans to University students at interest rates determined by the terms of the respective donor gift agreement. These loans require payment of principal and interest once the student has graduated. Balances due to the Foundation are reflected as other receivables on the Statements of Financial Position net of allowances for doubtful accounts. Allowances are determined based primarily on historical student loan repayment rates. If an account becomes two years past due, it is fully reserved and will be written off through a charge to the allowance for doubtful accounts if it is deemed uncollectible.

Investments – Investments in fixed income, equity, marketable alternative investments, and non-marketable alternative investments are reported at estimated fair value as defined in Note 4. Additional information on investments and valuation methods is discussed further in Notes 3 through 5.

Land, Building, and Equipment – Land, building, and equipment are recorded at cost when purchased, or fair value if acquired by gift. The Foundation's capitalization policy requires purchases of property and equipment in excess of $5,000 to be recorded as a capital asset. Depreciation is calculated over the estimated useful lives of the building and equipment using the straight-line method. Maintenance and repairs of existing facilities are charged to operating expense as incurred. Equipment purchased for departments of the University is recognized in expense as University support and transferred to the University.

Beneficial Interests in External Trusts – The Foundation maintains the irrevocable right to receive the income earned on certain trust assets held in perpetuity by third parties. The Foundation records its beneficial interest in a trust at the lesser of the fair value of the underlying investments or the present value of the estimated future receipts from the trust.

Annuities Payable – Under the terms of the Foundation's annuity and trust agreements, the donors or their designees receive either a predetermined distribution or a fixed rate return based upon the estimated fair value of the trust. The Foundation records the related assets held in trust at estimated fair value and the liability is recorded at estimated fair value based on the estimated present value of the payments.

1. Significant Accounting Policies and Other Matters (Continued)

Funds Held in Custody for Others – The Foundation holds and invests funds for the University, West Virginia University Research Corporation, West Virginia University Hospital, the West Virginia Board of Risk and Insurance Management, and Blanchette Rockefeller Neurosciences Institute under an agency agreement. The investments and other funds are reported as assets, while an offsetting liability is reported in funds held in custody for others.

Net Assets – The Foundation has classified its net assets and revenues, expenses, gains, and losses based on the existence or absence of donor-imposed restrictions (see Note 10). Below is a summary of those classifications:

Unrestricted: Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted. Unrestricted net assets also include assets that have been designated by the Foundation's Board of Directors for specific purposes as well as losses on donor-restricted endowments below historical dollar value.

Temporarily Restricted: Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for specified purposes are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation.

Permanently Restricted: Assets and contributions for which the donor stipulates that resources be maintained permanently are permanently restricted. These assets are placed in endowment investment accounts, and all or a part of the earnings derived from the original assets is available for use based on restrictions stipulated by the donor. Spending of the related investment income is governed by the Foundation's spend policy as approved annually by the Board of Directors (see Note 5).

Noncash Contributions – The Foundation receives noncash contributions including gifts-in-kind of equipment, property, supplies, materials, collection items, software, real property, and contributed services. Gifts that are used, held or sold by the Foundation are recognized for financial reporting purposes as contribution revenue. Gifts that are not used, held or sold by the Foundation are considered an intermediary transaction and not recognized for financial reporting purposes.

The Foundation recognizes noncash contributions at fair value based upon market price assumptions, donor cost, replacement cost, price listings, similar sales or services, published catalogs, vendor invoices, independent appraisals, expert opinions, estimates, averages, or approximations or other valid assumptions. During the years ended June 30, 2012 and 2011, respectively, the Foundation recognized noncash gifts of $79,444 and $7,048,271 in contribution revenue.

1. Significant Accounting Policies and Other Matters (Continued)

Tax Status – The Foundation is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). Accordingly, the accompanying financial statements do not reflect a provision or liability for federal and state income taxes. The Foundation follows the Financial Accounting Standards Board's (FASB) authoritative guidance on accounting for uncertainty in income taxes. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the financial statements. The Foundation has determined that it does not have any material unrecognized tax benefits or obligations at June 30, 2012 and June 30, 2011. Fiscal years ending on or after June 30, 2008 remain subject to examination by federal and state tax authorities.

Reclassifications – Certain reclassifications have been made in the June 30, 2011 financial statements to conform to the June 30, 2012 presentation. Such reclassifications did not impact the prior year change in net assets.

Pending Accounting Standards – The FASB issued amendments to ASC 820, *Fair Value Measurements,* which are effective for fiscal years beginning after December 15, 2011. The objective of the amendments under subtopic 2011-04 is to achieve common fair value measurement and disclosure requirements in U.S. Generally Accepted Accounting Principles (GAAP) and International Financial Reporting Standards (IFRS). The amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. Additionally, some of the amendments clarify the application of existing fair value measurement requirements, while others change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. Upon adoption, the Foundation will be required to provide revised disclosures regarding fair value measurements and will need to re-assess its fair value measurements to determine compliance with the provisions of the amendments. The impact, if any, of this amendment on the Foundation's financial statements has not been determined.

Subsequent Events – Foundation management evaluated subsequent events and transactions for potential recognition or disclosure in the financial statements through October 26, 2012 the day the financial statements were approved and available to be issued.

2. Receivables

The following table summarizes contributions receivable and the related allowances as of June 30:

	2012	2011
Contributions receivable, net		
Amounts to be received within one year	$ 17,126,234	$ 15,921,662
Amounts to be received within two to five years	22,165,980	17,668,928
Amounts to be received after five years	20,026,357	14,962,399
Contributions before allowances and unamortized discount	59,318,571	48,552,989
Allowance for uncollectible contributions	(781,681)	(1,250,405)
Unamortized discount	(8,000,000)	(5,750,000)
Contributions receivable, net	$ 50,536,890	$ 41,552,584
Other receivables, net		
Student loans, net of allowance of $392,000 and $171,000	$ 2,468,905	$ 2,706,530
Notes, advances, and other	1,068,726	1,340,308
Other receivables, net	$ 3,537,631	$ 4,046,838

3. Investments

The estimated fair values of investments at June 30 are as follows:

	2012	2011
Money Market Funds	$ 17,534,860	$ 28,736,400
Separate Accounts		
Domestic Equity	7,904,429	11,444,009
Domestic Fixed Income	43,255,035	29,258,726
Annuity Contract	-	704,455
	51,159,464	41,407,190
Exchange Traded Funds		
Domestic Equity	185,989,879	117,422,034
International Equity	77,033,626	98,067,338
Domestic Fixed Income	53,615,900	3,989,826
Natural Resources	2,427,948	3,426,005
	319,067,353	222,905,203
Mutual Funds		
Domestic Equity	15,007,039	29,418,277
International Equity	30,902,933	7,727,644
Global Equity	16,092,790	37,397,089
Domestic Fixed Income	53,002,823	66,748,518
International Fixed Income	-	1,047,363
Natural Resources	10,719,278	-
Equity/Fixed Income Blend	6,225,213	7,147,310
	131,950,076	149,486,201
Other Commingled Funds		
Domestic Equity	22,733,908	49,058,886
Global Equity	-	23,819,013
Domestic Fixed Income	7,701,123	20,143,759
International Fixed Income	17,500,431	12,279,047
Global Fixed Income	45,669,215	38,854,329
	93,604,677	144,155,034
Hedge Funds		
Direct	11,948,768	15,542,544
Hedge Fund of Funds	52,792,262	63,941,480
	64,741,030	79,484,024
Private Investments		
Private Equity	114,905,107	106,274,951
Venture	36,533,367	35,404,144
Direct	517,123	1,505,939
Distressed Debt/Mezzanine	36,017,367	46,329,222
Natural Resources	61,795,693	61,026,079
Real Estate	48,577,781	43,404,605
Other	10,206,348	9,872,322
	308,552,786	303,817,262
Total Investments	$ 986,610,246	$ 969,991,314

3. Investments (Continued)

Interest and dividends on investments are reported on the Statements of Activity net of custodial management and investment fees of approximately $1,869,000 and $1,922,000 for the years ended June 30, 2012 and 2011, respectively.

To achieve its investment objectives, management has procedures in place related to initial due diligence, ongoing monitoring, and financial reporting of alternative investments. Specific efforts employed by management include ongoing interaction with fund managers including on-site visits and interviews, and ongoing monitoring of portfolio holdings, activities, and performance. Monitoring also includes obtaining and reviewing audited financial statements noting the basis of accounting, disclosures pertaining to the valuation of alternative investments, and comparison of audited valuation with the fund's valuation. Management also reviews interim financial information including details of investment holdings to obtain an understanding of the underlying investments. Management believes the estimated fair values of the Foundation's alternative investments are reasonably stated at June 30, 2012 and 2011.

4. Fair Value of Financial Assets and Liabilities

All financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a recurring basis are priced at the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities, which are recorded at fair value, the Foundation considers the principal or most advantageous market in which the Foundation would transact and the market-based risk measurements or assumptions that market participants would use in pricing the asset or liability, such as inherent risk, transfer restrictions, and credit risk.

The Foundation applies the following fair value hierarchy, which prioritizes the inputs used to measure fair value into three levels and bases the categorization within the hierarchy upon the lowest level of input that is available and significant to the fair value measurement:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than quoted prices in active markets for identical assets and liabilities, quoted prices for identical or similar assets or liabilities in inactive markets, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability.

4. Fair Value of Financial Assets and Liabilities (Continued)

Level 1 Investment Categories

The Foundation invests in equity securities, fixed income obligations, and cash equivalents that are publicly traded and readily available in the active markets in which the securities are traded. The Foundation either invests directly in these securities or the investment accounts held by the Foundation, which include these securities and have daily quoted active market prices accessible by the Foundation.

Level 2 Investment Categories

The Foundation invests in certain comingled funds that are not publically traded in active markets. While the Foundation has access to a detailed listing of the underlying assets of the fund, the majority of which are publically traded and readily available in active markets, shares of the funds themselves do not have daily quoted active market prices. Additionally, certain funds contain restrictions regarding liquidation. Investments in these funds are valued per share based on the market prices of the underlying assets.

Level 3 Investment Categories

Domestic Fixed Income

The Level 3 assets in this category include an investment in a fund that includes bank loans, non-investment grade bonds, debt and equity investments in privately held entities, and derivative instruments, including certain credit default swap contracts. The fair values of the Level 3 investments in this category are derived by the manager, as follows: Investments in bank loans and non-investment grade bonds included in this fund are valued at the mid-point of two or more bid and ask indicative quotations obtained from unaffiliated market makers and other financial institutions that regularly trade such securities and from relevant pricing services where the mid-point of the bid-ask spread or range is most representative of fair value in the circumstances. Redemptions from the fund are permitted on a quarterly basis.

Private Equity and Venture Capital

The Foundation invests in private equity and venture capital funds that are limited partnerships and not publicly traded. These funds have investments in private companies located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuations are based on significant unobservable inputs. The fair values of these investments are provided by the general partners based on valuation policies generally provided in partnership agreements, which approximate estimated fair values in accordance with U.S. GAAP. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives are generally 10 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership’s general partner, will be distributed to investors.

4. Fair Value of Financial Assets and Liabilities (Continued)

Natural Resources

The Foundation invests in energy and timber funds that are limited partnerships not publicly traded. These funds have investments in private natural resource assets located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuations are based on significant unobservable inputs. The fair values of these investments are provided by the general partners based on valuation policies generally provided in partnership agreements, which approximate estimated fair values in accordance with U.S. GAAP. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives range from 10 to 12 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, will be distributed to investors.

Real Estate

The Foundation invests in real estate funds that are limited partnerships not publicly traded. These funds have investments in properties located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuations are based on significant unobservable inputs. The fair values of these investments are provided by the general partners based on valuation policies generally provided in partnership agreements, which approximate estimated fair values in accordance with U.S. GAAP. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives range from 9 to 12 years with an option to extend an additional 2 to 3 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, will be distributed to investors.

Other

The Foundation invests in mezzanine, distressed, and infrastructure funds that are limited partnerships, and directly in three private companies co-investing alongside the Foundation's limited partnership investments, that are not publicly traded. These funds have investments in assets located both within and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuation is based on significant unobservable inputs. The fair values of these investments are provided by the general partners based on valuation policies generally provided in partnership agreements, which approximate estimated fair values in accordance with U.S. GAAP. Distributions are made from the funds as the fund matures. Redemptions are not permitted during the life of the partnerships. Partnership lives range from 7 to 10 years with an option to extend an additional 2 years. When assets are sold, the proceeds, less any incentives due to the partnership's general partner, will be distributed to investors.

4. Fair Value of Financial Assets and Liabilities (Continued)

Hedge Funds

The Foundation invests in hedge funds that pursue multiple strategies to diversify risks and reduce volatility. These funds have investments in assets located both in and outside the United States. Investments in this category, for which there are no readily determinable fair values, are classified as Level 3 because the valuations are based on significant unobservable inputs. The fair values of these investments have been estimated using the net asset value per share of the investments as provided by the hedge fund managers, which approximate estimated fair values in accordance with U.S. GAAP.. Redemptions are generally permitted after some period of time after initial investment, either on a quarterly, semi-annual, or annual basis, subject to certain restrictions, which include a redemption period of 65 to 100 days.

Unfunded Commitments

The following table summarizes the Foundation's fair value of non-marketable alternatives that have associated unfunded commitments at June 30, 2012:

	Fair Value	Unfunded Commitments
Private Capital	$ 74,516,158	$ 22,741,358
Natural Resources	41,831,216	8,690,563
Real Estate	26,957,180	3,044,694
Distressed Debt/Mezzanine	22,382,174	7,564,924
Venture	28,150,767	5,124,682
Total	$ 193,837,495	$ 47,166,221

Unfunded commitments are drawn down throughout the life of the investment based on the cash needs of each individual limited partnership. Limited partnerships with unfunded commitments have remaining lives of approximately 5 to 10 years. Management anticipates that distributions from existing non-marketable alternatives will generally provide the liquidity necessary to cover remaining unfunded commitments.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Foundation's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. There were no changes in valuation techniques during the current year.

4. Fair Value of Financial Assets and Liabilities (Continued)

The following tables present the financial assets and liabilities carried at fair value on a recurring basis, by caption, on the statement of financial position by the valuation hierarchy defined above:

	Fair Value as of June 30, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money Market Funds	$ 17,534,860	$ -	$ -	$ 17,534,860
Separate Accounts				
Domestic Equity	7,904,429	-	-	7,904,429
Domestic Fixed Income	1,106,876	42,148,159	-	43,255,035
	9,011,305	42,148,159	-	51,159,464
Exchange Traded Funds				
Domestic Equity	185,989,879	-	-	185,989,879
International Equity	77,033,626	-	-	77,033,626
Domestic Fixed Income	53,615,900	-	-	53,615,900
Natural Resources	2,427,948	-	-	2,427,948
	319,067,353	-	-	319,067,353
Mutual Funds				
Domestic Equity	15,007,039	-	-	15,007,039
International Equity	30,902,933	-	-	30,902,933
Global Equity	16,092,790	-	-	16,092,790
Domestic Fixed Income	53,002,823	-	-	53,002,823
Natural Resources	10,719,278	-	-	10,719,278
Equity/Fixed Income Blend	6,225,213	-	-	6,225,213
	131,950,076		-	131,950,076
Other Commingled Funds				
Domestic Equity	-	22,733,908	-	22,733,908
Domestic Fixed Income	-	7,701,123		7,701,123
International Fixed Income	-	17,500,431	-	17,500,431
Global Fixed Income	-	45,669,215	-	45,669,215
	-	93,604,677		93,604,677
Hedge Funds				
Direct	-	-	11,948,768	11,948,768
Hedge Fund of Funds	-	-	52,792,262	52,792,262
	-	-	64,741,030	64,741,030
Private Investments				
Private Equity	-	-	114,905,107	114,905,107
Venture	-	-	36,533,367	36,533,367
Direct	-	-	517,123	517,123
Distressed Debt/Mezzanine	-	-	36,017,367	36,017,367
Natural Resources	-	-	61,795,693	61,795,693
Real Estate	-	-	48,577,781	48,577,781
Other	-	-	10,206,348	10,206,348
	-	-	308,552,786	308,552,786
Total Investments	477,563,594	135,752,836	373,293,816	986,610,246
Beneficial Interests in External Trusts	-	-	25,971,696	25,971,696
Total Assets	$ 477,563,594	$ 135,752,836	$ 399,265,512	$ 1,012,581,942
Liabilities:				
Annuities Payable	-	-	(12,668,912)	(12,668,912)
Total Liabilities	$ -	$ -	$ (12,668,912)	$ (12,668,912)

4. Fair Value of Financial Assets and Liabilities (Continued)

	Fair Value as of June 30, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Investments:				
Money Market Funds	$ 28,736,400	$ -	$ -	$ 28,736,400
Separate Accounts				
Domestic Equity	11,444,009	-	-	11,444,009
Domestic Fixed Income	-	29,258,726	-	29,258,726
Annuity Contract	-	704,455	-	704,455
	11,444,009	29,963,181	-	41,407,190
Exchange Traded Funds				
Domestic Equity	117,422,034	-	-	117,422,034
International Equity	98,067,338	-	-	98,067,338
Domestic Fixed Income	3,989,826	-	-	3,989,826
Natural Resources	3,426,005	-	-	3,426,005
	222,905,203	-	-	222,905,203
Mutual Funds				
Domestic Equity	29,418,277	-	-	29,418,277
International Equity	6,260,848	1,466,796	-	7,727,644
Global Equity	37,397,089	-	-	37,397,089
Domestic Fixed Income	66,748,518	-	-	66,748,518
International Fixed Income	1,047,363	-	-	1,047,363
Equity/Fixed Income Blend	7,147,310	-	-	7,147,310
	148,019,405	1,466,796	-	149,486,201
Other Commingled Funds				
Domestic Equity	-	49,058,886	-	49,058,886
Global Equity	-	23,819,013	-	23,819,013
Domestic Fixed Income	-	3,896,709	16,247,050	20,143,759
International Fixed Income	-	12,279,047	-	12,279,047
Global Fixed Income	-	38,854,329	-	38,854,329
	-	127,907,984	16,247,050	144,155,034
Hedge Funds				
Direct	-	-	15,542,544	15,542,544
Hedge Fund of Funds	-	-	63,941,480	63,941,480
	-	-	79,484,024	79,484,024
Private Investments				
Private Equity	-	-	106,274,951	106,274,951
Venture	-	-	35,404,144	35,404,144
Direct	-	-	1,505,939	1,505,939
Distressed Debt/Mezzanine	-	-	46,329,222	46,329,222
Natural Resources	-	-	61,026,079	61,026,079
Real Estate	-	-	43,404,605	43,404,605
Other	-	-	9,872,322	9,872,322
	-	-	303,817,262	303,817,262
Total Investments	411,105,017	159,337,961	399,548,336	969,991,314
Beneficial Interests in External Trusts	-	-	24,273,504	24,273,504
Total Assets	$ 411,105,017	$ 159,337,961	$ 423,821,840	$ 994,264,818
Liabilities:				
Annuities Payable	-	-	(13,169,005)	(13,169,005)
Total Liabilities	$ -	$ -	$ (13,169,005)	$ (13,169,005)

4. Fair Value of Financial Assets and Liabilities (Continued)

The following table illustrates the activity of Level 3 assets from June 30, 2011 to June 30, 2012:

	Investments	Beneficial Interest in External Trusts	Total Assets	Annuities Payable
Balance, July 1, 2011	$ 399,548,336	$ 24,273,504	$ 423,821,840	$ 13,169,005
Total gains/losses	(499,695)	(404,081)	(903,776)	1,265,248
Income (expense)	5,208,558	-	5,208,558	(236,222)
Capital calls/contributions	49,622,164	2,102,273	51,724,437	467,238
Distributions	(58,234,118)	-	(58,234,118)	(1,996,357)
Subscriptions/redemptions	(22,351,429)	-	(22,351,429)	-
Balance, June 30, 2012	$ 373,293,816	$ 25,971,696	$ 399,265,512	$ 12,668,912

The following table illustrates the activity of Level 3 assets from June 30, 2010 to June 30, 2011:

	Investments	Beneficial Interest in External Trusts	Total Assets	Annuities Payable
Balance, July 1, 2010	$ 369,717,542	$ 26,232,203	$ 395,949,745	$ 11,611,884
Total gains/losses	64,428,385	(3,422,031)	61,006,354	585,552
Income (expense)	2,349,244	-	2,349,244	2,465,855
Capital calls/contributions	42,358,610	1,463,332	43,821,942	558,695
Distributions	(38,154,149)	-	(38,154,149)	(2,052,981)
Subscriptions/redemptions	(54,741,696)	-	(54,741,696)	-
Transfers into level 3	13,590,400	-	13,590,400	-
Balance, June 30, 2011	$ 399,548,336	$ 24,273,504	$ 423,821,840	$ 13,169,005

5. Endowment

The Foundation’s endowment consists of over 2,500 individual endowment funds established for a variety of purposes. The endowment includes both donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

5. Endowment (Continued)

Interpretation of Relevant Law – The Board of Directors of the Foundation, based upon the advice of counsel, has interpreted the Uniform Prudent Management of Institutional Funds Act (the "Act") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with their direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the Act. In accordance with the Act, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund
(2) The purposes of the organization and the donor-restricted endowment fund
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) The investment policies of the Foundation

Return Objectives and Risk Parameters – The Foundation has adopted investment and spending policies for endowment assets that are intended to provide an ongoing stream of funding to programs supported by the endowment. Endowment assets include assets of donor-restricted funds that the organization must hold in perpetuity as well as board-designated funds. Under this policy, as approved by the Board, the endowment assets are invested in a manner that is intended to produce a high level of total investment return consistent with a prudent level of portfolio risk. As such, the investment objective of the endowment investment assets is to achieve at least a positive return (greater than zero) after deduction for inflation and spending over rolling five-year periods.

Strategies Employed for Achieving Objectives – To satisfy its long-term return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places a greater emphasis on equity-based investments, including private equities, to achieve its long-term return objectives within prudent risk constraints.

5. Endowment (Continued)

Spending Policy and Related Investment Objectives – The Foundation utilizes a "banded inflation" spend policy for the private endowment, which considers the prior year spend dollar amount adjusted for inflation (CPI). This calculated spend dollar amount must be between 4% and 5% of market value at December 31 of the fiscal year. This policy was established in accordance with UPMIFA and considers the six factors defined earlier within this note. Over the long term, the Foundation expects the spend policy to allow its endowment to grow at a rate in excess of inflation, spending, and fees.

During fiscal year June 30, 2011, the Foundation amended its spend policy, in certain circumstances, to allow appropriation from an endowment fund when the current fair value may occasionally fall below original gift value. In determining whether amounts will be appropriated, the Board considers current market conditions, current needs of the University, and future appreciation of the investments, which would continue the perpetual nature of the endowment over time and ensure its preservation. Prior to fiscal year June 30, 2011, the Foundation spend policy adhered to the predecessor Uniform Management of Institutional Funds Act (UMIFA) which restricted appropriation from funds whose current fair value was below original gift value.

Included in the Endowment totals are research trust funds from the state of West Virginia totaling $34,639,059 and $16,917,805 at June 30, 2012 and 2011, respectively. The spend policy for these funds is based upon distribution of earnings as defined in West Virginia Code for Directed Research Endowments.

Funds with Deficiencies – From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the value of the original gift. Deficiencies of this nature reported in unrestricted net assets were $13,692,810 and $6,302,503 as of June 30, 2012 and 2011, respectively. These deficiencies resulted from unfavorable market performance.

The following presents endowment net asset composition by fund type as of June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 66,685,956	$ 343,495,375	$ 410,181,331
Fair value of donor restricted endowments below historical dollar value	(13,692,810)	-	-	(13,692,810)
Board-designated endowment funds	7,091,325	-	-	7,091,325
Endowment net assets, end of year	$ (6,601,485)	$ 66,685,956	$ 343,495,375	$ 403,579,846

5. Endowment (Continued)

The following presents changes in endowment net assets for the year ended June 30, 2012:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ 5,126,269	$ 61,872,576	$ 313,979,043	$ 380,977,888
Investment return:				
Investment income	215,904	8,139,800	-	8,355,704
Net depreciation	(233,541)	(7,977,047)	-	(8,210,588)
Fair value losses of donor restricted endowments below historical dollar value	(7,390,310)	7,390,310	-	-
Manager fees and expenses	(51,077)	(1,738,861)	-	(1,789,938)
Total investment return	(7,459,024)	5,814,202	-	(1,644,822)
Foundation service charges	(153,930)	(5,418,672)	-	(5,572,602)
Contributions and other revenue	-	18,229,299	29,516,332	47,745,631
Appropriation of endowment assets for expenditures	(4,114,800)	(13,811,449)	-	(17,926,249)
Endowment net assets, end of year	$ (6,601,485)	$ 66,685,956	$ 343,495,375	$ 403,579,846

The amounts reflected above include only those funds actually received and invested in the Foundation's endowment as of June 30, 2012.

The following presents endowment net asset composition by type of fund as of June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor restricted endowment funds	$ -	$ 61,872,576	$ 313,979,043	$ 375,851,619
Fair value of donor restricted endowments below historical dollar value	(6,302,503)	-	-	(6,302,503)
Board-designated endowment funds	11,428,772	-	-	11,428,772
Endowment net assets, end of year	$ 5,126,269	$ 61,872,576	$ 313,979,043	$ 380,977,888

5. Endowment (Continued)

The following presents changes in endowment net assets for the year ended June 30, 2011:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (14,274,598)	$ 39,134,154	$ 285,747,489	$ 310,607,045
Investment return:				
Investment income	184,835	5,734,453	-	5,919,288
Net appreciation	1,739,176	53,963,889	-	55,703,065
Fair value recoveries of donor restricted endowments below historical dollar value	17,362,745	(17,362,745)	-	-
Manager fees and expenses	(57,724)	(1,861,956)	-	(1,919,680)
Total investment return	19,229,032	40,473,641	-	59,702,673
Foundation service charges	(166,543)	(5,118,365)	-	(5,284,908)
Contributions and other revenue	338,378	3,789,179	28,231,554	32,359,111
Appropriation of endowment assets for expenditures	-	(16,406,033)	-	(16,406,033)
Endowment net assets, end of year	$ 5,126,269	$ 61,872,576	$ 313,979,043	$ 380,977,888

The amounts reflected above include only those funds actually received and invested in the Foundation's endowment as of June 30, 2011.

6. Equity Investment in Limited Partnership

The Foundation owns a 39% interest in the Waterfront Place Parking Garage, LLC. The investment is accounted for under the equity method of accounting, whereby the initial investment of $4,854,966 is adjusted for profit or loss and distributions.

7. Land, Building, and Equipment

A summary of land, building, and equipment and accumulated depreciation at June 30 follows:

	2012	2011
Land	$ 1,610,860	$ 1,610,860
Building	28,830,964	28,804,442
Equipment	3,420,005	3,275,426
	33,861,829	33,690,728
Accumulated Depreciation	(13,681,450)	(12,614,684)
	$ 20,180,379	$ 21,076,044

7. Land, Building, and Equipment (Continued)

Depreciation expense for the years ended June 30, 2012 and 2011 was $1,066,766 and $1,182,835, respectively.

The Foundation owns a seven-floor office building located at One Waterfront Place. The Foundation occupies one floor of the building and leases the remainder of the building to the University through an operating lease with the West Virginia University Board of Governors on behalf of the University. The lease runs through May 31, 2031; however, it is cancelable upon 30-days' written notice. The book value of the property leased is approximately $16,350,000 and $17,211,000 as of June 30, 2012 and 2011, respectively. During 2012 and 2011, the Foundation recorded approximately $1,975,000 and $1,810,000, respectively, of lease revenue related to this lease.

8. Other Assets

Other assets consisted of the following at June 30:

	2012	2011
Works of art	$ -	$ 5,519,447
Cash surrender value of life insurance	3,015,737	2,934,943
Other	480,237	1,323,481
	$ 3,495,974	$ 9,777,871

The Foundation transferred ownership of all works of art with a value of approximately $5,500,000 to the University during the year ended June 30, 2012. This donation is included in University support on the Statements of Activity.

9. Split-Interest Agreements

The Foundation occasionally enters into split-interest agreements with donors, which consist primarily of charitable gift annuities, charitable remainder unitrusts, and charitable remainder annuity trusts. These agreements provide either fixed annual payments or fixed annual returns to the original donor or a designated beneficiary. Payment streams are valued at the present value of the expected future obligations factoring in the applicable discount rate and actuarial mortality tables. Fixed payout percentages range from 2.27% to 15% at June 30, 2012.

The Foundation received contributions of approximately $1,464,000 and $988,000 to establish new split-interest agreements for the years ended June 30, 2012 and 2011 respectively. Total assets resulting from split-interest agreements were approximately $23,722,000 and $25,431,000 at June 30, 2012 and 2011, respectively. These assets are included in investments carried at fair value on the Statements of Financial Position.

10. Net Assets

Temporarily restricted net assets are available for the following purposes as of June 30:

	2012	2011
Student aid	$ 38,094,686	$ 45,827,346
Faculty and staff	34,676,308	36,258,930
Academics	32,583,862	35,882,797
Pending donor designation	26,305,179	26,151,970
Research	29,006,173	25,221,172
Buildings and equipment	26,163,975	20,932,120
Departmental discretion	7,357,945	16,672,091
Public service	6,167,036	5,122,030
Other	5,230,705	4,575,518
	$ 205,585,869	$ 216,643,974

Permanently restricted net assets are available for the following purposes as of June 30:

	2012	2011
Student aid	$ 158,322,578	$ 149,147,297
Faculty and staff	95,255,264	90,401,142
Academics	61,236,859	61,133,062
Research	45,038,042	25,159,242
Departmental discretion	13,556,698	12,818,556
Buildings and equipment	2,702,949	2,538,374
Public service	5,458,605	5,293,402
Other	2,972,452	3,727,210
	$ 384,543,447	$ 350,218,285

11. Lines of Credit

The Foundation has agreements with two different financial institutions for two unsecured lines of credit with maximum borrowings of $10,000,000 each, for a total of $20,000,000. As of June 30, 2012, there were no outstanding balances on either line. The first line of credit bears interest at a variable rate based on the one month LIBOR plus 150 basis points adjusted monthly with a minimum interest rate of 2.914% and a maximum interest rate of 5.66%. That line matures in December 2012. The second line of credit bears interest at a variable rate based on the New York Prime rate plus 3.375% with a minimum interest rate of 4.48% and a maximum interest rate of 10%, which is payable on demand.

12. Bonds and Notes Payable

Bonds Payable – On March 14, 2002, the West Virginia Economic Development Authority (the "Authority") issued $3,000,000 of Series A 2002 Bonds and $30,310,000 of Series B 2002 Bonds on behalf of the Foundation to finance the cost of the acquisition, construction, equipping, and furnishing of One Waterfront Place. Lease payments received approximate the annual debt service on the Series B Bonds.

12. Bonds and Notes Payable (Continued)

The Series A Bonds are secured by a promissory note from the Foundation to the Authority and, as such, are an obligation of the Foundation. The Foundation has entered into a Standby Bond Purchase Agreement ("Agreement") with PNC Bank to provide a liquidity facility. The Agreement has been extended through March 2, 2013. The Series A Bonds are rated A+/A1 by Standard & Poor's and As3/VMIG-1 by Moody's Investors Service.

The Series A Bonds were issued as variable-rate bonds. The interest rate is determined by the Remarketing Agent (PNC Bank) weekly. From July 1, 2011 through June 30, 2012, the actual interest rate ranged from 0.09% to 0.28% per annum with an average interest rate of 0.17%. The Series A Bonds will mature on July 1, 2017.

The Series B Bonds were recorded net of discounts totaling $1,100,000 at issuance that were amortized over the life of the Series B Bonds using the effective-interest method. The unamortized discount approximated $798,000 at June 30, 2011. In May 2012, the Foundation set aside funds to redeem the Series B Bonds. The funds were deposited with a trustee and subsequently used to pay off the bonds on July 15, 2012. Per the Series B Bond indenture, the Foundation was released from indenture when the funds were deposited. The unamortized discount associated with extinguishment of the Series B Bonds in the amount of $760,923 is included in interest expense for the year ended June 30, 2012.

Under accounting principles generally accepted in the United States, a debt and the related assets set aside to extinguish that debt should be derecognized from the debtor's financial statements when the debtor is legally released from being the primary obligor under the liability. Therefore, both the funds deposited for extinguishment and the Series B Bonds have been removed from the financial statements of the Foundation. The balance of the Series B Bonds payable as of June 30, 2012, was $25,185,488 and the related asset for repayment was $25,187,193.

As of June 30, 2012 and 2011, approximately $6,955 and $1,194,000, respectively, was held by the Trustee for scheduled principal and interest payments on the Series A and B Bonds. This amount is included in the cash and cash equivalents on the Statements of Financial Position.

Interest costs for the years ended June 30, 2012 and 2011 were approximately $2,008,850 and $1,286,000, respectively, and are included within total interest and depreciation on the Statements of Activity.

12. Bonds and Notes Payable (Continued)

Promissory Note – In February 2012, the Foundation entered into a promissory note in the amount of $10,000,000. Beginning on June 30, 2016, $5,000,000 of the note (the Payable Amount) is to be repaid through reductions in future Big Twelve Conference revenues distributable to West Virginia University of $1,000,000 per year for five years. The Foundation will recognize the related forgiveness of debt at the time the corresponding revenue distribution deductions to WVU are withheld by the Big Twelve Conference. The remaining $5,000,000 (the Forgivable Amount) is to be forgiven on June 30, 2020, if all the scheduled payments have been made on the Payable Amount, or on such earlier dates as the Payable Amount is paid in full. However, if there is an event of default under the terms of the note, the Foundation shall become obligated to pay the Forgivable Amount, together with accrued interest thereon from the date of the note. Interest is due on the Payable Amount of $5,000,000 at the Applicable Federal Rate (AFR) in effect each June 30. The Foundation made the required interest payment of $21,622 (1.12% AFR) for June 30, 2012. Interest on the Forgivable Amount is deferred and is payable only upon event of default.

Mortgage Note – In May 2012, the Foundation entered into a $24,000,000 loan agreement with a West Virginia bank. The loan proceeds were used to fund the pay-off of the 2002 Series B bonds, see “Bonds and Notes Payable” section above. The loan is payable in monthly installments of $136,492 through May 1, 2032. The payments include principal and interest at the fixed rate of 3.28%. The loan is secured by a credit line deed of trust on One Waterfront Place, an assignment of leases on One Waterfront Place, and a security agreement encumbering the net unrestricted assets of the Foundation. The loan balance as of June 30, 2012 was $23,929,108. Interest expense for the year ended June 30, 2012 was $65,600.

Debt service for the note payable for the fiscal years ending June 30 is as follows:

Fiscal Year Ending	Principal	Interest	Total Principal and Interest
2013	$ 865,977	$ 771,933	$ 1,637,910
2014	894,812	743,098	1,637,910
2015	924,607	713,303	1,637,910
2016	955,394	682,516	1,637,910
2017	987,206	650,704	1,637,910
Thereafter	19,301,112	5,131,043	24,432,155
	$ 23,929,108	$ 8,692,597	$ 32,621,705

12. Bonds and Notes Payable (Continued)

In summary, bonds and notes payable are as follows as of June 30, 2012.

Bonds Payable	$ 3,000,000
Promissory Note	10,000,000
Note Payable	23,929,108
Total Bonds and Notes Payable	$ 36,929,108

The carrying amounts of the Foundation's bonds and notes payable approximate their fair value at June 30, 2012.

13. Retirement Benefits and Deferred Compensation

The Foundation has a contributory retirement plan covering its full-time employees. Employer contributions are based on a percentage of salary applied as premiums on regular retirement annuity contracts owned by each employee. Employees are fully vested after two years. Retirement expense approximated $521,000 and $476,000 in 2012 and 2011, respectively.

The Foundation has six supplemental retirement or deferred compensation plans covering certain current and former employees of the University or Foundation that provide for payments upon retirement, death, or disability. The liability associated with these plans was approximately $4,199,000 and $4,568,000 as of June 30, 2012 and 2011, respectively. The liability is recorded at the present value of the estimated future payments. These plans are funded through gifts, life insurance proceeds, and Foundation operations. As of June 30, 2012, all participants of the program had vested and are included in the deferred compensation liability amounts on the Statements of Financial Position.

14. University Support

University directed fund raising costs of approximately $1,935,369 and $2,427,493 in 2012 and 2011, respectively, are included in University support in the Statements of Activity.

15. Agency Transactions

The Foundation invests funds for West Virginia University and certain organizations affiliated with the University. These investments are held in an agency relationship; therefore, assets and liabilities are always equal and no net assets are reported. A summary of the liability for agency investments as of June 30, 2012 and 2011 follows:

	2012	2011
West Virginia University Hospitals, Inc.	$ 361,159,255	$ 382,099,500
West Virginia University	73,725,883	60,631,529
WVU Alumni Association, Inc.	4,754,613	4,055,676
Blanchette Rockefeller Neurosciences Institute, Inc.	3,658,142	4,061,220
Other	179,015	125,020
	$ 443,476,908	$ 450,972,945

OTHER FINANCIAL INFORMATION

DIXON HUGHES GOODMAN LLP
Certified Public Accountants and Advisors

Independent Auditors' Report on Other Financial Information

The Board of Directors
West Virginia University Foundation, Incorporated

We have audited the financial statements of the West Virginia University Foundation, Incorporated (the "Foundation") as of and for the years ended June 30, 2012 and 2011, and our report thereon dated October 26, 2012, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The reconciliation of contributions information for the years ended June 30, 2012 and 2011 is presented on page 28 for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management, was derived from, and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Dixon Hughes Goodman LLP

Charleston, West Virginia
October 26, 2012

West Virginia University Foundation, Incorporated

Reconciliation of Contributions

The schedule below reconciles contributions as reported from Foundation fundraising activities with contribution revenue determined in accordance with U.S. GAAP as reported in the accompanying Statements of Activity.

	Years Ended June 30, 2012	Years Ended June 30, 2011
Contributions		
Contributions recognized as gifts by the Foundation	$ 173,932,242	$ 96,292,912
Noncash contributions received directly by the University	(73,277,988)	(15,224,135)
Amounts reported as deferred / other revenue	(15,007,083)	(2,123,053)
Net impact of changes in contributions receivable	9,398,306	3,211,507
Life income gifts reclassified to annuities payable	(467,237)	(558,695)
Contributions from perpetual trusts reclassified to interest income	(1,660,783)	(1,525,033)
Life income gifts released from annuities payable due to termination of trust	71,966	114,430
Amounts recorded as agency liability	(5,831,573)	(4,143,109)
Contributions per statements of activity	$ 87,157,850	$ 76,044,824