

ANNUAL REPORT

July 1, 2005 to June 30, 2006

The West Virginia University Foundation is an independent 501(c)(3) corporation chartered in 1954 to generate, administer, invest and disburse contributed funds and properties in support of West Virginia University and its non-profit affiliates.

Its mission is to enhance the overall well-being of West Virginia University and be recognized by its donors and peers as a leading independent foundation.

The Foundation is governed by the Board of Directors who are elected by the members. All serve without compensation. The Foundation's operating budget is financed entirely with private resources; no University or state funds are used. One hundred percent of each donor's gift is applied directly to the purpose for which it is given. No operating expenses are deducted from gifts given by donors, and no unrestricted gifts are used to fund operations.

The Foundation provides the central development and endowment management functions for the University at no cost to the University.

The following pages contain information regarding the Foundation's activities during the fiscal year which ended June 30, 2006.

For further information contact the WVU Foundation at:

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ON THE FRONT COVER

Ohio River at Wheeling, c. 1855, by George W. Storm. Courtesy of Museums of Oglebay Institute, Wheeling, WV, and the West Virginia and Regional History Collection, WVU Libraries. This image and other prints from the collection are on display at the offices of the West Virginia University Foundation.

ON THE BACK COVER

The Mountaineer Marching Band in a "Thank You" formation honors the nearly 1,800 donors who contributed \$440,000 to the Band Aid Drive for the purchase of new uniforms and instruments. The new "Pride of West Virginia" uniforms were dedicated during halftime ceremonies at homecoming.



A MESSAGE FROM CHAIRMAN DAVID W. HAMSTEAD

We have just completed an outstanding fiscal year during which the WVU Foundation achieved many milestones. This report describes in detail our many accomplishments. We are currently in the process of engaging a successor for our President & CEO, Duke Perry, who will be retiring at the end of January 2007.

I would like to acknowledge the extraordinary contribution that Duke Perry made during the past eight years to strengthen our organization and its development programs. During his term as President & CEO, the Foundation has experienced exceptional growth, conducted a historic capital campaign and built a new facility. Duke's contributions are an important part of our legacy. We wish him well in his retirement.

The Foundation ended the 2006 fiscal year with assets under management surpassing \$809 million and the endowment exceeding \$420 million. We had a record level of contributions totaling \$61.2 million, including 10 gifts of more than \$1 million. This amount surpasses the 2002 fiscal year record of \$57.4 million.

Disbursements from the Foundation on behalf of the University reached \$39 million and provided support for students, faculty, academic programs, research, equipment, facilities, and the WVU libraries.

Your gifts make it possible for West Virginia University to provide greater opportunities for students to become tomorrow's leaders and for faculty members to become renowned scholars. The impact of private giving is becoming more important to the future of our great University.

We thank you for your continuing support of West Virginia University and your confidence in our stewardship of your contributions.

David W. Hamstead

Chairman, Board of Directors, WVU Foundation

A MESSAGE FROM PRESIDENT F. DUKE PERRY



The WVU Foundation is grateful that so many alumni and friends, worldwide, have chosen to invest in the future of West Virginia University.

Yes, it was a great year. However, we must continue to generate significant levels of private support if the University is to continue at this highest level of quality and national recognition.

As many of you may know, I will be retiring at the end of January 2007. After 37 years of working in education-related positions, it's time to pursue other possibilities.

I would like to think that my contributions have benefited the students, faculty, and universities I have served, and it is my hope that my work has had a positive impact on West Virginia University. I feel confident that I am retiring from a Foundation that a new President can lead to even higher levels of support and assistance for the University.

I am grateful for the opportunity to have served the Foundation and West Virginia University. It has been a wonderful experience, and I've enjoyed the many friendships I have made. I thank everyone, especially our staff, who have helped me in the growth and success of our Foundation.

And, perhaps most importantly, I thank all of those I have met and worked with who have so generously supported the Foundation and West Virginia University.

I am looking forward to starting this new phase of my life. I plan to move to a less structured life-style that will include some consulting and plenty of time for a variety of activities that I have long planned to enjoy at a more leisurely pace.

F. Duke Perry
President & CEO, WVU Foundation

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YEAR IN REVIEW

WVU FOUNDATION

Total Foundation assets were \$809 million as of June 30, 2006 – a \$87 million, or 12%, increase over the previous fiscal year. Included in total assets is \$277.6 million managed by the Foundation as investment agent for WVU Hospitals.

The Foundation's revenues for the fiscal year totaled \$97 million, including investment earnings of \$48.9 million. Cash gifts, gifts-in-kind, new pledges, and new expected bequests totaled \$73 million.

Cash gifts received during the fiscal year totaled \$61.2 million and were contributed by 21,825 donors in 30,723 individual gift transactions. In total, the Foundation processed over 78,000

EARL G. "KEN" KENDRICK, JR. has joined the WVU Foundation Board of Directors. The chairman of Datatel Inc., he also is a general partner in Major League Baseball's Arizona Diamondbacks.

The Princeton, W.Va., native graduated from WVU in 1965 with a bachelor's degree in business administration and has become a leading

entrepreneur. He was inducted into the WVU Academy of Distinguished Alumni in 2005 and is a life-time member of the Alumni Association.



Ken Kendrick

Following graduation from WVU, Mr. Kendrick started his career with IBM in Baltimore, Md. Three years later, he founded Datatel, Inc., which has become the industry leader in the development of software for the

management of infrastructure technology for colleges and universities. Today, Kendrick remains semi-active in its operation, serving as chairman and also as president of the Datatel Scholars Foundation, which provides college scholarships to students throughout the United States and Canada.

Mr. Kendrick's long-time passion for baseball led him to the Diamondbacks and he became a partner of the expansion team in 1995. The team took the field for the first time in 1998 and won the World Series in 2001. He also owns several golf courses and has a small share in the NBA's Phoenix Suns.

In addition to his interest in sports, Kendrick continues to support community ventures in Arizona. He is an investor in the Dodge Theater in Phoenix, owns the Bumble Bee Ranch and Bumble Bee Ranch Adventures, LLC and is a member of the board of directors and partial owner of Woodforest Financial Group.

Mr. Kendrick and his wife, Randy, a retired attorney, made a \$700,000 gift to benefit the College of Business and Economics and Department of Intercollegiate Athletics. Of the gift, \$500,000 established a program in B&E focused on free-market research and \$200,000 aided in the construction of Athletics' Donald J. Brohard Hall of Traditions. The Ken and Randy Kendrick Fund for Free Market Research and Entrepreneurship Policy created a program that examines ways in which entrepreneurship is encouraged through lower taxes,

transactions during the fiscal year.

Donor gifts enabled the Foundation to disburse \$39 million in funds on behalf of the University to support a myriad of purposes, including scholarships and fellowships; academic program development; chairs, professorships and lectureships; faculty development and research; equipment and facilities; and libraries. Over the past 10 years, the Foundation has provided the University with \$316 million in direct support.

Of the \$39 million disbursed in fiscal 2006 to the University, \$10 million (or 26%) was directed toward student scholarship support, which made attendance at WVU a reality for many in-state students by easing the financial burden. Another \$11 million (or 30%) was directed toward salaries, professional grants, and awards, which enabled the University to attract and retain the highest caliber of faculty for teaching, research and public service.

The Foundation's annual operating expenses were \$6.8 million during the 2006

reduced regulation, secure private property rights, and personal responsibility. The Brohard Hall of Traditions, located at the Milan Puskar Center, honors Mr. Brohard, a staunch Mountaineer football fan and childhood friend of Mr. Kendrick.

The Kendricks reside in Paradise Valley, Ariz., with their 10-year old twins, Cal and Catie.

HAZEL RUBY McQUAIN Charitable Trust again showed its support of West Virginia University with two major gifts. Its trustees pledged \$1.5 million to the WVU Alumni Association's, "A New Home for Mountaineers Building Campaign," and \$1 million to the new WVU wrestling facility. The \$12 million alumni center will be located on two acres near Ruby Memorial Hospital and funded completely through private contributions. The \$1.2 million, 9,000 square-foot state-of-the-art wrestling training complex is located adjacent to the natatorium and is one of the finest of its kind in the country.

CHARLES F. ERICKSON proudly carried on a family tradition with a gift of \$1 million to support WVU's new alumni center. In honor of the family's continuous generosity, the new center will retain the Erickson name. The Erickson family has been a dedicated and loyal supporter of WVU throughout the years. In 1984, Mr. Erickson's father, Charlie, made a significant gift to fund the current alumni facility and in the 1980s provided financial support to many colleges and universities throughout West Virginia to build alumni centers.

THE WARE FAMILY Foundation established four scholarship endowments for students to attend WVU, two Ware Presidential Scholarships, one each for students from Greenbrier and Monongalia counties, and two Ware Men's Basketball Scholarships. The Presidential Scholarships are in recognition of the heritage of Alfred F. and Dolores "Dee" Jamison Ware. He is from Rupert, Greenbrier County, while she hails from Morgantown. The



Al and Dee Ware

scholarships are available to graduates of Greenbrier West and Morgantown high schools. The Wares have supported the University for many years and

fiscal year, representing 0.8% of total assets under management. As no operating expenses are deducted by the Foundation, 100% of each donor's gift is made available for its intended purpose.

With total annual operating expenses of less than \$7 million (including both fund-raising and fund management expenses), the Foundation's revenue-to-expense ratio for the fiscal year was 15 to 1. The Foundation's direct fund-raising costs for the year were \$3.5 million against cash gifts received of \$61.2 million, a revenue-to-expense ratio of over 17 to 1. This ratio increased to over 20 to 1 when gifts-in-kind, new pledges and new expected bequests were included.

The Foundation's endowment grew to over \$420 million in fiscal 2006, an increase of almost \$52 million over the previous year. The endowed portfolio generated a 13.6% return on investment, net of fees. On an annualized basis, the endowment returned 11.7% and 9.3% for the past 3- and 10-year periods.

are members of the Woodburn Circle Society, the WVU Foundation's most prestigious giving society.



WVU's 2006 CLASS of Foundation Scholars are: (from left) Liz Banta, Morgantown High School, Monongalia County; Brandon Benchoff, University High School, Morgantown, Monongalia County; Lydia McDowell, Tucker County High School, Davis, Tucker County; Isaiah Richie, Tyler Consolidated High School, Middlebourne, Tyler County; and Collin Wood, George Washington High School, Charleston, Kanawha County. Foundation Scholarships, valued at approximately \$50,000, cover tuition, fees, books, room, board and other expenses for four years, plus a stipend of up to \$2,500 for academic enhancement opportunities including travel, study abroad and internships.

A \$2 MILLION GIFT from the estate of J. Vance and Florence Highland Johnson established a Chinese Studies Program at the University. Housed in the Eberly College of Arts and Sciences, the program has been named in honor of the Clarksburg, W.Va., couple and is designed to re-enforce the importance of foreign language mastery and foreign study at the University.

The endowment will support the multidisciplinary program with four fundamental components: two professorships – one in the teaching of Chinese in the Department of Foreign Languages and one in Chinese Studies, a student support fund for study abroad and a library fund. Students, known as Johnson Scholars, may spend the equivalent of one academic year studying in the native language at a Chinese university.

In fiscal 2006, the endowed funds were invested in 74 funds managed by 38 well-known asset managers. As of June 30, 2006, 45% of the endowed portfolio was invested in equities, 23% in fixed income, and 32% in alternative investments.

The Foundation employed the services of the Charitable Asset Management Group of State Street Global Advisors for the life income accounts. These gifts are invested separately from the endowed portfolio in order to more closely match the needs and requirements of each individual donor. Two investment pools (equity and fixed income) have been established for this purpose and are diversified among several well-known mutual fund managers. Each life income participant's portfolio is typically invested as a fixed percentage of each pool.

THE WVU FOUNDATION was a finalist for the 2006 Nonprofit Awards for Excellence in investment management, selected by *Foundation & Endowment Money Management*. Nominees were chosen by the editorial staffs of *FEMM* and *Alternative Investment News* and included industry recommendations. According to the industry publication, the nominees were examples of the best-run nonprofits in performance, investment decisions and use of managers/consultants. Criteria for the savviest nonprofit award included not only a track record of good investment returns and sound decisions, but also innovation in how the fund managed its assets and how it approached its goals. Other nominees for awards included the Indiana University Foundation, University of Texas Management Co., University of Washington, Wake Forest and Yale universities.

BAND AID RECEIVED \$440,000 from some 1,800 donors. The drive's goal was to raise \$270,000 for 400 new Mountaineer Marching Band uniforms with all additional funds committed to the purchase of band instruments. Partners in this drive included United Bank, Friends of Coal, the WVU Alumni Association and Athletic Department.

The WVU Foundation also successfully conducted a private fund-raising effort to raise an additional \$320,000 to help to defray the cost of new band instruments. The additional funds from the Band Aid Drive were used to match two band instrument challenge gifts from Ed and Susan Maier and the WVU Provost's Office.



WYETH PHARMACEUTICALS COMMITTED \$11.79 million in support of biomedical research at West Virginia University over the next three years. The Wyeth Pharmaceutical Research Fund at WVU supports up to 15 new faculty positions at the Robert C. Byrd Health Sciences Center, as called for in HSC's long-term bioscience research plan and supports basic

research in cardiovascular sciences, respiratory biology and diabetes/obesity.

THE WVU FOUNDATION held the third annual induction ceremony for the Woodburn Circle Society – its most prestigious philanthropic society. Seven individuals, corporations and foundations became members, bringing the total to 465. The Society honors those who demonstrate extraordinary commitment to the advancement of the University. Recognition is reserved for those who make an initial gift of \$100,000 or more to benefit WVU, Potomac State College of WVU, the Mountaineer Athletic Club or West Virginia 4-H.



**FY 2006
GIFTS BY SOURCE
DONORS**

CATEGORY	DONORS
ALUMNI	55.8%
FRIENDS	30.9%
CORPORATIONS	8.3%
FOUNDATIONS/TRUSTS	0.7%
ESTATES	0.1%
OTHER	4.2%

**GIFTS BY SOURCE
DOLLARS**

CATEGORY	DOLLARS
ALUMNI	16.2%
FRIENDS	31.0%
CORPORATIONS	23.5%
FOUNDATIONS/TRUSTS	14.3%
ESTATES	13.3%
OTHER	1.7%

FIVE WVU FOUNDATION Board members received honors during the 2006 fiscal year. Duke Perry received the President’s Distinguished Service Award for exceptional leadership in the state and nation. Stuart Robbins was inducted into the Order of Vandalia for service to the University. Marshall Miller was given an honorary Doctor of Science degree and with H. Smoot Fahlgren was named to the 2005 West Virginia Business Hall of Fame. Jean Clark and her husband, Dr. Tom Clark, received the Milan Puskar Award for their community contributions.

THE WVU FOUNDATION created an Augusta Scholarship Program. Tribute gifts – In Memory Of (IMO) and In Honor Of (IHO) gifts – made to the WVU Foundation are pooled into this general endowed scholarship, which is under the umbrella of The University Fund. All Tribute gifts go directly to the Augusta Scholarship Fund unless otherwise designated by the donor. Gifts become a part of the endowment principal of the Augusta Scholarship Fund. The names of those memorialized or honored by donors contributing \$5,000 or more will be listed in the Augusta Scholars register, on the WVU Foundation’s electronic Wall of Honor and scholarship website, and in the *WVU Alumni Magazine*.



2006 OUTSTANDING PHILANTHROPY AWARDS



From left, the Hostlers, Pat Getty and the Lanes

RAYMOND J. & STEPHANIE LANE PHILANTHROPISTS

The Lanes, of Atherton, Calif., are being honored for their tremendous devotion to and support of WVU.

Mr. Lane is a general partner in the venture capital firm of Kleiner Perkins Caufield & Byers. He served as the national chairman of the *Building Greatness Campaign*, which raised more than \$336 million. Among the couple's contributions was \$5 million to the WVU Department of Computer Science and Electrical Engineering, which has been named in their honor. Their gifts support a computer science chair, graduate fellowships, faculty research labs, engineering library resources, and music scholarships.

A 1968 graduate of WVU's Eberly College of Arts and Sciences, Mr. Lane was inducted into the WVU Academy of Distinguished Alumni in 1997 and serves on the WVU Foundation Board.

Mrs. Lane, who is active in civic organizations, serves as a trustee for Villa Montalvo, a center for the arts in Northern California. She also is taking on-line courses from WVU.

STANLEY & VIRGINIA HOSTLER VOLUNTEER PHILANTHROPISTS

The Hostlers, of Charleston, W.Va., are being honored for their long-standing dedication to WVU.

Mr. Hostler, a respected attorney, received his law degree from WVU and in 1959 established the WVU Institute for Labor Studies. He has created a fund enabling under-represented WVU students to attend medical school. Mr. and Mrs. Hostler also support programs at the College of Law, WVU Children's Hospital, the WVU Alumni Association, Athletics, Extension and other campus units.

Mr. Hostler has helped link minority and disadvantaged high school students to health professionals at WVU through WVU's Health Sciences and Technology Academy. In 1999, the Health Sciences auditorium was named in the couple's honor. A member of the WVU Foundation Board, Mr. Hostler was honored as the 1997 Most Loyal Alumni Mountaineer.

Mrs. Hostler is a volunteer with Hospice and serves on the Board of the Charleston Women's Club.

CLAUDE WORTHINGTON BENEDUM FOUNDATION PHILANTHROPIC ORGANIZATION

A faithful contributor to WVU, the Benedum Foundation was established in 1944 by Michael and Sarah Benedum of Bridgeport and Blacksville, W.Va., respectively. The Foundation, which is headquartered in Pittsburgh, Pa., was named after their only child, Claude Worthington, who died in 1918 at age 20 while serving in World War I.

The couple's goal to "help people help themselves" has been carried on by the Foundation through its work with hundreds of charities and nonprofit organizations dedicated to education, health, human services, community development, and economic development in West Virginia and Southwestern Pennsylvania.

Since its inception, the Foundation has created nearly 6,500 grants totaling more than \$265 million. Approximately two-thirds of its grant money is spent in West Virginia. Of its \$11.7 million in grantmaking during 2005, more than \$2 million benefited programs at WVU.

President William P. "Pat" Getty accepted the award.

FINANCIAL PERFORMANCE

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED CONDENSED STATEMENTS OF FINANCIAL POSITION

	<u>2006</u>	<u>2005</u>
	<i>(in Thousands)</i>	
Assets		
Cash and cash equivalents	\$ 31,730	\$ 12,066
Contributions receivable, net	15,613	31,051
Other receivables, net	4,065	4,000
Investments carried at estimated fair value:		
Short-term	27,267	39,946
Long-term (including \$277,647 and \$244,189 of investments held in custody for WVU Hospitals, Inc. as of June 30, 2006 and 2005, respectively)	<u>682,892</u>	<u>587,168</u>
	710,159	627,114
Equity investment in limited partnership	4,364	4,486
Land, buildings primarily leased, and equipment, net	26,830	28,132
Beneficial interest in external trusts at estimated fair value	9,697	8,617
Other assets	<u>6,669</u>	<u>6,144</u>
Total assets	<u>\$ 809,127</u>	<u>\$ 721,610</u>
Liabilities and net assets		
Liabilities:		
Bonds payable, net of unamortized discount of \$964 and \$994 at June 30, 2006 and 2005, respectively	\$ 30,606	\$ 31,166
Interest and accounts payable and other liabilities	3,352	4,455
Accrued supplemental retirement benefits and deferred compensation	5,379	5,359
Annuity obligations	11,107	13,695
Funds held in custody for others	<u>297,466</u>	<u>257,346</u>
Total liabilities	347,910	312,021
Net assets:		
Unrestricted	12,936	10,574
Temporarily restricted	48,903	51,194
Permanently restricted	<u>399,378</u>	<u>347,821</u>
Total net assets	<u>461,217</u>	<u>409,589</u>
Total liabilities and net assets	<u>\$ 809,127</u>	<u>\$ 721,610</u>

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED
CONDENSED STATEMENTS OF ACTIVITY

	<u>2006</u>	<u>2005</u>
	<i>(in Thousands)</i>	
Revenues, gains (losses), and other support		
Contributions	\$ 37,428	\$ 25,839
Registrations and other fees	1,499	4,425
Gains on investments:		
Interest and dividends	6,397	6,820
Net realized gains on sales of investments	20,830	10,428
Net unrealized gains on investments	21,663	12,720
Gains on investments	<u>48,891</u>	<u>29,968</u>
Revaluation of beneficial interests in perpetual trusts	1,097	(565)
Lease revenue	1,975	2,038
Other revenue	<u>6,113</u>	<u>1,540</u>
Total revenues, gains (losses), and other support	97,003	63,245
Expenses and support		
University Support		
University salaries and professional development grants and awards	11,508	9,170
Student Support	10,146	9,006
Faculty, staff and student travel	1,412	2,019
Cultural programs and meetings	3,011	3,610
Professional services	3,435	2,642
Capital projects and equipment	4,951	4,540
Other Support	4,475	4,232
	<u>38,938</u>	<u>35,219</u>
Expenses of Foundation directed fund raising activities	3,469	3,609
Foundation financial management expenses	3,310	2,986
Occupancy expense	<u>2,434</u>	<u>2,415</u>
Total expenses and support	48,151	44,229
Provision for uncollectible pledges	(544)	1,232
Net gains on revaluation of annuity payable	<u>(2,232)</u>	<u>(1,077)</u>
Total expenses, support and gains	<u>45,375</u>	<u>44,384</u>
Changes in net assets	51,628	18,861
Net assets at beginning of year	<u>409,589</u>	<u>390,728</u>
Net assets at end of year	<u>\$ 461,217</u>	<u>\$ 409,589</u>

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED

CONDENSED STATEMENTS OF CASH FLOWS

	<u>2006</u>	<u>2005</u>
	<i>(in Thousands)</i>	
Reconciliation of change in net assets to net cash provided by (used in) operating activities		
Change in net assets	\$ 51,628	\$ 18,861
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities		
Actuarial gain on annuity obligations	(2,232)	(1,077)
Amortization of discount on bonds payable	30	29
Decrease in contributions receivable	15,438	6,804
Contributions restricted for long-term investments	(14,198)	(4,489)
Depreciation expense	1,343	1,310
Net realized and unrealized gains on investments	(42,550)	(23,112)
Change in beneficial interest in external trusts	(1,080)	180
Change in funds held in custody for others	-	520
Changes in operating assets and liabilities	(1,907)	862
Net cash provided by (used in) operating activities	<u>6,472</u>	<u>(112)</u>
Cash flows from investing activities		
Purchase of land, buildings primarily leased, and equipment	(41)	(518)
Purchases of investments	(200,051)	(49,963)
Proceeds from sales and maturities of investments	199,676	45,939
Net cash used in investing activities	<u>(416)</u>	<u>(4,542)</u>
Cash flow from financing activities		
Proceeds from contributions restricted for long-term investment	14,198	4,489
Payments on bonds payable	(590)	(580)
Net cash provided by financing activities	<u>13,608</u>	<u>3,909</u>
Increase (decrease) in cash and cash equivalents	19,664	(745)
Cash and cash equivalents at beginning of year	12,066	12,811
Cash and cash equivalents at end of year	<u>\$ 31,730</u>	<u>\$ 12,066</u>

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED
CONDENSED RECONCILIATION OF CONTRIBUTIONS

	<u>2006</u>	<u>2005</u>
	<i>(in Thousands)</i>	
Contributions		
Contributions received as gifts by the Foundation	\$ 61,222	\$ 41,830
Difference in valuation of trust gifts for financial statement presentation	(934)	(91)
In-kind gifts received directly by the University	(5,942)	(6,771)
Net impact of adjustments to contributions receivable	(15,885)	(5,573)
Life income gifts reclassified to annuities payable	(365)	(493)
Contributions from perpetual trusts reclassified to interest income	(538)	(424)
Life income gifts released from annuities payable due to termination of trust	282	96
Contribution recorded as agency liability	(412)	(2,735)
Contributions per statements of activity	<u>\$ 37,428</u>	<u>\$ 25,839</u>

WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED
REPORT OF INDEPENDENT AUDITORS ON CONDENSED FINANCIAL STATEMENTS

We have audited, in accordance with auditing standards generally accepted in the United States of America, the statement of financial position of West Virginia University Foundation, Incorporated as of June 30, 2006, and the related statements of activity and cash flows for the year then ended (not presented herein); and in our report dated January 31, 2007, we expressed an unqualified opinion on those financial statements. The financial statements of West Virginia University Foundation, Incorporated as of June 30, 2005, were audited by other auditors whose report dated October 26, 2005 expressed an unqualified opinion on those statements.

In our opinion, the information set forth in the accompanying condensed financial statements is fairly stated, in all material respects, in relation to the financial statements from which it has been derived.



INVESTMENT MANAGEMENT OVERSIGHT

THE MARKET

WITH THE BULL market nearly four years old as the Foundation completed its 2006 fiscal year, investors were not prepared to take a sanguine view toward the future. Instead, institutional investors were inclined to believe that rocky times might lie ahead despite a year of rather calm water.

This cautious sentiment took hold after a market correction in May and June put a stop to the positive momentum of the first 10 months of the fiscal year. Despite this tumultuous two-month period, the Foundation's endowed pool returned a solid 13.6% (net) for the fiscal year, well ahead of the 10.1% median return for public

universities as reported by The Commonfund in its Benchmark Study.

The endowed equity portfolio returned 15.7% (net) for the year, driven largely by the out-performance of the non-U.S. equity markets relative to their U.S. counterparts, as well as solid results from the portable alpha strategies. The endowment pool's overall fixed income portfolio returned 1.5% (net), as most fixed income markets were held back by continued uncertainty as to the direction of inflation. At the end of June, the Fed raised rates for the 17th time to 5.25%, as anticipated, resulting in a yield curve with only four basis points of difference between the 2-year Treasury (5.15%) and the 30-year Note (5.19%). In effect, investors received the same yield no matter what amount of duration risk was assumed.

As reported to the Board, the retrenchment at the end of the year provided an opportunity to re-examine the portfolio and the investment strategy. While some of the Foundation's managers were not immune from the severe correction in equities at the end of the fiscal year, the portfolio remained well-positioned for the long-term. The diversification within the portfolio, particularly into alternative and non-traditional investments, allowed the effects of the year-end softness in equities and the benign returns from bonds to have a minimal effect on the endowment's overall absolute return. As a result, the Foundation placed in the top quartile of the State Street peer universe for the fourth quarter and fiscal year.

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TOTAL ENDOWMENT

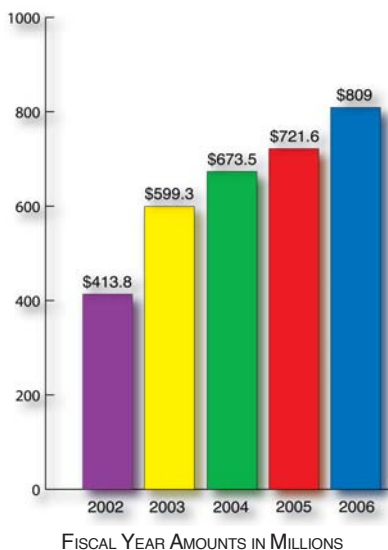


As in the previous fiscal year, changes in market sentiment occurred daily and often without any real catalysts. As stated in last year's annual report, these rapid changes could be attributed, in part, to the fact that technology provides instant access to information on a global scale. This access to real-time information led to higher trading volumes in almost every market, as investors traded in and out of positions more rapidly than before in an effort to catch the idea of the minute which would lead to a sea change in investment strategy, with an expectation of "excess" return. The reality is that no one is able to analyze and digest the second-by-second breaking news in time to take advantage (either offensively or defensively) of available information. As a result, the Foundation seeks to resist the temptation to "shoot from the hip." The fact that the endowment is just that, an endowment,

demands a commitment to a long-term investment strategy.

A quote from Charles D. Ellis' classic book on investment policy and management, *Winning the Loser's Game*, encapsulates our view. It reads, "The important test of an investment concept or philosophy is the manager's ability to adhere to it persistently for valid, long-term reasons even when the short-term results are disagreeable and disheartening...A paradox is haunting investment management. The paradox is that funds with very long-term purposes are being managed to meet short-term objectives that may be neither feasible nor important...For investors, the real opportunity to achieve superior results lies not in scrambling to outperform the market but in establishing and adhering to appropriate investment policies over the long-term –

TOTAL ASSETS



policies that position the portfolio to benefit from riding with the main long-term forces in the market...To the extent you know your investments will be held for the very long term, you have automatically self-insured against the uncertainty of short-term market price fluctuations, because as long as you stay invested, the price fluctuations of Mr. Market just won't matter to you."

INVESTMENTS UNDER MANAGEMENT

FOR THE FISCAL YEAR ended June 30, 2006, the Foundation's total investment assets under management were \$744 million as compared with \$633 million the previous year. Of this total, the Foundation's endowment investments increased to \$401 million and represented approximately 54% of total investment assets. In addition to the endowment, the Foundation's non-endowed investment portfolio totaled approximately \$66 million and assets managed on behalf of West Virginia University Hospitals, Inc. totaled \$278 million.

INVESTMENT RETURN

THE FOUNDATION'S INVESTMENT return for the endowed portfolio for the fiscal year ended June 30, 2006, was 13.6% (net), as compared with 9.4% for the previous year. The 3- and 10-year

annualized returns were 11.7% and 9.3%, respectively. The 2006 return was positively impacted by the Foundation's alternative investments (private capital, real assets, hedge funds, etc.), which earned 18.2%.

The Foundation's life income gifts, which fund annuities and unitrusts, were managed by State Street Global Advisors. Two WVU Foundation proprietary pools (equity and fixed income) were invested in funds managed by State Street and other nationally recognized mutual fund managers. Individual life income gifts were invested in a percentage of each pool, depending upon the specific requirements of each account. For the 2006 fiscal year, the Foundation's proprietary pools had a total annual return of 10.5%.

INVESTMENT MANAGEMENT

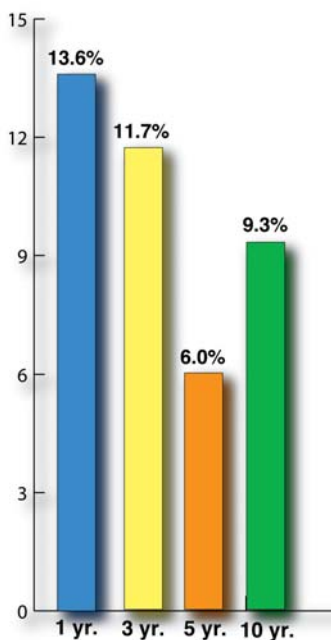
ALTHOUGH EACH ENDOWED fund (1,979 as of June 30, 2006) is distinct in purpose, endowment funds are commingled in an investment pool and tracked using unit accounting, much like a mutual fund. Each endowed gift of cash, property or securities is valued and exchanged for units that represent ownership in a portion of the entire investment portfolio.

The Foundation's Investment Committee is empowered by the Board of Directors to assume oversight

responsibility for all matters pertaining to the Foundation's investment assets under management, including its asset allocation, spending policy and tolerance for risk. In addition to providing direction and expertise to the Foundation's investment professionals, one of the primary duties of the Investment Committee is to articulate and maintain the Foundation's Investment Policy. The Policy serves as the blueprint for the Foundation's investment philosophy, objectives and guidelines for both endowed and non-endowed assets.

Thanks to support from an actively involved Investment Committee, comprised of members who have each led major corporations in their respective fields, and long-standing relationships with the investment

ANNUALIZED INVESTMENT RETURN



community, the Foundation's Investment Group is able to partner with an elite group of global fund managers, some of whom run unique, 'out-of-the-mainstream' strategies. As a result, the Foundation's asset allocation is on a par with that of much larger endowments.

State Street Bank and Trust, N.A., a subsidiary of State Street Corporation which is the world's leading provider of financial services to institutional investors, serves as Custodian of the Foundation's investment assets, including those assets managed on behalf of WVU Hospitals. As such, it performs all relevant services to ensure an accurate account of investment assets and all transactions related thereto. State Street maintains a system of internal controls that are designed to minimize risk, and is evaluated on an annual basis through a SAS 70, level 2 review. In addition to providing custodial and fund accounting services, various entities within the State Street Group also provide the Foundation with performance and analytical services as well as charitable asset management.

ASSET ALLOCATION & ENDOWMENT SPEND

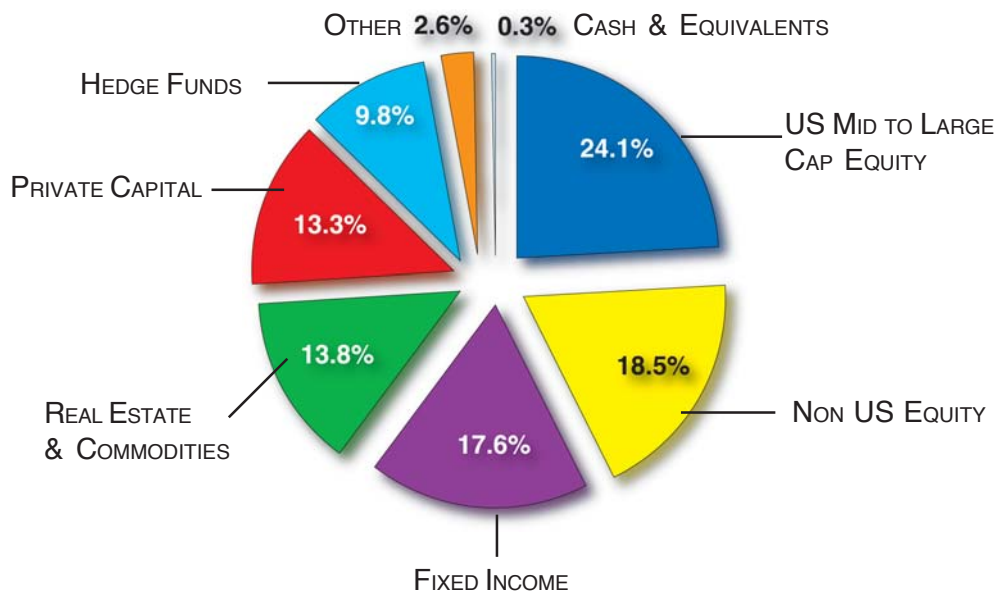
DURING FISCAL 2006, the asset allocation of the endowment was reviewed and minor changes to weightings

among asset classes were made to enhance the portfolio's risk-return profile. The portfolio was positioned during the year to enjoy the upside potential of the global public markets through our core managers, to realize enhanced performance through concentrated managers and strategies, and to limit downside risk through the use of uncorrelated, lower volatility asset classes. The Foundation expects the core portfolios to deliver benchmark-plus returns over a three-year cycle, while the remaining strategies will be measured by their absolute value-add to the overall portfolio. While there will inevitably be periods of volatility and underperformance, this strategy of actively seeking value should provide the greatest opportunity to grow the endowment and other assets under management.

The Foundation's endowment spend policy calculates spend (or funds available to be spent from each endowed account) based on the prior year's actual spend amount adjusted by the trailing 12-month inflation rate. The annual spend amount is then tested to ensure that the amount is not less than 3% or more than 6% of the endowment's market value at the date of determination. Employing this methodology, the endowed spend rate for the fiscal year ended June 30, 2006 was 4.23%.

ASSET ALLOCATION

(6/30/06)



18 During the 2006 fiscal year, the Foundation's management changed the calculation date relating to the annual spend rate from July 1 to January 1 of each year, primarily to facilitate the awarding of scholarships. By adopting this change, spend is known in advance of the upcoming fiscal year (July-June) by the WVU Scholars Office for both the upcoming fall and spring semesters. In addition, this change "protects" the dollars available for spend, as the amount is announced in March (based upon the January calculation) and available for spend as of July 1 each year, and is not subject to market risk from the date of calculation to the date of availability. Using this formula, the spend amount for the fiscal year ended June 30, 2007 was determined on Jan. 1, 2006, and was based on the prior

year's spend amount adjusted for the trailing 12-month inflation rate (3.4%). As a result, the endowed spend rate for the fiscal year ended June 30, 2007 was set at 4.37%.

SERVING WVU AFFILIATED ENTITIES

SINCE JANUARY 2003, the Foundation has served as investment agent to WVU Hospitals, an affiliate of WVU and a 501(c)(3) corporation. In its capacity as investment agent for WVU Hospitals, the Foundation manages quasi-endowed funds, which increased in market value from \$168 million at Jan. 1, 2003 to \$265 million as of Dec. 31, 2005. The assets are managed in accordance with the Investment Policy approved by the Board of Directors of WVU Hospitals, Inc. For the WVU Hospitals'

2005 fiscal year, the portfolio's investment return was 6.0%. As of June 30, 2006, the market value of WVU Hospitals' assets were \$278 million, and the portfolio earned 3.7% (net) for the six-month period.

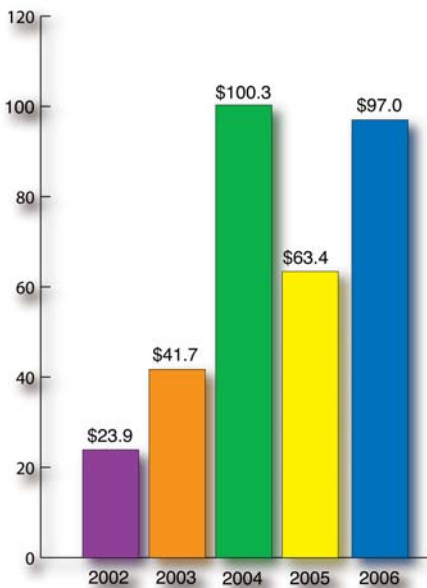
In April 2006, the Foundation entered into an investment agency agreement with the West Virginia University Board of Governors on behalf of its Robert C. Byrd Health Sciences Center ("HSC") to act as investment agent for the WVU Health Sciences Center's assets with regard to its participation in the West Virginia Board of Risk and Insurance Management (BRIM) casualty insurance coverage. As of June 30, 2006, the market value of the HSC investment assets was \$6 million.



ADVANTAGES OF AN INDEPENDENT FOUNDATION

THE EXISTENCE OF the WVU Foundation as an independent organization offers several important advantages to the University and to donors as compared with the alternative of solicitation and administration of private donations by a public entity. Accordingly, the University encourages the Foundation in its endeavors to secure and administer private support.

TOTAL REVENUE



FISCAL YEAR AMOUNTS IN MILLIONS
AMOUNTS INCLUDE BOTH REALIZED AND UNREALIZED INVESTMENT GAINS (LOSSES)

As an independent, non-profit corporation, the WVU Foundation provides the following advantages:

- *CONFIDENTIALITY* of donor information and anonymity when requested.
- *MAINTENANCE* of fund accounts from one fiscal year to the next, whereas many state accounts must be closed at the end of each fiscal year.
- *FLEXIBILITY* in the investment options of money needed for near-term disbursements.
- *DIVERSITY* in choosing long-term investment opportunities for endowed assets.
- *TIMELINESS*, flexibility and service made available to the University through efficiency-centered, streamlined business operations.
- *LONG-TERM* perspective on the needs and priorities of the University unaffected by political vagaries and other short-term circumstances.

ASSET MANAGEMENT

THE FOUNDATION EXISTS for the benefit of West Virginia University. Therefore, serving the University's interests is at the heart of the Foundation's financial management. However, in managing gift dollars the Foundation must serve a two-fold constituency. The first constituent is the donor whose gift is the result of loyalty and commitment to the University. The second constituent is the beneficiary of the gift – that is, the University. The Foundation serves as fiduciary for these funds and is accountable to donors for the use of contributions in accordance with their restrictions. Further, the Foundation's financial statements are audited by an independent accounting firm.

DIFFERENT MANAGEMENT PRACTICES FOR DIFFERENT GIFTS

GIFTS OF SEVERAL TYPES and with various terms may be made to the Foundation for the benefit of the University. Each requires different financial treatment. Gifts are commonly made in the form of cash, marketable securities, real estate, personal property, life insurance and bequests (i.e. wills). Donors may designate their gifts either as expendable or as endowment.

Endowed funds must be invested and kept intact with only the earnings available for expenditure. In addition to specifying whether a gift is to be expendable or

endowed, the donor may choose to restrict the gift to a particular department, program, or purpose.

FUND ACCOUNTING PRACTICES

THE FOUNDATION PRACTICES “fund management” to ensure that gifts are managed and expended in accordance with donors’ intents. The Foundation currently manages over 3,600 funds (i.e. individual accounts) on behalf of the University, each with its own particular restrictions.

When a gift is received, the terms of the gift are reviewed to determine whether the donor intended it to be expendable or established as an endowment. Also, any restrictions regarding particular colleges, schools or programs are noted. The gift is then deposited into a fund with management restrictions that coincide with the donor’s intent. Every gift received by the Foundation is individually evaluated in the same manner.

COLLEGE & SCHOOL INVOLVEMENT

EACH FUND HAS a budget officer who is responsible for certain elements of proper administration. Deans serve as budget officers for funds benefiting their respective colleges or schools and program directors serve as budget officers for University administrative units.

Budget officers forward requests to the Foundation for the expenditure of funds for purposes consistent with the terms and restrictions of the respective funds.

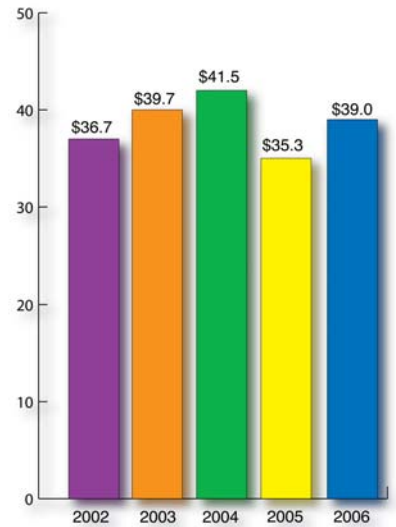
USE OF UNRESTRICTED GIFTS

UNRESTRICTED FUNDS SUPPORT numerous University programs such as student activities; scholarships; faculty research; travel; faculty and staff development; awards for public service, teaching and research; conferences; and art gallery collections. No unrestricted gifts are used to fund the Foundation’s operations.

The uses of unrestricted gifts are based upon the most important and urgent needs of the University. As fiduciary of gift dollars, the Foundation maintains

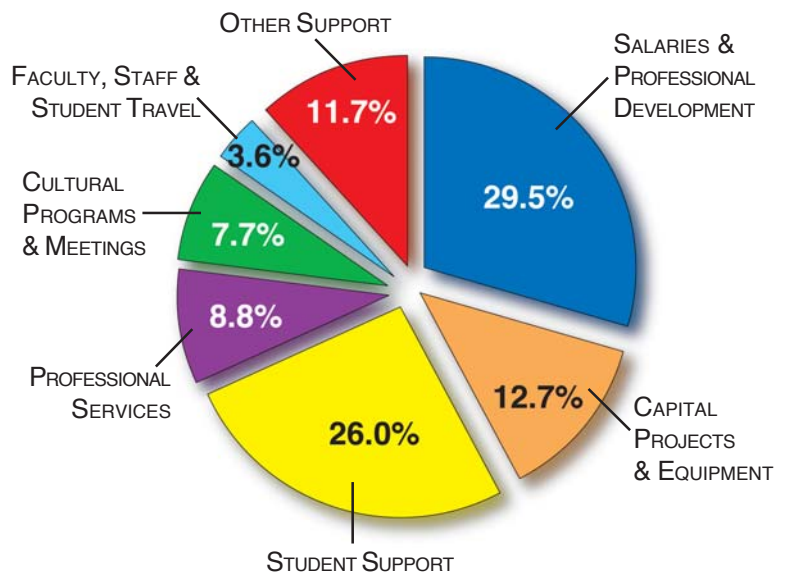
continual interaction with the University to enable effective use of unrestricted contributions. While the amount of unrestricted gifts is relatively small, these gifts are extremely valuable to the University. (see the Fund for WVU on page 24.)

DISBURSEMENTS ON BEHALF OF WVU



FISCAL YEAR AMOUNTS IN MILLIONS

DISBURSEMENTS BY FUNCTION





DEVELOPMENT'S ROLE

THE WVU FOUNDATION coordinates the college, school and unit development efforts on behalf of West Virginia University, Potomac State College of WVU, the Mountaineer Athletic Club and West Virginia 4-H.

The Foundation's central development programs consist of:

- Donor Relations
- Major Gifts
- WVU Unit Development
- RCB Health Sciences Center
- The University Fund
- Research & Prospect Management

Individual colleges, schools and selected programs have development offices, which work closely with the Foundation on all fund-raising activities.

DONOR RELATIONS

THE STEWARDSHIP AND Donor Relations Office was created to fulfill the WVU Foundation's commitment to maintain and strengthen its relationship with those donors who provide essential support for the needs of West Virginia University.

Recognition groups and programs within Donor Relations include:

WOODBURN CIRCLE SOCIETY

Named for the original three buildings on campus – Woodburn, Martin and Chitwood – considered to be the foundation of today's West Virginia University, the Society recognizes those who have made gifts of \$100,000 or more to benefit the University and its affiliated organizations. Members are honored at an annual black-tie induction dinner, invited to special events, dedications and lectures, and listed on the Foundation's electronic Donor Honor Wall.



ENDOWMENT CLUB

The Club recognizes those who have made financial investments in the future of West Virginia University by creating an endowed fund through the WVU Foundation. Members receive financial reports on their endowments at the end of each fiscal year, the Foundation's Annual Report and invitations to special events, dedications and lectures.

IRVIN STEWART SOCIETY

Named for WVU's 13th president, the Society honors those individuals whose planned gifts provide for the future of the University. Founded in 1992, the Stewart Society has more than 608 living members. Membership is bestowed upon donors of gifts made through wills or revocable trusts, income-producing gifts, testamentary retirement account gifts, life insurance and real estate remainder interest gifts.



SCHOLARSHIP, FELLOWSHIP & STUDENT AWARD BRICKS

The brick program honors the donors of endowed funds benefiting students in a visible and permanent way. The Foundation engraves the name of each endowed scholarship, fellowship and student award at



WVU into a brick. These bricks serve as the pathway of the Ernest L. Hogan Scholars Walk located directly in front of the University's Downtown Library Complex.

SCHOLARSHIP WEB PAGE

<http://domino.wvuf.wvnet.edu/fundschnsf>

A comprehensive private scholarship search site, which allows information on all endowed scholarships administered by the Foundation and awarded by the University to be accessible via the Internet. Scholarship descriptions on the site include selection criteria and biographical information about the individual(s) for whom each scholarship is named.

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MAJOR GIFTS

THE MAJOR GIFTS Program is an essential component of WVU's development efforts in that it focuses on endowment level gifts and beyond. Gifts of this size (\$25,000 or more) have the potential to impact WVU's mission in a permanent and/or prominent way. The WVU Foundation's four functional and integrated areas of giving – Corporate Giving, Individual Giving, Planned Giving, and Foundation Giving – collectively make up the Foundation's Major Gift Program. The primary role of the Program, and all development staff across

the University engaged in the major gift process, is to build relationships that ultimately result in maximizing donor support.

Components of the Major Gifts program include:

CORPORATE GIVING

The long-term vision of the Office of Corporate Giving is to partner with business and industry to maximize strategic relationships and align corporate interests with the priority needs of the University's schools and colleges. The Office of Corporate Giving serves as both the liaison and advocate for business through a variety of means: a corporate foundation, direct giving program, marketing program, or in-kind giving.

FOUNDATION GIVING

The mission of the Office of Foundation Giving is to increase foundation support for West Virginia University by facilitating mutually beneficial relationships with foundations that support the priority needs of WVU's colleges and schools.

INDIVIDUAL GIVING

The Foundation's Individual Giving program works with all colleges, schools and programs of the University to reach out to donors across the country. Each member of the Individual Giving staff is assigned to specific geographic areas

and works to identify the interests of WVU alumni and other friends helping them shape their future support of the University. The staff presents the highest priorities of the institution and its colleges, schools and programs to individuals with the resources and interest in making gifts of \$25,000 or more.

PLANNED GIVING

The Planned Giving program assists those who choose to support West Virginia University, Potomac State College of WVU, Mountaineer Athletic Club, or West Virginia 4-H through estate or retirement planning gift options, including wills, life income gifts, life insurance, testamentary transfers of retirement account assets, and real estate with retained life interests. Information about those options is made available through personal contact, mailings, newsletters, the Foundation's website, publications and seminars. The Planned Giving Office also provides appropriate assistance to financial advisors through similar resources.

WVU UNIT DEVELOPMENT

THE WVU UNIT DEVELOPMENT program provides leadership, management, direction, training and evaluation for the Eberly

College of Arts and Sciences; Davis College of Agriculture, Forestry, and Consumer Sciences; the Colleges of Business and Economics, Creative Arts, Engineering and Mineral Resources, Human Resources and Education, and Law; P.I. Reed School of Journalism, School of Physical Education, WVU Alumni Association, Department of Intercollegiate Athletics/ Mountaineer Athletic Club, WVU Libraries, WVU Extension Service/West Virginia 4-H, and Potomac State College of WVU. The WVU Unit Development program is directed by the Foundation's Assistant Vice President for Development.



RCB HEALTH SCIENCES CENTER

The Robert C. Byrd Health Sciences Center development program is directed by the Foundation's Vice President for Development for Health Sciences. The Health Sciences' fund-raising efforts embrace the Schools of Dentistry, Medicine, Nursing, and Pharmacy, the Blanchette Rockefeller Neurosciences Institute, Mary Babb Randolph Cancer Center, Rosenbaum Family House, WVU Children's Hospital, and WVU's Charleston and Eastern divisions.



THE UNIVERSITY FUND

THE UNIVERSITY FUND IS an important source of private financial support that ensures students receive a quality education at West Virginia University. The University Fund provides vital resources that allow WVU to excel as a world-class research facility and an exemplary teaching institution. Those resources also enable the University to perform services and outreach to the state, region and nation, thus fulfilling its land-grant mission.

University Fund programs include:

FOUNDATION PARTNERS

Honors alumni and friends who provide WVU with a solid base of ongoing private financial support by contributing \$1,000 or more each year. All gifts made during the fiscal year (July 1–June 30) are applied toward membership.

While enhancing the academic environment for students, Foundation Partners inspire others to raise their own philanthropic sights and follow suit.



Partners are listed in The University Fund Donor Honor Roll and on the Foundation's electronic Donor Honor Wall.

FOUNDATION ASSOCIATES

Acknowledges donors who for five consecutive years have made gifts to the Foundation to benefit WVU.

To be honored as a member of Foundation Associates, a donor must make a minimum annual gift of \$100 during five consecutive fiscal years.



Charter members include those who have made gifts during fiscal years 2001, 2002, 2003, 2004 and 2005.

Foundation Associates are listed in The University Fund Donor Honor Roll and on the Foundation's electronic Donor Honor Wall.

AUGUSTA SCHOLARSHIP

Enables family, friends and organizations to honor or memorialize an individual who is an alum or has ties to the University.

All undesignated Tribute gifts – IMO/IHO gifts – become a part of the principal of the Augusta Scholarship Fund endowment. The cash expenditures are split between West Virginia residents or legacies and non-West Virginia residents. Legacy is defined as a sibling, child, stepchild, or



grandchild of a WVU alumnus or alumna.

The names of those memorialized or honored by donors contributing \$5,000 or more will be listed on the WVU Foundation's electronic Donor Honor Wall; on its scholarship website; in the Augusta Scholars register, located in the Mountainlair on the downtown campus; and in an issue of the *WVU Alumni Magazine*.

CAMPUS CAMPAIGN

Each year the faculty and staff make gifts to financially strengthen the University. Generous internal financial contributions are an excellent example of how WVU faculty and staff support the



University beyond their day-to-day responsibilities.

STUDENT SUPPORT FUND

Is a way for parents of WVU undergraduate students to further maintain and enhance the excellence of the University. Gifts to the fund directly benefit current undergraduates. Among the programs the fund helps are Mountaineer Parents Club, WVU Libraries,



WVUp All Night, Student Emergency Relief Fund and University Health Services Student Assistance Fund.

THE FUND FOR WVU

Donors have an opportunity to contribute unrestricted dollars for WVU's greatest needs. Most major gifts to the University are restricted to particular areas of



a college, school, department or program. However, needs can arise unexpectedly and must be met immediately. They can include scholarships and loan funds for needy students, laboratory and library acquisitions, scholarly travel, extra learning resources. Unrestricted gifts can be directed by the University and other senior administrators to meet those most urgent needs.

MOUNTAINEER LINE

Through the Foundation's telemarketing program, WVU students contact alumni and



friends of the University on behalf of its colleges, schools and selected programs. Integral to the University's development efforts, the callers add personality and style to WVU's outreach to alumni and friends.

Mountaineer Line students inform alumni of campus news and events, update personal records, answer questions and ask for financial support of various programs.

MOUNTAINEER MARK

Gives West Virginia University undergraduate seniors and final-year professional students an opportunity to make their first-ever gift to WVU's academic programs. All student donors have their names placed on a plaque to honor their senior gift.



RESEARCH & PROSPECT MANAGEMENT

THE RESEARCH AND PROSPECT Management Department identifies potential contributors and their possible interests in the University's colleges, schools, units and programs. Through these efforts, the Foundation attempts to provide investment opportunities in WVU's programs of particular interest to individuals, corporations and philanthropic foundations, which are worthy of their generous financial support.