WEST VIRGINIA UNIVERSITY

Combined Financial Statements
for the Years Ended June 30, 2013 and 2012
and Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the West Virginia University Board of Governors:

We have audited the accompanying combined statements of net position of West Virginia University (the "University") as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses, and changes in net position and of cash flows for the years then ended and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the University's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of the University as of June 30, 2013 and 2012, and the combined changes in their net position/net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the University early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 to 22 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the combined financial statements, and other knowledge we obtained during our audit of the combined financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2013, on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Deloitte & Touche LLP

November 6, 2013

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2013

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board ("GASB"). This section of West Virginia University's (the "University" or "WVU") annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2013 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2012 compared to fiscal year 2011.

The University's annual report consists of three basic financial statements: the combined statements of net position, the combined statements of revenues, expenses and changes in net position, and the combined statements of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Financial Highlights

During last year (fiscal year 2012), the University had experienced several unusual and non-recurring events that had a significant impact on its financial statements, including: a change in Athletic conferences that required the University to pay a $20.0 million exit fee; receipt of a significantly large ($71.2 million) donation of right-to-use-software and the associated amortization; receipt of a dispute settlement from the University's steam provider in the amount of $7.2 million; and a refund of $5.7 million from the IRS in Federal Insurance Contributions Act (" FICA") taxes related to the University's medical residents. These special one-time events continued to have an impact on the fiscal year 2013 financial statements, causing significant fluctuations in several categories of assets, liabilities, revenues and expenses.

The University experienced a few noteworthy events, with a financial statements impact, in fiscal year 2013 as well, including: a significant decline ($44.1 million) in the annual required contribution ("ARC") allocated to the University by the West Virginia Retiree Health Benefit Trust Fund (the "Trust") and added to other post-employment benefits ("OPEB"); unrealized gains on investments in the amount of $5.3 million; receipt of a $9.9 million right-to-use educational software from Landmark Graphics Corporation and the associated partial year amortization; and a reduction in interest expense resulting from the non-payment and incorporation of the scheduled interest payment related to the refinanced 2004 Revenue Refunding and Improvement ("2004 Bonds") bonds into the newly issued 2013 Series A&B Refunding and Improvement Revenue Bonds ("2013 Bonds"). The University also entered into several significant capital and debt related transactions that are detailed in the ensuing sections.

At June 30, 2013, the University's total net position increased from the previous year-end by $34.6 million. This increase is primarily attributable to significant increases in cash and cash equivalents and capital assets, net of depreciation as well as decreases in real estate purchase agreement payable, debt service assessment payable to the Higher Education Policy Commission ("HEPC" or "Commission"), unearned revenue, accounts payable, notes payable, and leases payable. This increase in net position was partially offset by increases in bonds payable, OPEB liability, and accrued payroll.

Total revenues decreased by 2.5% compared to the prior year. Although net tuition and fees, State support, revenues from auxiliary enterprises, gifts, and investment income increased over the prior year, the University experienced a decline in grants and contracts revenues (both capital and non-capital). Total expenses decreased

2.6% from prior year mainly because of a sharp decline in the annual ARC for OPEB, reduced interest expense and the impact of the conference exit fee paid last year.

Total net position had increased from fiscal year 2011 to fiscal year 2012 (as amended) by $33.9 million.

Net Position

The statements of net position present the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources and net position of the University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Deferred outflows of resources is defined as a consumption of resources applicable to a future reporting period. Liabilities indicate how much the University owes vendors, employees and lenders. Deferred inflows of resources is defined as an acquisition of net assets applicable to a future reporting period. Net position is the residual of all other elements presented in a statement of net position.

Net Position is displayed in three components:

Net investment in capital assets. This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of debt obligations related to those capital assets. Deferred inflows and outflows of resources related to these capital assets or debt are also included in this component of net position.

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

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

Condensed Combined Schedules of Net Position (in thousands)

	As of June 30		
	2013	**2012 As Amended**	**2011 As Amended**
Assets			
Current Assets	$ 183,160	$ 197,639	$ 186,868
Noncurrent Assets	1,627,821	1,567,191	1,226,201
Total Assets	1,810,981	1,764,830	1,413,069
Deferred Outflows of Resources	15,033	1,530	1,717
TOTAL	$ 1,826,014	$ 1,766,360	$ 1,414,786
Liabilities			
Current Liabilities	$ 158,792	$ 187,090	$ 150,389
Noncurrent Liabilities	834,518	781,263	499,509
Total Liabilities	993,310	968,353	649,898
Deferred Inflows of Resources	105	31	777
TOTAL	$ 993,415	$ 968,384	$ 650,675
Net Position			
Net Investment in Capital Assets	$ 869,235	$ 833,261	$ 740,310
Restricted for:			
Nonexpendable	5,961	5,137	5,131
Expendable	21,846	21,071	20,784
Unrestricted Net (Deficit)	(64,443)	(61,493)	(2,114)
TOTAL NET POSITION	$ 832,599	$ 797,976	$ 764,111

Total assets of the University increased by $46.2 million, or approximately 2.6%, to a total of $1.8 billion as of June 30, 2013. The increase was primarily due to increases in restricted cash and cash equivalents and net capital assets. These increases were partially offset by decreases in investments and net accounts receivable. Capital assets continued to follow an upward trend from prior years.

- Cash and cash equivalents increased by $74.3 million primarily due to an increase in the deposits with trustees representing proceeds from the issuance of 2012 Series A&B Taxable Bonds ("2012 Bonds") and 2013 Bonds during fiscal year 2013. This increase was partially offset by amounts drawn down for capital projects funded by bond proceeds. Cash and cash equivalents had increased by $21.4 million from fiscal year 2011 to fiscal year 2012 primarily due to 2011 Improvement Revenue Bond ("2011 Bonds") proceeds and Energy Performance Contract Phase IIIB lease financing proceeds received during fiscal year 2012 and deposited with the trustees.

- Capital assets, net increased by $64.5 million primarily due to ongoing construction of buildings, acquisition of land, and receipt of donated software.

  – Major construction-in-process projects included: HSC Animal Facility Annex, Law Center Abatement, Advanced Engineering Research Building, Energy Performance Phase IIIB, College of

Physical Activity and Sports Sciences Building, Student Health Building, Agricultural Sciences Building II, and Evansdale Infrastructure.

- During fiscal year 2013, the University acquired several parcels of land in the Sunnyside, Square at Falling Run, and Evansdale areas for construction of student housing and related amenities.
- The University also received donated right-to-use software, valued at $9.9 million, from Landmark Graphics Corporation and $2.6 million from Schlumberger Corporation during fiscal year 2013.

This increase in capital assets was partially offset by a transfer of 50% interest in land and buildings comprising the Suncrest Center to the WVU Hospitals, Inc., as well as demolition of St. Francis building and College Park apartments. The increase in capital assets during fiscal year 2013 is consistent with but lower than the increase of $136.1 million noted in this category from fiscal year 2011 to fiscal year 2012.

- Investments decreased by $76.8 million primarily due to sale of U.S. Treasury notes and bonds to fund construction activity on campus. During the previous year, proceeds from issuance of 2011 Bonds were invested in U.S. Treasury notes and bonds. This decrease was partially offset by an increase in the fair market value of investments with the WVU Foundation. Investments had experienced an increase from fiscal year 2011 to fiscal year 2012 of $186.5 million primarily due to the investment of proceeds from the 2011 Bonds into U.S. Treasury notes and bonds.

- Accounts receivable, net decreased by $14.9 million mainly as a result of collection of large amounts due at the end of fiscal year 2012, including: amounts receivable from the IRS for the refund of both employer and employee portions of FICA taxes withheld and paid and related interest on medical resident salaries, and amounts due from Morgantown Energy Associates for a steam dispute settlement. Net accounts receivable had increased by $6.1 million from fiscal year 2011 to fiscal year 2012 mainly due to the before-mentioned items.

The University adopted the provisions of GASB Statement No. 63, "*Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,*" and GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*" in fiscal year 2013. Accordingly, at June 30, 2013, the University reported a deferred loss on refunding in the amount of $15.0 million related to the defeasance of the 2004 Bonds. The deferred loss on refunding is the difference between the reacquisition price and the net carrying amount of the refunded bonds and is recognized as a component of interest expense over the remaining life of the refunded debt.

Total liabilities for the year increased by $25.0 million (or 2.6%). The increase in total liabilities during fiscal year 2013 is primarily attributable to increases in bonds payable, OPEB liability, and accrued payroll. This increase was partially offset by decreases in real estate purchase agreement payable, the reported debt service assessment payable to the Commission, unearned revenue, accounts payable, notes payable and leases payable.

- Bonds payable increased by $57.3 million mainly due to the issuance of $228.6 million in revenue bonds during fiscal year 2013 to finance various capital projects on campus and to advance refund a portion of the 2004 Series B Bonds. This increase was partially offset by scheduled bond principal payments related to the 2011 and 2012 Bonds during the year. Bonds payable had experienced an increase of $262.9 million from fiscal year 2011 to fiscal year 2012 due to the issuance of $250.3 million in revenue improvement bonds during fiscal year 2012.

- OPEB liability increased by $2.9 million due to the accrual of fiscal year 2013 ARC allocated to WVU by the WV Retiree Health Benefit Trust. The OPEB liability represents WVU's accumulated unpaid ARC to the Trust. The ARC remains unpaid because State higher education institutions have been instructed not to pay the ARC since the issue is being addressed at the State level. OPEB liability had increased by $47.0 million from fiscal year 2011 to fiscal year 2012. The reason for the significantly lower ARC in fiscal year 2013 is a series of changes successfully implemented by the WV legislature and PEIA to reduce the statewide OPEB liability and the agencies' share of ARC resulting in reduced ARC rates for fiscal year 2013. Over time, as the State funds the OPEB trust, the ARC accrual will become a credit and gradually reverse the current liability of $164.0 million to zero.

- Accrued payroll increased by $1.3 million primarily as a result of an increase in the number of employees paid in arrears. All employees hired after July 1, 2001 are paid in arrears. No significant change was experienced in accrued payroll liability from fiscal year 2011 to fiscal year 2012.

- Real estate purchase agreement payable decreased by $22.9 million primarily due to transfer of fifty percent ($13.2 million) interest in the Suncrest Center property to the WVU Hospitals and financing of WVU's fifty percent interest by the issuance of bonds. This decrease was partially offset by amounts payable to the City of Morgantown as well as the present value of a Tax Increment Financing guarantee payable to First United Bank and Trust for the acquisition of property in the Square at Falling Run. Real estate purchase agreement payable had increased by $26.0 million from fiscal year 2011 to fiscal year 2012 primarily due to the acquisition of the Suncrest Center property in the amount of $26.4 million, payable to Glenmark Holding LLC.

- Debt service assessment payable to the Commission decreased by $4.9 million due to scheduled debt service (principal) payments in fiscal year 2013. This decrease is consistent with the decrease in such liability from fiscal year 2011 to fiscal year 2012 of $5.5 million.

- Unearned revenue decreased by $4.6 million primarily due to a reduction in football ticket sales and parking revenue received in advance in fiscal year 2013 but not yet earned. An additional decrease was caused by the return of deposit, initially received from the City of Morgantown, to purchase the Square at Falling run property from the University. Unearned revenue had increased by $1.9 million from fiscal year 2011 to fiscal year 2012 due to funds representing future revenues advanced by the Big 12 Athletics conference to satisfy part of WVU's exit fee from the Big East Athletic conference.

- Accounts payable decreased by $2.0 million mainly due to payment of amounts due to medical residents and WVU Hospitals at the beginning of the year representing refund of FICA taxes received from the IRS. This decrease was partially offset by an increase in number of construction related invoices payable to vendors at the end of fiscal year 2013. Accounts payable had increased from fiscal year 2011 to fiscal year 2012 by $6.7 million due to amounts payable to medical residents and WVU Hospitals, Inc. for their respective portions of the FICA tax refund plus accrued interest thereon.

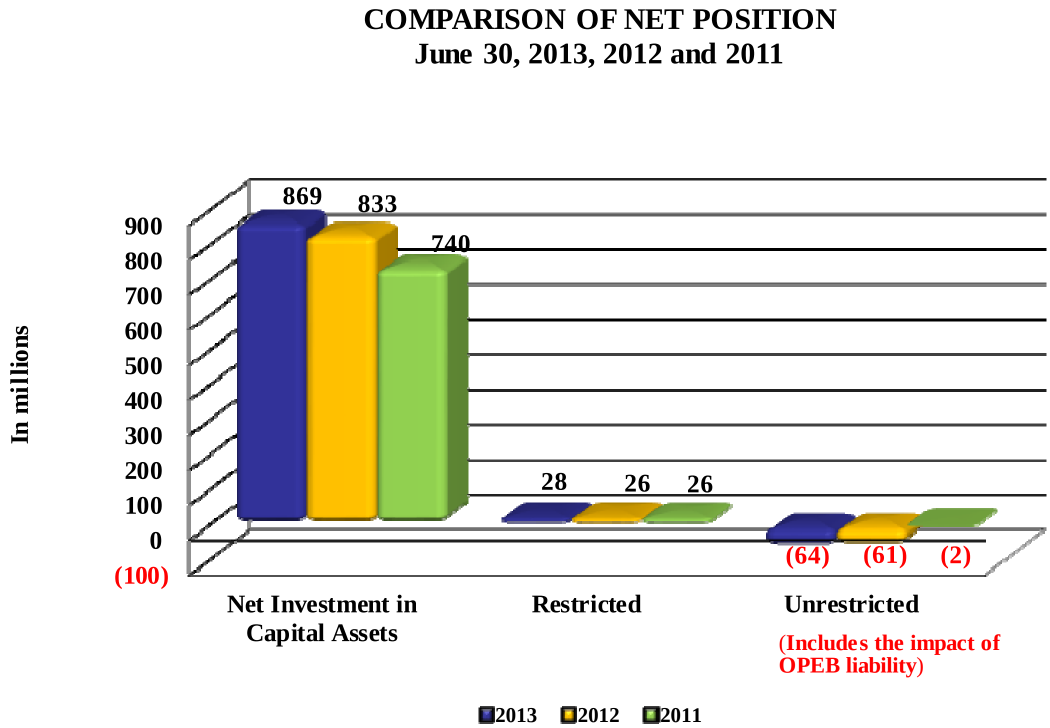
- Notes payable decreased by $1.6 million as a result of refinancing of the HSC loans with United Bank. Inc. as well as scheduled debt service (principal) payments during fiscal year 2013 on the old as well as refinanced (new) loans. This category had experienced a similar decline from fiscal year 2011 to fiscal year 2012.

- Leases payable decreased by $1.3 million due to scheduled principal payments made during the year. Leases payable had decreased by $25.6 million from fiscal year 2011 to fiscal year 2012 primarily because four outstanding leases - Childcare Center, Engineering Sciences Building and Energy Performance Contract Phases II and II - were refinanced during fiscal year 2012.

In accordance with the provisions of GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities,*" the University recorded Pell grant monies provided for financially eligible students before the start of the semester as deferred inflows of resources.

The University's current assets of $183.2 million were sufficient to cover current liabilities of $158.8 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2013 and has improved from fiscal year 2012.

The following is a comparative illustration of net position.



Net investment in capital assets increased by $36.0 million primarily due to an increase in capital assets, net, and decreases in real estate purchase agreement payable, debt service assessment payable to the Commission and leases payable. This increase was partially offset by an increase in bonds payable. The increase in net investment in capital assets is consistent with but lower than the increase of $93.8 million in this category from fiscal year 2011 to fiscal year 2012.

No significant change was noted in the restricted component of the net position from fiscal year 2012 to fiscal year 2013. This is consistent with the insignificant change in this category from fiscal year 2011 to fiscal year 2012.

The unrestricted component of the net position decreased by $2.9 million primarily because unrestricted funds had to cover a larger amount of negative net position balance related to restricted capital projects and restricted for debt service funds in fiscal year 2013. This component of net position had experienced a significantly larger decrease of $59.4 million from fiscal year 2011 to fiscal year 2012 due to increases in the OPEB liability, other unearned revenue, accrued liabilities and accounts payable.

Revenues, Expenses and Changes in Net Position

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

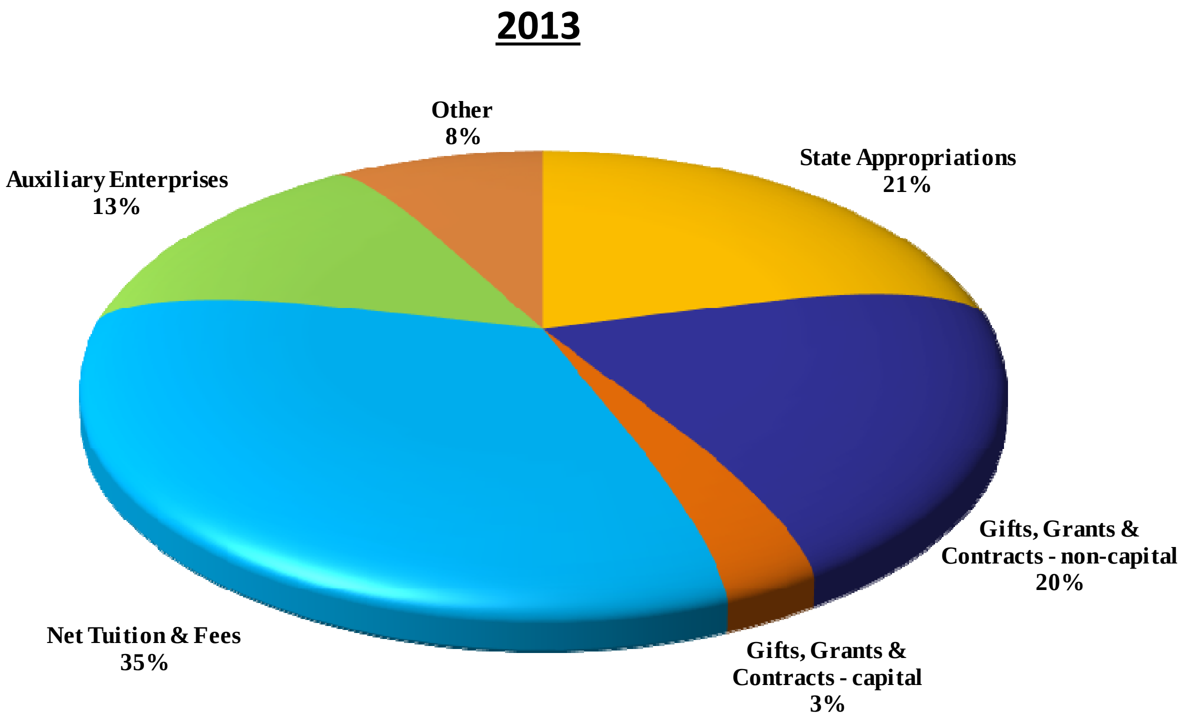
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the “Legislature”) to the University without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

Condensed Combined Schedules of Revenues, Expenses and Changes in Net Position (in thousands)

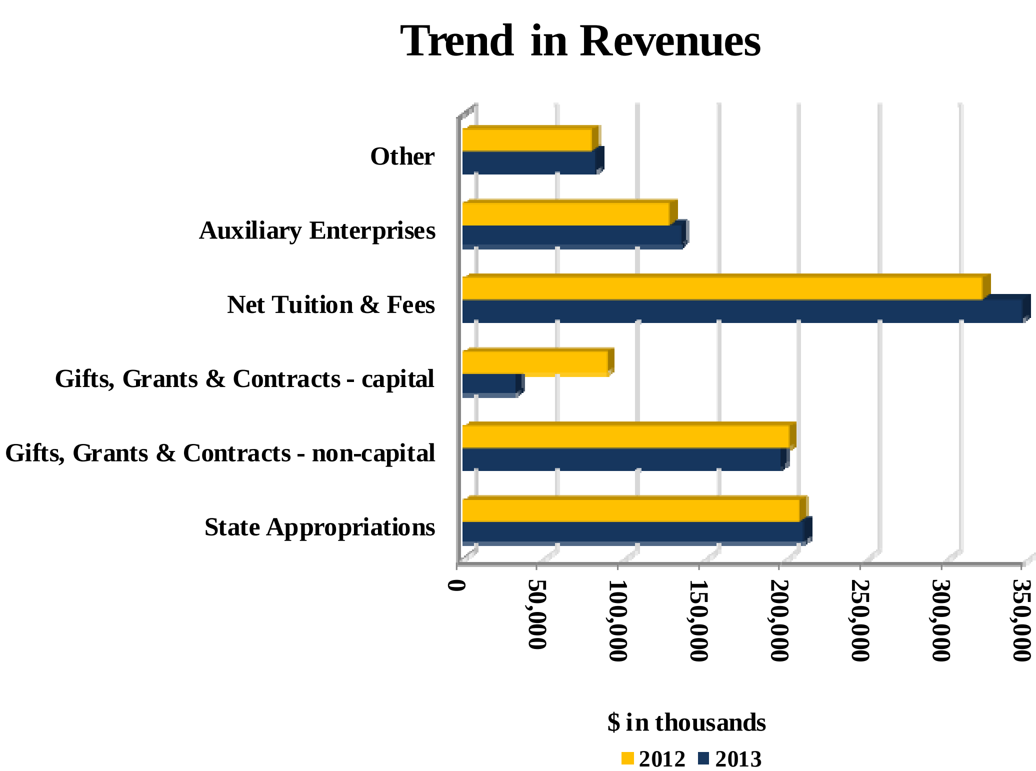
	Years Ended June 30		
	2013	2012 As Amended	2011 As Amended
Operating Revenues	$ 683,240	$ 654,576	$ 630,544
Operating Expenses	945,818	951,612	914,164
Operating Loss	(262,578)	(297,036)	(283,620)
Net Nonoperating Revenues	258,026	235,855	254,566
Loss before Other Revenues, Expenses, Gains or Losses	(4,552)	(61,181)	(29,054)
Capital grants and gifts	21,560	87,758	30,266
Capital grants (federal)	10,894	1,253	2,879
Capital bond proceeds from the State	1,982	5,645	18,707
Bond proceeds/capital projects proceeds from the Commission	4,147	390	264
Gain from early extinguishment of debt	592	-	-
Increase in Net Position	34,623	33,865	23,062
Net Position at Beginning of Year (As Amended)	797,976	764,111	741,049
Net Position at End of Year	$ 832,599	$ 797,976	$ 764,111

Revenues:

The following chart illustrates the composition of revenues by source for fiscal year 2013.



Total fiscal year 2013 revenues declined compared to fiscal year 2012. However, the University experienced annual growth in most of its recurring revenue sources. The decline in total revenues was primarily because of a decrease in capital gifts, grants and contracts.



Total revenues for fiscal year 2013 were $1,002.9 million which represented a decrease of $25.5 million or 2.5% from the prior year. The most significant sources of revenue for the University are tuition and fees, grants and contracts, and State appropriations. Some highlights of the information presented on the statement of revenues, expenses, and changes in net position are as follows:

- Tuition and fees, net increased by $24.6 million primarily due to an increase in the fee rate and a slight increase in student enrollment. This increase was partially offset by an increase in the scholarship allowance of $4.9 million due to more institutional resources used for awarding financial aid. This net increase is consistent with but higher than the net increase of $19.9 million in the prior year.

- Grants and contracts revenue (non-capital related) decreased by $3.4 million mainly due to reduced revenues from existing federal and state awards, including ARRA, as well as no new ARRA awards received during fiscal year 2013. This decrease was partially offset by an increase in revenues from new and existing non-governmental awards. A decrease of $9.3 million was noted in this revenue category from fiscal year 2011 to fiscal year 2012.

- Auxiliary revenue, net increased by $7.0 million primarily due to an increase in room and dining services revenue, auxiliary fee revenue and athletics revenue. Room and dining services revenue increased primarily due to an increase in room and board fees, an increase in occupancy and number of meal plans purchased. Auxiliary fee revenue increased due to increases in Personal Rapid Transit (“PRT”) and Recreation Center fees. Athletics revenue increased mainly because of increase in revenues from the Big 12 Athletic Conference, guarantees associated with non-conference football game, men’s football and basketball season game tickets sales, concession receipts, and parking fees. This increase in auxiliary revenue is consistent with but slightly lower than the increase of $12.2 million in this category from fiscal year 2011 to fiscal year 2012.

- Total State support increased by approximately $2.4 million from the previous year as a result of increase in base budget appropriations from the State. Additionally, during fiscal year 2013, the WVU Institute of Technology received a one-time appropriation of $750,000 to finance campus improvement projects designed to increase recruitment and retention. State appropriations, including the stabilization funds, had experienced a similar increase from fiscal year 2011 to fiscal year 2012.

- Payments on behalf of the University decreased by $3.4 million because last year the University had recorded $3.5 million remitted by the WVU Foundation, on WVU’s behalf, to the Big East Athletic Conference, as partial payment of the conference exit fee. This category had increased by $3.6 million from fiscal year 2011 to fiscal year 2012.

- Gift revenue increased by $2.2 million from prior year mainly attributable to an increase in non-capital donations from the WVU Foundation and funds to pay for academic scholarships and salaries. Gift revenue had increased from fiscal year 2011 to fiscal year 2012 by $7.8 million.

- Pell grant revenue decreased by $1.9 million attributable to a change instituted by the federal government in the award criteria that caused a reduction in the number of eligible students applying for and receiving the grant. Pell Grant revenue had experienced a decrease of $1.3 million from fiscal year 2011 to fiscal year 2012.

- Investment income increased by $8.3 million primarily due to higher return and an increase in the fair value of investments with the Foundation. Investment income had decreased by $7.9 million from fiscal year 2011 to fiscal year 2012 attributable to a significant decline in the fair value of investments with the Foundation.

- Other net non-operating (expenses) revenues decreased by $6.0 million compared to prior year because last year the University had recorded amounts received as settlement of a steam price calculation dispute agreement between the University and MEA in the amount of $7.2 million. Additionally, an increase in the amount of capital loss representing net book value of buildings demolished for new construction also contributed to the decrease. This decrease was partially offset by amounts received for sale of land to the

Department of Highways for $1.8 million. Other net non-operating revenues had increased by $3.2 million from fiscal year 2011 to fiscal year 2012.

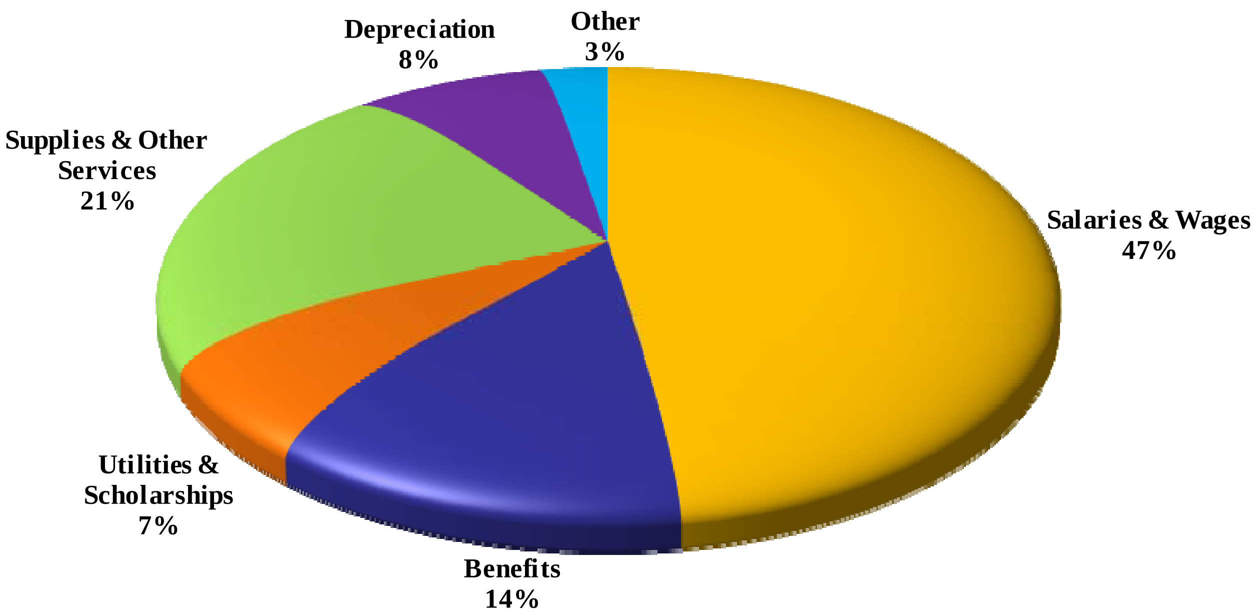
- Capital grants and gifts decreased by approximately $56.6 million compared to prior year primarily because last year the University had received a $71.2 million donation of right-to-use software from Siemens PLM. During fiscal year 2013, the University received a relatively smaller donation, in the amount of $9.9 million, of a master license agreement from Landmark Graphics Corporation of right-to-use software to be used for educational purposes by the University. Capital grants and gifts had experienced a substantial increase of $55.9 million from fiscal year 2011 to fiscal year 2012 as a result of the Siemens software donation.

- Capital bond proceeds from the State decreased by $3.7 million due to an expected decrease in the reimbursement of construction expenditures from the Education, Arts, Science and Tourism ("EAST") bonds issued by the WV Economic Development Authority. During fiscal year 2013, such proceeds were used to finance the electrical upgrade at the Health Sciences Center and renovation and expansion projects at the College of Pharmacy. Capital bond proceeds from the State had experienced a similar but larger decline of $13.1 million from fiscal year 2011 to fiscal year 2012.

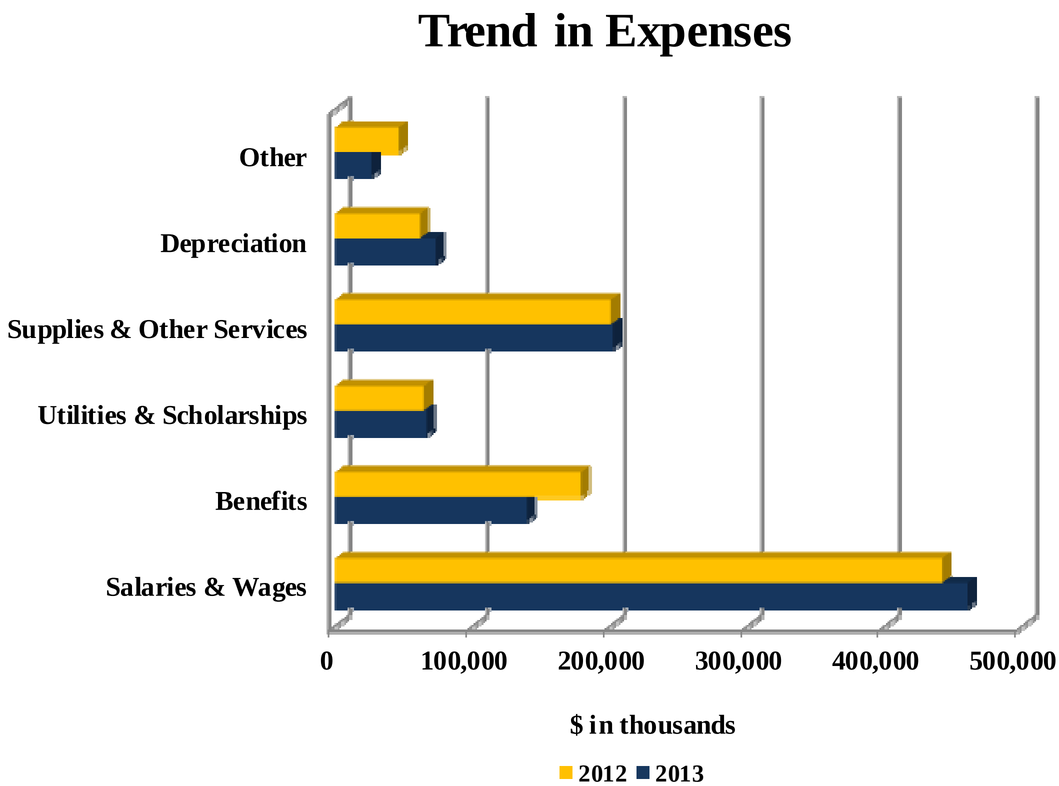
- Capital projects proceeds from the Commission increased by $3.8 million as a result of reimbursements of expenditures related to the WVU Institute of Technology "Old Main" Building renovations as well as various other projects, funded by the 2010 Series A, B and C Revenue Bonds issued by the Commission and the 2008 High Priority Capital Projects 50/50 grant funds, respectively. No significant change was noted in this category from fiscal year 2011 to fiscal year 2012.

Expenses:
The following graph shows the composition of total expenses by category for fiscal year 2013.

2013



The following chart provides a comparison of expenses by significant category between fiscal years 2013 and 2012.



Total fiscal year 2013 expenses of $968.3 million were below those of the prior year by $26.2 million (or 2.6%). Changes in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by $18.5 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty, and non-classified staff salaries. This increase is in alignment with one of the five goals of WVU’s strategic plan for 2020 - an investment in hiring and retaining high-quality faculty and researchers. An additional increase in salaries and wages was caused by an increase in the Research Corporation payroll mainly attributable to an annual merit raise program implemented during fiscal year 2013. A similar but lower increase was noted in salaries and wages from fiscal year 2011 to fiscal year 2012 of $10.9 million.

- Benefits expense decreased by $39.5 million mainly due to a significant reduction in the amount of annual required contribution accrued for OPEB. In fiscal year 2012, the WV legislature and PEIA implemented a series of actions to reduce the OPEB liability and the agencies’ share of annual required contribution including: limiting the annual increase in the employer’s share of the retirees’ premiums, allocating $30 million of annual funding to the OPEB Trust Fund starting in fiscal year 2016 and an increase in the applied discount rate. This decrease in benefits expense was partially offset by an increase in the University’s share of employment taxes and pension and retirement contributions. Benefits expense had experienced an increase of $1.4 million from fiscal year 2011 to fiscal year 2012 mainly in correspondence with an increase in the salary expense.

- Scholarship and fellowship expense increased by $1.7 million from prior year primarily due to an increase in institutional resources awarded as scholarships. No significant change was noted in this category from fiscal year 2011 to fiscal year 2012.

- Supplies and other services increased by $1.6 million attributable to increases in several areas including: Computer software, services and supplies related to Oracle software updates, license and support; medical malpractice insurance; contractual and professional services; and Athletics team travel expense. This increase was partially offset by decreases in: Athletic game guaranties, football tickets purchased for resale and other categories such as general travel, legal services, and general repairs and maintenance. Supplies and other services had experienced a substantially higher increase of $13.5 million from fiscal year 2011 to fiscal year 2012 mainly in the areas of Athletic team travel, football tickets purchased for resale, Athletic game guaranties and other areas.

- Depreciation and amortization expense increased by $11.4 million over prior year primarily due to annual amortization, in the amount of $14.2 million, of right-to-use software donated by Siemens PLM last year for educational purposes as well as partial year amortization of another right-to-use software donated by Landmark Graphics Corporation during fiscal year 2013. The Siemens software was valued at $71.2 million and the Landmark Graphics software at $ 9.9 million; both are being amortized over five years. Depreciation on assets acquired as well as construction projects completed and placed in service during fiscal year 2013 also contributed to the increase in depreciation expense and were partially offset by reduction in other depreciation amounts. This category had experienced a similar increase of $9.7 million from fiscal year 2011 to fiscal year 2012.

- In fiscal year 2012, the University had paid a one-time $20.0 million exit fee to leave the Big East and join the Big 12 Athletics Conference. No such expense was noted in fiscal year 2013.

- Interest on capital-related debt decreased by $2.1 million compared to prior year primarily due to timing of the issuance of the 2013 Bonds that refinanced the 2004 Bonds. With the issuance of the 2013 Bonds, interest in the amount of $4.7 million, payable on the 2004 Bonds in fiscal year 2013, was not paid as scheduled and incorporated into the 2013 Bonds. The decrease was partially offset by regularly scheduled debt service payments on the remaining 2004, 2011 and 2012 Bonds. An increase of $4.7 million was noted in this category from fiscal year 2011 to fiscal year 2012.

- Assessments by the Commission for debt service increased by $1.3 million mainly due to an increase in the interest component of the assessment. The 2003 Series A system bonds, with a lower debt service, matured in fiscal year 2012 and were replaced by the higher interest 2000 Series A bonds. No significant change was experienced in this category from fiscal year 2011 to fiscal year 2012.

- The University recorded debt issuance costs as a non-operating expense in the periods incurred in accordance with the provisions of GASB Statement No. 65, "*Items Previously Reported as Assets and Liabilities*." In prior years, costs of issuing debt were capitalized. As a result, the University recorded debt issuance costs of $1.1 million in fiscal year 2013 and amended the prior year by reporting debt issuance costs of $879,000 for fiscal year 2012.

Cash Flows

The statements of cash flows provide information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the University.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

Cash flows from capital financing activities. This section includes cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating loss and net cash used in operating activities.

Condensed Schedules of Cash Flows (in thousands)

	Years Ended June 30		
	2013	**2012**	**2011**
Cash Provided By (Used In):			
Operating Activities	$ (177,150)	$ (184,877)	$ (170,951)
Noncapital Financing Activities	271,041	254,004	255,589
Capital Financing Activities	(106,624)	136,957	(100,064)
Investing Activities	87,003	(184,679)	13,286
Increase (Decrease) in Cash and Cash Equivalents	74,270	21,405	(2,140)
Cash and Cash Equivalents, Beginning of Year	154,198	132,793	134,933
Cash and Cash Equivalents, End of Year	$ 228,468	$ 154,198	$ 132,793

Total cash and cash equivalents increased by $74.3 million during fiscal year 2013 to $228.4 million.

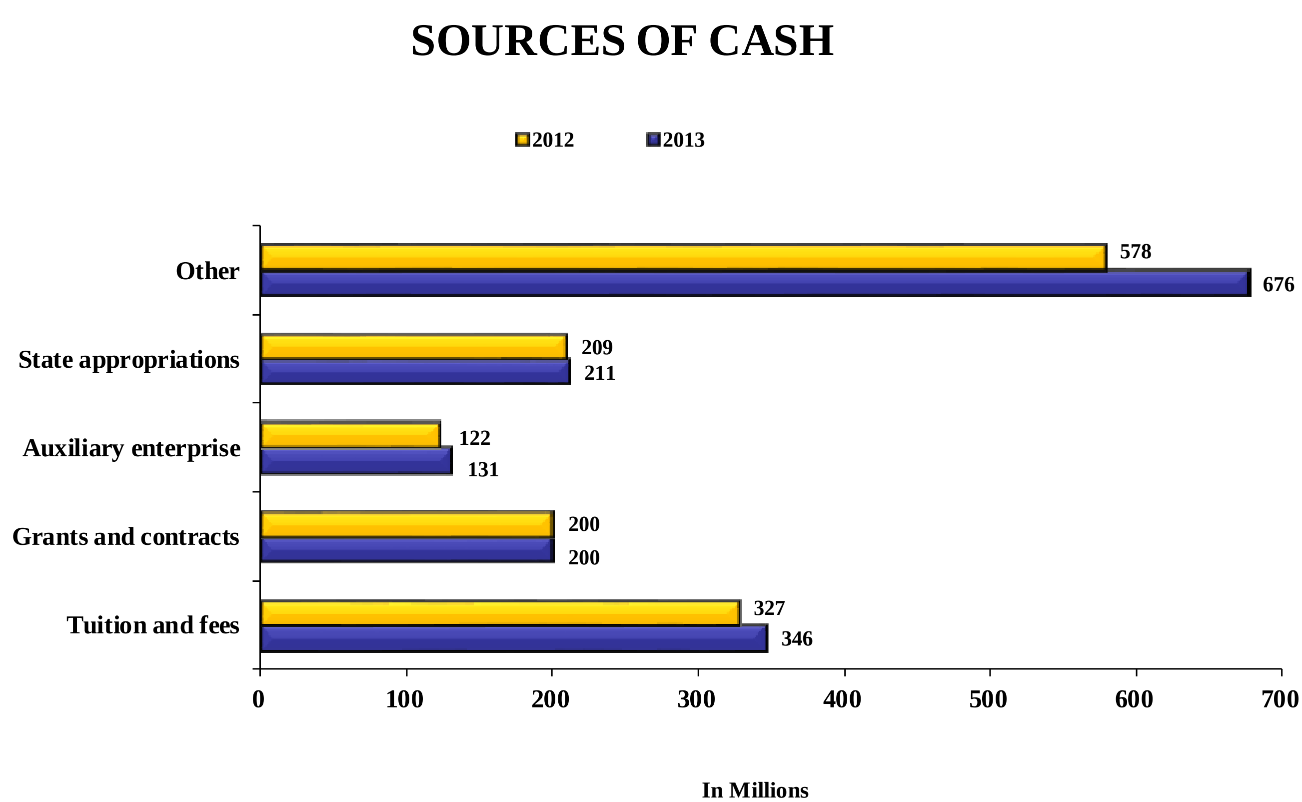
- Net cash used in operating activities decreased by $7.7 million primarily due to increases in cash inflows from tuition and fees and auxiliary enterprise charges and a decrease in payments to suppliers. These increases in inflows were partially offset by increases in payments to employees and for benefits. Cash used in operating activities had experienced an increase of $13.9 million from fiscal year 2011 to fiscal year 2012.

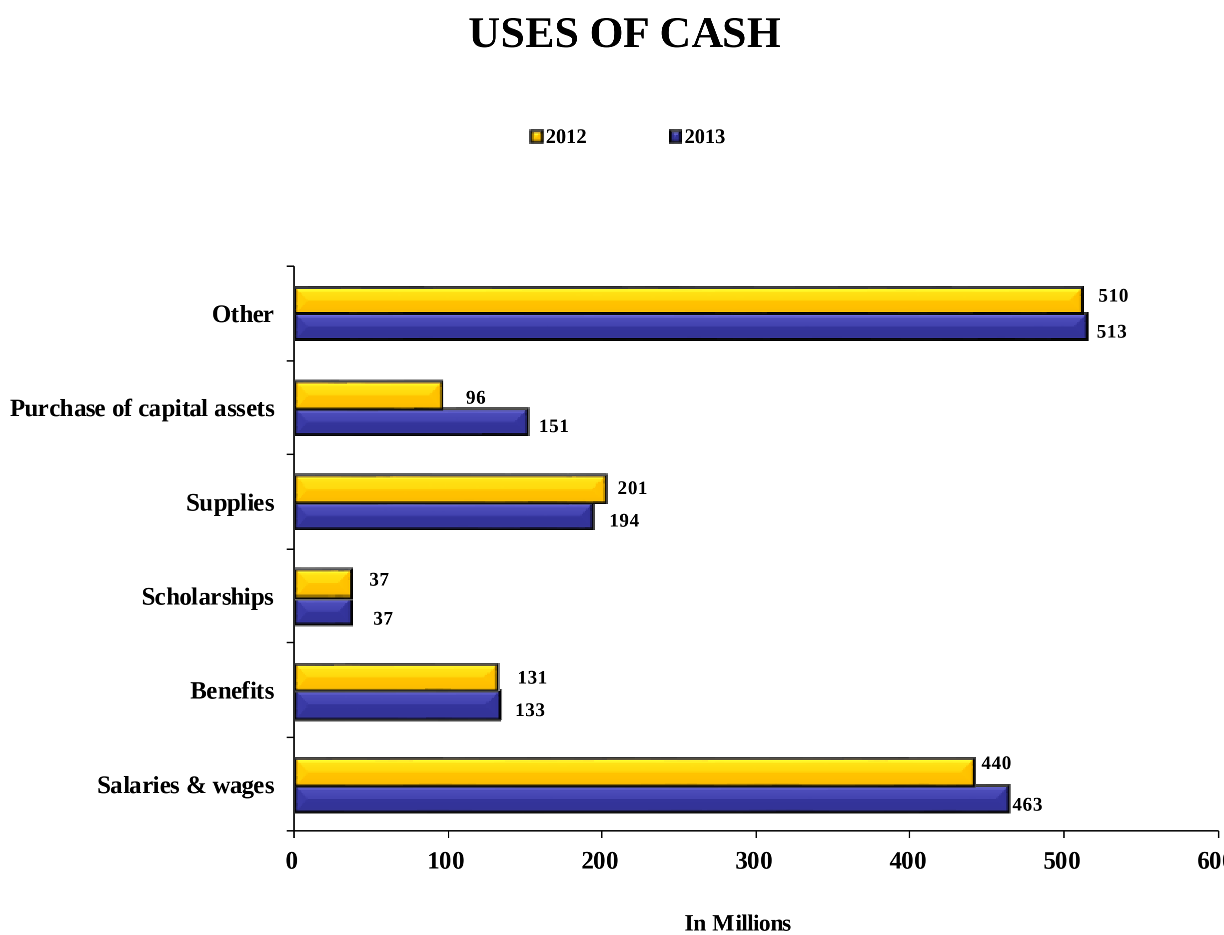
- Net cash provided by noncapital financing activities increased by $17.0 million primarily due to collection of receivables related to FICA tax refund and steam dispute settlement from the IRS and Morgantown Energy Associates, respectively, as well as increase in cash inflow from State appropriations. Additionally, no cash outflow related to payment of conference exit fee to the Big East was recorded in fiscal year 2013. This increase was partially offset by decreased cash inflow from Pell grants. This category had experienced a decrease of $1.6 million from fiscal year 2011 to fiscal year 2012.

- Net cash provided by (used in) capital financing activities changed by $243.6 million primarily due to increase in cash outflows for payment of principal on capital debt and leases and for purchase of capital assets, as well as decrease in cash inflows from bond proceeds, capital bond proceeds from the State/trustees and capital grants and gifts. The increase in cash outflows was partially offset by an increase in cash inflows from federal capital grants. In contrast, capital financing activities had changed by $237.0 million in fiscal year 2012.

- Net cash provided by (used in) investing activities changed by approximately $271.7 million primarily due to a decrease in cash outflows for purchase of investments related to bond proceeds as well as an increase in cash inflows from redemption of matured investments. In contrast, investing activities had changed by $198.0 million in fiscal year 2012.

The following graphs illustrate the sources and uses of cash –





Capital Asset and Long Term Debt Activity

The University, including the Health Sciences Center and its regional campuses, has a multi-year capital budget including planned capital expenditures of approximately $323.8 million and approximately $7.0 million for annual repairs and maintenance. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University campuses including a student health facility, an animal research facility, downtown classroom and innovation center, an advanced engineering research building, an agricultural sciences building, and a College of Physical Activity and Sports Sciences building. These capital projects are being financed through bond proceeds, grants, and other sources of revenues available to the University including internal financing, operational revenue and other financing sources

Significant construction, capital and debt activity in fiscal year 2013 was as follows:

- The University completed several renovation and improvement projects including: renovation of the University Police building; parking lot additions and improvements; and Health Sciences Center air and electrical upgrades. Other on-going capital activity included: construction of the Animal Facility Annex, Advanced Engineering Research building, Agricultural Sciences building, College of Physical Activities and Sports Sciences building, and the Student Health building; renovation, including asbestos abatement, of the Law Center; and several life safety improvement projects at the Health Sciences Center funded by phase IIIB of the Energy Performance contract with Suntrust Equipment Finance & Leasing Corp.

- During fiscal year 2013, the University executed the following real estate transactions:

  – Acquired 39 parcels of real property with improvements from Paradigm Development Group, LLC (“Paradigm”) in the Sunnyside area for $14.6 million. Subsequently, the University entered into lease and development, sublease and joint operating agreements with Paradigm and WV Campus Housing, LLC (“WVCH”), for the design, construction, lease, sublease, management and operation of **University Place** (student housing and commercial facilities). Amounts received and incurred by WVCH for the construction of University Place were immaterial at June 30, 2013 and therefore, WVCH has not been included as a component unit in WVU’s financial statements.

  – Acquired residential and commercial properties in the Evansdale area from RCL Evansdale Holdings, LLC (“RCL”) for $7.9 million and from M&J Property Holdings, LLC (“M&J”) for $5.3 million, for the construction of **University Park** (student housing and related amenities). The University had leased the property from M&J for four months before purchasing it for future development. The University also executed pre-development and collaboration agreements with RCL and M&J related to the development of University Park; however, no firm commitments existed as of June 30, 2013.

  – Acquired 25 acres of real property known as **Square at Falling Run or the “Loop”** for $5.4 million from several parties. This acquisition also included a payment due to the City of Morgantown in August 2026 for $4.2 million less credits from certain B&O taxes generated as well as an annual Tax Increment Financing (“TIF”) District Guaranty for $120,000 through October 2033.

  – During fiscal year 2012, the University had acquired the **Suncrest Center** consisting of two office buildings, a two-level parking garage and land. At June 30, 2012, the unpaid balance of the purchase price of $26.4 million was secured by a vendor’s lien. During fiscal year 2013, the full purchase price was paid and the University received $13.2 million from the WVU Hospitals in exchange for transferring an undivided 50% interest in the property to them.

  – The University selected ACC OP DEVELOPMENT LLC to design, finance and manage the **College Park** (student residence) project and entered into an interim services agreement for certain pre-development activities. The University also entered into a pre-development agreement with Fresh Capital, LLC for the development of the **Evansdale Crossing** project. No firm commitments existed as of June 30, 2013 for these two projects.

- During fiscal year 2013 the University capitalized costs associated with the implementation of an identity management system, development of eRA – an electronic research administration application, and upgrade of the Oracle Financial and Human Resources System.

- The University received donation of right-to-use software from Landmark Graphics Corporation and Schlumberger Corporation for educational purposes, valued at $9.9 million and $2.6 million, respectively.

- The University had the following debt activity during fiscal year 2013:

  – Issued 2012 Series A Taxable Bonds in the amount of $13.3 million to finance WVU’s fifty percent interest in Suncrest Center.

  – Issued 2012 Series B Taxable Bonds in the amount of $4.8 million to finance the acquisition of property in the Square at Falling Run.

  – Issued 2013 Series A Bonds in the par amount of $138.3 million ($160.5 million in actual proceeds received) to finance capital projects and advance refund the 2004 Series C Bonds. This resulted in the complete defeasance of the 2004 Series C Bonds in the par amount of $138.7 million.

- Issued 2013 Series B Taxable Bonds in the par amount of $72.2 million to reimburse the University for the acquisition costs of the Sunnyside property and to advance refund a portion of the 2004 Series B Bonds. This resulted in the partial defeasance of the 2004 Series B Bonds in the par amount of $40.5 million.

- The balance of the excess of the reacquisition price over the net carrying amount of the 2004 Bonds at June 30, 2013 ($14.8 million) is reported as a deferred loss on refunding on the Statements of Net Position.

- The WVU Research Corporation refinanced notes payable with a net carrying amount of 22.7 million at a reacquisition price of $22.1 million, resulting in a gain on early extinguishment of debt.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however $72.2 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2013.

Economic Outlook

WVU is facing significant challenges created by national and State economic conditions. However, University administration believes that the University is well positioned to meet these challenges through its prudent financial planning and management practices. These practices are designed to promote growth and productivity, elevate quality, manage cost and maintain a stable financial position. The effectiveness of these practices and the University's stable financial position was confirmed in FY 2013 as both Moody's and Standard and Poor's upheld the University's bond ratings of Aa3 and A+ respectively.

As a public institution, the University's financial position is closely tied to that of the State of West Virginia and is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. In FY 2013, the State experienced a budget deficit of $45.6 million in its general revenue funds. While the economic condition of the State remained relatively strong throughout the recent economic downturn, and it achieved a balance of $914.5 million (or 22% of the State's general fund budget) in its Revenue Shortfall Reserve Fund (Rainy Day Fund), declining revenues and rising health care costs have prompted the Governor to cut spending by 7.5% in fiscal year 2014 to keep the State budget balanced. While some areas of the budget were spared from the cuts, higher education experienced the largest cut. This resulted in an approximately 8.9 % or $13.3 million cut in State appropriations from the University's FY 2014 budget, excluding scholarship programs. The University may also face a similar reduction in FY 2015.

To address these shortfalls, the University, through its University Planning Committee (UPC), has embarked on a focused effort to reduce costs, improve the efficiency and effectiveness of its operations and contracts, and maximize revenue opportunities. This strategy includes a short and long term component.

Early in the process, the UPC decided that it must continue its commitment to financial support of the 2020 Strategic Plan and the 2012 Ten Year Campus Master Plan. Given these constraints, the UPC recognized that it would be financially unsound to implement the salary increase program planned for FY2014. Cancellation of this salary increase program saved $8.6 million. Additional central cost savings were identified through anticipated reductions in workers' compensation premiums and credit card service fees. To finalize the savings required to meet the FY 2014 reduction of 8.9%, one-time budget reductions of 1.75% for academic units and 2.50% for all other units have been imposed in FY 2014. It is up to each budget unit to determine how to right-size its budget to address the reduced level of support.

In order to identify more permanent budget reductions for the long term, all WVU units undertook a budget planning exercise to determine what actions would be necessary to reduce their base budgets by 10% (grant funds were excluded from these amounts). While this planning amount is significantly higher than any anticipated actual reduction, this exercise will identify opportunities for strategic reallocation in order to meet WVU's budget priorities. The UPC will determine the specifics of the budget reallocation strategy and those strategies will be implemented in fiscal year 2015 as permanent budget changes. As the UPC membership is comprised of all of the Vice Presidents and led by the Provost, all permanent budget changes will be aligned with the goals of the strategic plan.

By making one-time budget decisions for FY2014 and allowing almost one year of planning for permanent base reductions, WVU gains the ability to strategically prepare for the permanent budget reductions or revenue increases that must be made to bring the University's expenses back in line with its revenues.

The University's federally funded research programs also represent an important component of its mission. Lately, this funding has been impacted by events such as increasing federal budget deficits, associated sequestration, loss of key committee leadership for the State in both the US House and Senate and the "spend down" of one-time ARRA stimulus funding. These federal level issues have also had an impact on the funding available from the State of West Virginia. The University has been addressing these challenges by strengthening the competitiveness of our faculty in grants seeking through a combination of faculty training programs and proposal development assistance. At the same time the University has refocused on aligning research investments to match federal agency priorities and opportunities more closely. This is reflected in our recent and planned hires to increase our competitiveness in areas such as Shale Gas Utilization, Water Stewardship, Health Disparity Solutions, STEM Education and Outreach, and Radio Astronomy.

The University's strategy to remain competitive seems to be working. In FY 2013, the amount of externally sponsored awards increased from $116.8 million to $137.8 million from the previous year, an increase of 18%. This growth in competitive awards is significant because it partially offset decreases in ARRA and congressionally directed (earmark) funding. In addition to federally sponsored awards, the University, through the Corporation, continues to expand its base of privately funded research such as funding from foundations, corporations and collaborations with industry. This strategy was best exemplified in FY 2013 when the Corporation commenced operations of the WVU Clinical and Pharmacological Research Center. The University and its Health Sciences Center, through the Corporation, partnered with Mylan Pharmaceuticals (the third largest generic and specialty pharmaceutical company in the world) to conduct clinical trials that are scheduled to generate revenues of approximately $7.5 million during the center's first 15 months of operation.

Moving forward, however, it is clear that the University will need to expand its base of funding for the research enterprise and to develop and implement innovative strategies to secure and maintain external funding.

Despite these external economic challenges, the University continues to experience both programmatic and financial success that will position it for stability well into the future. Examples of these successes include:

- On-going Implementation of the Strategic Plan:
  The University continued the implementation of its *2020 strategic plan for the future*. The plan focuses on five main goals namely: research excellence, educational attainment, diversity, globalization and the well-being of the people of WV. The University aspires to attain and maintain the highest Carnegie research ranking, double the number of its nationally ranked programs and propel its graduates at the forefront of career readiness. Good progress has been made since the adoption of the plan, including: creation of new faculty positions in key research areas called "Mountains of Excellence," hiring of a Chief Diversity Officer, naming of a Chief Global Officer, launch of a new School of Public Health, development of the University College – a centralized support program to assist students who have not declared an academic major, and strengthening of the WV Clinical and Translational Science Institute.

- Elevating University Visibility:
  On July 1, 2012, WVU officially joined the Big 12 Conference. This move will produce significant reputational and monetary benefits in the future by bringing WVU onto the national stage weekly and aligning WVU with one of the top athletics conferences in the nation for the first time in school history.

- Effective Financial Management:
  The University continues to implement innovative financial management practices through the creation of new revenue streams and cost reduction strategies. The University has identified over $12.0 million of initiatives whose benefits will continue into future periods (in addition to developing future strategies).

- Maintaining Student Demand:
  Although preliminary Fall 2013 enrollment numbers suggest a slight decline in the student headcount for the Main Campus (29,400) and first-time freshmen (4,880), the freshmen academic profile shows an improvement in high school GPA and average SAT scores. The University also focused efforts on graduate student recruitment, diversity, retention and professional and career development. The University's strategic plan calls for expanding enrollment to 32,000 by the year 2020 with a special emphasis on graduate level enrollment.

- Value/Price Competitiveness:
  For the fiscal year 2014, WVU-Main Campus tuition and fees were increased by approximately 6% for resident students and 4% for non-resident students. WVU's current tuition levels remain competitive in the higher education marketplace.

- Seizing Opportunities in Financial Markets:
  The University continues to use its favorable credit ratings to obtain funds at very competitive terms. These financial market opportunities have allowed WVU to experience savings from restructuring its current debt terms and obtain additional funds needed for academic, student service and research purposes.

- Building for the Future:
  The University has operationalized its $323.8 million capital plan. The primary focus of this plan is the revitalization of the Evansdale Campus where new facilities will be constructed for the College of Physical Activities and Sport Sciences, the College of Agriculture Sciences, an engineering research building and a student health and wellness facility. The University has also engaged in a public-private partnership (University Place) to develop safe, modern, and affordable mixed use residential and retail facilities in support of the 2020 Plan. The University is in the process of negotiating agreements for other public-private developments (University Park, College Park and Evansdale Crossing).

- Solving Long Term Liabilities:
  The State legislature has addressed one of the most significant financial challenges facing state agencies with positive results. In FY 2012 the legislature and Public Employees Insurance Agency implemented a series of actions to significantly reduce the OPEB Annual Required Contribution (from State agencies) and, in turn, the total OPEB liability. These actions included limiting the annual increase on the employer's share of the retiree's premium and allocating $30 million of annual funding to the OPEB Trust Fund beginning in FY 2016 and a change in the applied discount rate. These steps will have a significant positive impact on WVU's financial position and performance. For FY 2013, these steps reduced WVU's annual OPEB accrual from $47.8 million to approximately $2.9 million. Over time, as the State funds the OPEB trust, this accrual will become a credit and gradually reverse the current liability of $164.0 million to zero. The "pay go" portion of the program that requires actual cash payments increased by approximately $600,000.

Despite the challenges facing the University, administration remains committed to expanding its current efforts to maintain a sound financial position through diversification of revenue sources, managing costs and using innovation and technology to gain operational efficiencies. This sound financial position will allow the University to fulfill its mission as the State's flagship institution. University administration also believes that WVU represents an unparalleled value for a quality educational experience. WVU's continued significant growth in non-resident freshmen, in this time of continuing economic uncertainty, demonstrates that students and parents from beyond West Virginia also share this perspective.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012 As Amended See Note 2
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	$ 132,274	$ 131,802
Accounts receivable, net of allowances for doubtful accounts of $6,671 and $6,713	40,050	54,895
Due from the Commission	1,396	862
Service agreement receivable from Bridgemont and Parkersburg CTC's	13	54
Loans receivable, current portion	4,909	5,315
Inventories	1,662	1,763
Prepaid expenses	2,628	2,758
Notes receivable from Bridgemont and Parkersburg CTC's, current portion	228	190
Total current assets	183,160	197,639
Noncurrent Assets:		
Restricted cash and cash equivalents	96,194	22,396
Investments	191,601	268,437
Loans receivable, net of allowances for doubtful accounts of $6,173 and $6,636	30,287	30,849
Notes receivable from Bridgemont and Parkersburg CTC's	2,986	3,228
Capital assets, net	1,306,753	1,242,281
Total noncurrent assets	1,627,821	1,567,191
TOTAL ASSETS	1,810,981	1,764,830
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	15,033	1,530
TOTAL	$ 1,826,014	$ 1,766,360

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF NET POSITION (CONTINUED)
AS OF JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012 As Amended See Note 2
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities:		
Accounts payable	$ 33,875	$ 35,863
Accrued liabilities	9,209	8,626
Accrued payroll	20,226	18,885
Deposits	3,323	3,235
Unearned revenue	47,686	52,299
Due to the Commission	163	130
Compensated absences	23,354	22,913
Real estate purchase agreements payable, current portion	362	26,754
Debt service assessment payable to the Commission, current portion	4,797	4,914
Leases payable, current portion	1,823	1,248
Bonds payable, current portion	13,272	10,913
Notes payable, current portion	702	1,310
Total current liabilities	158,792	187,090
Noncurrent Liabilities:		
Real estate purchase agreement payable	6,087	2,551
Other post employment benefits liability	163,994	161,067
Advances from federal government	26,763	26,798
Debt service assessment payable to the Commission	67,355	72,152
Leases payable	22,212	24,044
Bonds payable	507,974	453,077
Notes payable	21,057	22,040
Other noncurrent liabilities	19,076	19,534
Total noncurrent liabilities	834,518	781,263
TOTAL LIABILITIES	993,310	968,353
DEFERRED INFLOWS OF RESOURCES		
Deferred federal Pell grants	105	31
TOTAL	$ 993,415	$ 968,384
NET POSITION		
Net investment in capital assets	$ 869,235	$ 833,261
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	5,401	4,577
Other	475	475
Total nonexpendable	5,961	5,137
Expendable:		
Scholarships and fellowships	363	279
Sponsored programs	492	496
Loans	18,952	18,389
Capital projects	185	-
Debt service	-	1,375
Other	1,854	532
Total expendable	21,846	21,071
Unrestricted net deficit	(64,443)	(61,493)
TOTAL NET POSITION	$ 832,599	$ 797,976

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012 As Amended See Note 2
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $50,730 and $45,807	$ 346,519	$ 321,905
Federal land grants	7,596	8,470
Local land grants	1,079	1,075
Federal grants and contracts	75,570	80,853
State grants and contracts	39,143	44,152
Local grants and contracts	240	230
Nongovernmental grants and contracts	50,620	43,708
Sales and services of educational departments	18,224	17,569
Auxiliary enterprises, net of scholarship allowances of $9,580 and $9,410	134,610	127,654
Interest on student loans receivable	829	851
Net service agreement revenue from Bridgemont and Parkersburg CTC's	619	612
Other operating revenues (including revenue from outsourced enterprise of $1,599 and $1,434)	8,191	7,497
Total operating revenues	683,240	654,576
OPERATING EXPENSES		
Salaries and wages	460,324	441,811
Benefits	139,570	179,098
Scholarships and fellowships	37,055	35,365
Utilities	29,417	29,227
Supplies and other services	202,281	200,717
Depreciation and amortization	73,279	61,842
Loan cancellations and write-offs	409	499
Assessments by the Commission for operations	2,764	2,691
Other operating expenses	719	362
Total operating expenses	945,818	951,612
OPERATING LOSS	(262,578)	(297,036)

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012 As Amended See Note 2
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 207,431	$ 205,037
State Lottery appropriations	3,630	3,588
Payments on behalf of the University	528	3,919
Gifts	27,987	25,804
Federal Pell grants	30,786	32,658
Conference exit fee	-	(20,000)
Investment income (including unrealized gain (loss) of $5,328 and ($1,407))	10,165	1,877
Interest on capital asset-related debt	(15,430)	(17,491)
Assessments by the Commission for debt service	(5,870)	(4,561)
Debt issuance costs	(1,133)	(879)
Other nonoperating (expenses) revenues - net	(68)	5,903
Net nonoperating revenues	258,026	235,855
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(4,552)	(61,181)
Capital grants and gifts	21,560	87,758
Capital grants (federal)	10,894	1,253
Capital bond proceeds from State	1,982	5,645
Bond/capital projects proceeds from the Commission	4,147	390
Gain from early extinguishment of debt	592	-
INCREASE IN NET POSITION	34,623	33,865
NET POSTION - BEGINNING OF YEAR (AS AMENDED)	797,976	764,111
NET POSITION - END OF YEAR	$ 832,599	$ 797,976

See notes to combined financial statements.

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 346,191	$ 326,965
Federal and local land grants	8,675	9,545
Grants and contracts	168,595	166,590
Payments to suppliers	(193,741)	(200,788)
Payments to employees	(462,621)	(439,667)
Payments for benefits	(132,987)	(130,739)
Payments for utilities	(29,794)	(28,719)
Payments for scholarships and fellowships	(36,858)	(37,117)
Loan advances from (returned to) federal government	(40)	55
Collections of loans to students	559	2,034
Interest earned on loans to students	829	851
Auxiliary enterprise charges	131,445	122,167
Sales and service of educational departments	17,602	17,002
Payments of net operating expenses from Bridgemont and Parkersburg CTC's	659	558
Other receipts	4,336	6,386
Net cash used in operating activities	(177,150)	(184,877)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	207,431	205,037
State lottery appropriations	3,630	3,588
Gifts	24,154	23,459
Federal Pell grants	30,861	32,658
Conference exit fee	-	(7,500)
Assessments by the Commission for debt service	(5,870)	(4,561)
William D. Ford direct lending receipts	208,089	214,175
William D. Ford direct lending payments	(208,023)	(212,830)
Other nonoperating receipts (payments)	10,769	(22)
Net cash provided by noncapital financing activities	271,041	254,004
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(4,914)	(5,620)
Bond/capital projects proceeds from the Commission	3,575	740
Proceeds from University bonds	251,036	268,308
Bond issuance costs	(1,133)	(879)
Capital bond proceeds from State	2,387	8,429
Capital gifts and grants received	6,948	12,998
Capital grants - federal received	10,894	1,253
Purchases of capital assets	(150,776)	(96,398)
Capital projects proceeds from lease trustees	-	9,195
Principal paid on capital debt and leases	(230,588)	(44,527)
Interest paid on capital debt and leases	(16,166)	(16,542)
Proceeds from loans	22,112	-
Net cash (used in) provided by capital financing activities	(106,624)	136,957
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	4,839	3,230
Purchase of investments	(16,196)	(189,960)
Redemption of matured bond investments	97,869	-
Redemption of matured investments	950	2,375
Purchase of Research Corporation investments	(459)	(324)
Net cash provided by (used in) investing activities	87,003	(184,679)
INCREASE IN CASH AND CASH EQUIVALENTS	74,270	21,405
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	154,198	132,793
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 228,468	$ 154,198

(continued)

WEST VIRGINIA UNIVERSITY

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in Thousands)

	2013	2012
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (262,578)	$ (297,036)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	73,279	61,842
Donated/noncapitalized expense	5,305	4,645
Revenue held by Big East as partial payment of conference exit fee	-	(9,000)
Expenses paid on behalf of the University	528	419
Changes in assets and liabilities:		
Accounts receivable, net	13,754	(2,329)
Due from the Commission	37	75
Loans receivable, net	969	2,533
Prepaid expenses	139	(928)
Inventories	101	(129)
Accounts payable	(8,483)	2,598
Accrued liabilities	3,886	49,775
Deposits	87	130
Unearned revenue	(4,612)	1,913
Due to the Commission	33	54
Compensated absences	441	504
Advances from federal government	(36)	57
Net cash used in operating activities	$ (177,150)	$ (184,877)
Noncash Transactions:		
Construction in progress additions in accounts payable	$ 7,708	$ 7,676
Land and building additions in real estate purchase agreements payable	$ 3,924	$ 26,385
Equipment purchased on capital lease	$ -	$ 470
Donated capital assets	$ 13,139	$ 73,379
Unrealized gain (loss) on investments	$ 5,328	$ (1,407)
Capitalization of interest	$ 942	$ 840
Donated noncapitalized assets	$ 3,833	$ 2,345
Bond and real estate discounts, premiums, and losses	$ 805	$ 426
Loss on dispositions	$ 3,547	$ 1,284
Other post employment benefits liability	$ 2,927	$ 47,048
Expenses paid on behalf of the University	$ 528	$ 3,919
Conference revenue and exit fee retained by Big East	$ -	$ 9,000
Gain from early extinguishment of debt	$ 592	$ -
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	$ 132,274	$ 131,802
Cash and cash equivalents classified as noncurrent assets	96,194	22,396
	$ 228,468	$ 154,198

See notes to combined financial statements.

1. ORGANIZATION

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

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

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

During fiscal year 2008, House Bill 3215 ("H.B. 3215") was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of West Virginia University, including West Virginia University at Parkersburg ("Parkersburg") and Bridgemont Community and Technical College ("Bridgemont') (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University and the separately established community and technical colleges oversaw a plan that ensured the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking and athletics through fiscal year 2012. The University continues to provide Parkersburg and Bridgemont with administrative and academic support services. The University charges Parkersburg and Bridgemont for these services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. *Reporting Entity* – The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity, which, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (WVNET)), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

   The accompanying combined financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (WVUIT), and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the University (see Notes 17 and 18) are not part of the University reporting entity and are not included in the accompanying combined financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB.

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

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

   Cash on deposit with the West Virginia Treasurer's Office (the "Treasurer") and deposits with the State's Board of Risk and Insurance Management (BRIM) escrow account are invested in the WV Money Market Pool with the West Virginia Board of Treasury Investments (BTI).

   Cash in bank accounts is invested in daily repurchase agreements.

   Cash with the bond trustee is invested in U.S. Treasury Notes and government backed Money Market funds.

   Cash and cash equivalents also include cash on hand.

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

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-C, chapter forty-four of the West Virginia Code.

e. *Allowance for Doubtful Accounts* – It is the University's policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectability experienced by the University on such balances and such other factors which, in management's judgment, require consideration in estimating doubtful accounts.

f. *Inventories* – Inventories are stated at the lower-of-cost or market, cost primarily determined on the first-in, first-out method and average cost.

g. *Noncurrent Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students or to maintain sinking funds or reserve funds or to purchase capital or other noncurrent assets or settle long-term liabilities, or (2) permanently restricted components of net position are classified as a noncurrent asset on the statement of net position.

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

h. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, infrastructure and intangible assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The estimated useful life of intangible assets varies. The University's capitalization threshold for equipment is $5,000. The accompanying combined financial statements reflect all adjustments required by GASB.

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

j. *Compensated Absences and Other Post Employment Benefits (OPEB)* – GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for post employment benefits for the State of West Virginia (the "State"). The University is required to participate in this multiple employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and its stand-alone financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or http://www.wvpeia.com.

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer, cost sharing plan sponsored by the State (see Note 8).

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and 5 years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

k. *Voluntary Separation Incentives Plan* – Effective November 4, 2011, the University adopted the Voluntary Separation Incentives Plan (the "VSIP"), which was approved by the West Virginia Legislative Joint Committee on Pensions and Retirement on July 23, 2012. The VSIP provides incentives for the voluntary separation of employees from the University when a review of programmatic needs or organizational development indicates that the University and the employee would benefit from such an offer. Eligibility to participate in the plan is limited to employees who have received a voluntary separation incentives offer. Continued eligibility to participate in the VSIP is conditioned upon the employee's fulfillment of all employment obligations. To participate, the employee must agree to separate from employment with the Board, but there is not a requirement that an employee commence his pension or otherwise retire from active employment. An employee granted incentives under this plan will be ineligible for reemployment with any State of West Virginia institution of higher education during or after his plan benefit period concludes, including contract employment in excess of $5,000 per fiscal year. One or more of the following voluntary separation incentives could be offered by the University to participants: 1) payment of a lump sum, 2) continuation of full salary for a predetermined period of time prior to the employee's separation and a reduction in the employee's hours of employment during the predetermined period of time, or 3) continuation of insurance coverage, pursuant to the provisions of West Virginia Code 5-16-1, for a predetermined period of time. The University's total liability as of June 30, 2013 was $473,000, which includes approximately $34,000 for employee benefits as of June 30, 2013.

l. *Severance Plan* – Effective April 4, 2003, the University adopted the Classified Staff Severance Plan (the "Severance Plan") to provide incentives for the voluntary severance of the University's classified staff. During the period from April 22 to June 17, 2003, full time benefits eligible classified staff who had fifteen or more years of full time active service with the University as of June 30, 2003 were eligible to elect to participate in the Severance Plan. Participants could elect an exit date for the Severance Plan of either June 30, 2003 or January 15, 2004. Participants that elected the June 30, 2003 exit date will receive 100% of their fiscal year 2003 base salary not to exceed $45,000. Participants that elected the January 15, 2004 exit date will receive their fiscal year 2003 base salary less $5,000 not to exceed $40,000. The total payment for either exit date is divided into 96 equal consecutive monthly payments. If the employee was over age 59 at the time his or her payments began, the number of monthly installments are reduced so that all payments will be completed prior to the employees 67th birthday. Any employee age 66 or older at the time his or her benefits began received his or her payment in a lump sum. The University's total liability as of June 30, 2013 and 2012 was $0 and $5,000, respectively.

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

n. *Net Position* – GASB establishes standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. The components of net position are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's components of net position are classified as follows:

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

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

The West Virginia State Legislature (the "Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, "Fees and Other Money Collected at State Institutions of Higher Education" of the West Virginia Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature. At June 30, 2013 and 2012, the University had no restricted balances remaining in these funds.

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

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

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

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal land grants, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell grants, investment income and sale of capital assets (including natural resources).

Other Revenues: Other revenues primarily consist of capital grants and gifts.

p. Use of Restricted Net Position – The University has adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available. The University attempts to utilize restricted components of net position first when practicable. The University did not have any designated components of net position as of June 30, 2013 or 2012.

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

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

r. *Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net position, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately $208.1 million in fiscal year 2013 and approximately $214.2 million in fiscal year 2012 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net position.

   The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying combined financial statements. In fiscal years 2013 and 2012, the University received and disbursed $33.4 million and $35.9 million, respectively, under these other federal student aid programs.

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

t. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service. The Corporation has received from the Internal Revenue Service an exemption from taxation under Section 501 (c) (3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

u. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.

v. *Deferred Outflows of Resources* – Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2013 and 2012, the University had a deferred loss on refunding of $15,033,000 and $1,530,000, respectively. Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refunding.

w. *Deferred Inflows of Resources* – Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2013 and 2012, the University had deferred Federal Pell grants of $105,000 and $31,000, respectively.

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

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

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

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit $3.0 million as of both June 30, 2013 and 2012, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit $21.8 million and $20.1 million as of June 30, 2013 and 2012, respectively, in an investment earnings account with the West Virginia University Foundation, Incorporated (the "Foundation") to cover the liabilities under this program.

Based on an actuarial valuation of this self insurance program and premium levels determined by BRIM, the University has recorded a liability of $19.1 million and $19.3 million to reflect projected claim payments at June 30, 2013 and 2012, respectively.

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

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

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

aa. *Newly Adopted Statements Issued by the GASB* – During fiscal year 2013, the University adopted Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement resulted in the addition of Deferred Inflows and Deferred Outflows in the Statements of Position. Also refer to "v" and "w" of this note.

The University has also adopted Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement resulted in the addition of Deferred Inflows and Deferred Outflows in the Statements of Position. See "Early Adoption of GASB No. 65" section below for further description of the amendments.

The University also early adopted Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*, effective for fiscal years beginning after December 15, 2012. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The adoption of this statement did not have a material impact on the financial statements.

bb. *Recent Statements Issued by the Governmental Accounting Standards Board* – The Governmental Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. The University has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The GASB has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 31, 2013.

This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The University has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB also issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. The University has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

Early Adoption of GASB No 65—

As required with the adoption of GASB Statement No. 65 as discussed above, the University's financial statements have been amended from the amounts previously reported as described below. Such changes relate to presenting deferred losses on refundings from bonds payable to deferred outflows of resources in the amount of $1,530,000 removing bond issuance costs previously recorded as an asset to nonoperating expense in the amount of $1,843,000, and presenting deferred federal Pell grants from unearned revenue to deferred inflows of resources in the amount of $31,000. The cumulative effect on the net position as of the earliest period presented was $992,000.

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses, and Changes in Net Position Effect	As Amended
Bond issuance costs	$ 1,843	$ (1,843)	$ -	$ -
Deferred outflow of resources	-	1,530		1,530
Unearned revenue	52,328	(29)		52,299
Bonds payable	462,460	1,530		463,990
Deferred inflow of resources	-	31		31
Net investment in capital assets	835,106	(1,845)		833,261
Debt issuance costs	-	-	(879)	(879)
Interest on capital asset-related debt	17,517	-	26	17,491
Loss before other revenues, expenses, gains or losses	(60,328)	-	(853)	(61,181)
Increase in net position	34,718	-	(853)	33,865
Net position - beginning of year	765,103	(992)		764,111
Net position - end of year	799,821	(1,845)		797,976

3. CASH AND CASH EQUIVALENTS

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

2013

	Current		Noncurrent		Total	
Cash on deposit with the Treasurer:						
West Virginia University - Nonauxiliaries	$	58,309	$	561	$	58,870
West Virginia University - Auxiliaries		45,943		-		45,943
Cash on deposit with Trustee or MBC		-		92,633		92,633
Deposits with BRIM Escrow Account Treasurer		-		3,000		3,000
Cash in Bank		27,947		-		27,947
Cash on Hand		75		-		75
	$	132,274	$	96,194	$	228,468

2012

	Current		Noncurrent		Total	
Cash on deposit with the Treasurer:						
West Virginia University - Nonauxiliaries	$	63,414	$	560	$	63,974
West Virginia University - Auxiliaries		36,758		-		36,758
Cash on deposit with Trustee or MBC		-		18,835		18,835
Deposits with BRIM Escrow Account Treasurer		-		3,001		3,001
Cash in Bank		31,566		-		31,566
Cash on Hand		60		-		60
Cash in Money Market		4		-		4
	$	131,802	$	22,396	$	154,198

Cash on Deposit with the Treasurer. Cash on deposit with the Treasurer includes deposits in the State Treasury bank account and investments with the WV Money Market Pool. These bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the bank in the name of the State. The investments are pooled by the Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (the BTI). These funds are transferred to the BTI, and the BTI invests in the WV Money Market Pool in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures and trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the Legislature and is subject to oversight by the Legislature. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements. See Note 5 for additional disclosure relative to the BTI investments.

Cash on Deposit with Trustee or Municipal Bond Commission (MBC). Cash on deposit with Trustee or MBC represents funds available for various projects, repair and replacement and debt service held by the Trustee or the State's MBC and related to the 2011 and 2013 University specific bond issues and the Energy Performance Phase III contract (see Notes 9, 10 and 11). These funds are FDIC insured or invested in specific U.S. government securities or U.S. government backed Money Market funds.

Deposits with BRIM Escrow Account Treasurer. The University is required to maintain a cash balance of $3.0 million. The Treasurer invests these funds in the WV Money Market Pool (for investment risks, see Note 5).

Cash in bank. The combined carrying amount of cash in bank at June 30, 2013 and 2012 was $27.9 million and $31.6 million, respectively, as compared with combined bank balances of $29.9 million and $33.0 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank accounts are FDIC insured up to $250,000 per Federal Employer Identification Number through December 31, 2013 and they are collateralized with the bank through a Repurchase Agreement in the name of the State or the Corporation.

Cash on Hand. Imprest funds approved by the Treasurer comprise the cash on hand.

Cash in Money Market. The underlying securities for the Money Market funds were U.S. Government securities.

4. ACCOUNTS RECEIVABLE

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

	2013	**2012**
Student tuition and fees, net of allowances for doubtful accounts of $3,776 and $3,536	$ 4,519	$ 4,245
Grants and contracts receivable, net of allowances for doubtful accounts of $1,081 and $1,310	24,481	28,814
Due from West Virginia University Hospitals, Incorporated	1,774	1,363
Auxiliary services, net of allowances for doubtful accounts of $1,811 and $1,866	2,576	2,836
Investment earnings receivable	8	9
Other, net of allowances for doubtful accounts of $3 and $1	4,937	16,560
Due from the Foundation	242	178
Due from other State agencies	1,513	890
Total accounts receivable	$ 40,050	$ 54,895

West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") receivables represent various administrative expenses incurred by the University on behalf of the Hospital for which reimbursement has not yet been received.

5. INVESTMENTS

The University had the following investments as of June 30 (dollars in thousands):

2013 Investment Type	Level 1	Level 2	Level 3	Fair Value
U.S. Treasury Securities:				
U.S. Treasury Notes and U.S. Government Backed Money Market Funds *	$ 105,146			$ 105,146
Mutual Bond Funds:				
Brandywine Global Fixed Income	1,162	$ 6,188		7,350
iShares Barclays 3-7 Year Treasury	1,737	4,948		6,685
iShares Barclays 7-10 Year Treasury	422	1,191		1,613
Fidelity Floating Rate High Income	446	2,854	$ 2	3,302
Harbor Bond Fund	1	680	1	682
PIMCO Unconstrained Bond Inst.	205	3,056	29	3,290
Wells Fargo *	4			4
Mutual Money Market Funds:				
State Street Cash - SSGA Money Market		1,475		1,475
Mutual Stock Funds:				
Aberdeen Emerging Markets	866	1,928		2,794
Eaton Vance *	668			668
Dodge & Cox International Stock Fund	360	1,533		1,893
Dodge & Cox Stock Fund	3,878	39		3,917
MFS International Value Fund	484	4,725		5,209
Oppenheimer International Growth Fund	405	4,291		4,696
Van Eck Global Hard Assets	1,152	117	3	1,272
Vanguard Dividend Appreciation	7,256			7,256
Vanguard Total Stock Market EFT	20,847	4		20,851
Wells Fargo *	265			265
MFS *	3,987			3,987
Fixed Income Funds:				
IR&M Core Bond		881		881
Income Research and Management		3,702		3,702
Land and Other Real Estate Held as Investments:				
Land - Fred G. and Nannie D. Wood Loan Fund *			477	477
Other Alternative Investments:				
Arden-Sage Capital International			39	39
Arden-Sage Capital International - SPV			184	184
CF Multi-Strategy Bond Fund		2,687		2,687
CFI Multi-Strategy Bond Investors Fund		1,276		1,276
	$ 149,291	$ 41,575	$ 735	$ 191,601

* Investments not held with the Foundation

2012 Investment Type	Level 1	Level 2	Level 3	Fair Value
U.S. Treasury Securities:				
U.S. Treasury Notes *	$ 189,184			$ 189,184
Mutual Bond Funds:				
Brandywine Global Fixed Income	850	$ 6,019		6,869
IR&M Core Bond	9	951	$ 5	965
iShares Barclays 3-7 Year Treasury	2,362			2,362
iShares Barclays 7-10 Year Treasury	1,301			1,301
Fidelity Floating Rate High Income	306	3,040	2	3,348
Harbor Bond Fund	1	1,844	6	1,851
PIMCO Unconstrained Bond Inst.	2,216	1,420	250	3,886
Wells Fargo *	4			4
Mutual Money Market Funds:				
State Street Cash - SSGA Money Market		1,232		1,232
Mutual Stock Funds:				
Aberdeen Emerging Markets	396	768	1,163	2,327
Eaton Vance *	600			600
Dodge & Cox International Stock Fund	1,494	39		1,533
Dodge & Cox Stock Fund	2,994	18		3,012
Van Eck Global Hard Assets	1,056	113	2	1,171
Vanguard Dividend Appreciation	4,809			4,809
Vanguard MSCI EAFE ETF		6,034		6,034
Vanguard MSCI Emerging Markets	531	1,366		1,897
Vanguard Total Stock Market EFT	15,894			15,894
Wells Fargo *	218			218
MFS *	3,279			3,279
Fixed Income Funds:				
Income Research and Management		4,853		4,853
Other Investments-Commodity:				
SPDR Gold Shares	2,428			2,428
State and Local Government Securities:				
Auction Rate Certificates *		950		950
Land and Other Real Estate Held as Investments:				
Land - Fred G. and Nannie D. Wood Loan Fund *			477	477
Other Alternative Investments:				
Arden-Sage Capital International		2,003	1,108	3,111
CF Global Absolute Alpha Company		851	307	1,158
CF Multi-Strategy Bond Fund	2	1,893		1,895
CFI Multi-Strategy Bond Investors Fund	2	1,787		1,789
	$ 229,936	$ 35,181	$ 3,320	$ 268,437

* Investments not held with the Foundation

The above Fair Value Levels represent the valuation of the underlying investments. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with direct or indirect observable market inputs. Level 3 represents investments with no observable market.

Investments with the BTI – The BTI maintains the Consolidated Fund, which consists of six investment pools, special purpose pools, and participant-directed accounts, three of which the University may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual audited financial report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

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

These investments are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents.

Investments with the Foundation – As of June 30, 2013 and 2012, the University’s investments held with the Foundation were $81.1 million and $73.7 million, respectively. The investments held with the Foundation include the unrestricted investments, the Corporation’s investments, and the BRIM investments as follows:

	Unrestricted	**Corporation**	**BRIM**	**Total**
As of June 30, 2013	$ 49,912	$ 9,329	$ 21,813	$ 81,054
As of June 30, 2012	44,899	8,730	20,096	73,725

The University’s investments held with the Foundation are governed by investment policies and an investment management agency agreement that determine the permissible investments by category. The holdings include U.S. debt and equity securities, foreign debt and equity securities, commodities and alternative investments. The investment management agency agreement outlines the acceptable exposure to each category of investment and generally outlines a liquidity goal. The agreement also states that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 10% of any portfolio.

Unrestricted Investments – In 2005, the Legislature passed Senate Bill 603 (“S.B. 603”). S.B. 603 granted the University the ability to invest a limited amount of funds with the Foundation. In 2011, the Legislature passed Senate Bill 330 (“S.B. 330”) which increased the maximum investment amount to $40 million. As allowed by legislation, the University invested with the Foundation $25.0 million in October 2006, $4.0 million in October 2009, and $11.0 million in October 2011. In 2013, the Legislature passed Senate Bill 444 (“S.B. 444”) which increased the maximum investment amount to $70 million. As of June 30, 2013, the University has not yet taken advantage of this increased investment authority.

Research Corporation Investments – Beginning in 2007 an investment strategy was initiated for the corporation. These investments are managed by the Foundation.

BRIM Investments – In 2006, an investment strategy was initiated between the HSC and BRIM in conjunction with the Treasurer. The goals were 1) to provide an asset pool to settle medical professional liability claims and 2) to provide an investment pool for medical professional liability premiums with the goal of self-funding premiums in the future and to support medical professional liability claims as needed. The first goal was met by transferring funds to the Treasurer's Office who invests these funds in the WV Money Market Pool. These investments are classified as cash and cash equivalents. To meet the second goal, investments are managed by the Foundation.

Auction Rate Certificates – Beginning April 2008, based on guidance from Bond Counsel, authority vested in the Corporation's investment policy and on a cost benefit comparison of available investments, the Corporation began to submit bids to purchase the University's Auction Rate Certificates (ARC). The University, through its Board, issued ARC debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Starting in December 2007, the market for ARCs and other Auction Rate Securities experienced significant turmoil. To address the ARC market's ability to function, the Securities and Exchange Commission (SEC) issued a letter which allowed issuers and/or their affiliates to bid on such ARCs to allow for a more reasonable interest rate relative to the issuers credit rating. In October 2012, there was a final redemption of the ARCs in the amount of $975,000. As of June 30, 2013, the ARCs were fully redeemed and the Corporation was no longer an owner of these investments. Of the $975,000 of the University's ARCs outstanding at June 30, 2012, the Corporation owned $950,000, or 97%.

Investments with Trustees – In October 2011, the University issued the 2011 series bonds. In February 2013, the University issued the 2013 series bonds. The unspent bond proceeds are invested in U.S. government securities or U.S. government backed money market funds. Such restricted investments were $105.1 million and $189.2 million at June 30, 2013 and 2012, respectively.

Other – The University also has investments - the Wood investments – from the estate of donors with restricted purposes.

The following BTI investment risk information has been extracted from the notes to the BTI's financial statements.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is applicable to investments in debt securities as well as investments in external investment pools, money market funds, mutual bond funds, and other pooled investments of fixed income securities.

Of the BTI's Consolidated Fund Pools and accounts which the University may invest in, all are subject to credit risk.

WV Money Market Pool **—** For the years ended June 30, 2013 and 2012, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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

At June 30, 2013 and 2012, the WV Money Market Pool investments had a total carrying value of $2,495,868,000 and $2,786,968,000, respectively, of which the University's ownership represents 3.20% and 3.23%, respectively.

Other Investments– The investment management agency agreement with the Foundation states that each public debt instrument selected for investment shall be subject to proper credit analysis prior to inclusion in the portfolio. Credit ratings were as follows at June 30:

Portfolio	Investment	2013 Rating	2012 Rating
BRIM	Harbor Bond Fund	-	AA-
Unrestricted	Income Research & Management	AA-	AA-
BRIM, Unrestricted, Corporation	State Street Cash - SSGA Money Market	AAAm	AAAm
BRIM, Unrestricted	CF Multi-Strategy Bond Fund	A+	A+
Corporation	CFI Multi-Strategy Bond Investors Fund	A+	A+
Corporation	Auction Rate Certificates	-	A+
BRIM, Unrestricted, Corporation	Brandywine Global Fixed Income	BBB+	BBB+
Corporation	IR&M Core Bond	AA-	AA-
BRIM	iShares Barclays 3-7 Year Treasury	AA+	AAf
Unrestricted	iShares Barclays 3-7 Year Treasury	AA	AAf
BRIM	iShares Barclays 7-10 Year Treasury	AA+	AAf
Unrestricted	iShares Barclays 7-10 Year Treasury	AA	AAf
BRIM, S.B. 603, Corporation	PIMCO Unconstrained Bond Inst.	-	AAA
2011 Bonds	U.S. Treasury Notes & Government Backed Money Market Funds	AA	AA+
2013 Bonds	U.S. Treasury Notes & Government Backed Money Market Funds	AA	-

The remaining investments have not been rated. These funds are periodically evaluated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is applicable to debt securities only.

All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

WV Money Market Pool — The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	2013 Carrying Value (In Thousands)	2013 WAM (Days)	2012 Carrying Value (In Thousands)	2012 WAM (Days)
Repurchase agreements	$ 229,326	3	$ 90,204	3
U.S. Treasury notes	279,755	132	330,865	122
U.S. Treasury bills	34,993	77	237,978	37
Commercial paper	970,395	43	853,470	35
Certificates of deposit	259,000	66	110,000	10
U.S. agency discount notes	445,784	47	738,706	44
Corporate bonds and notes	10,000	60	36,000	48
U.S. agency bonds/notes	66,603	139	189,691	68
Money market funds	200,012	1	200,054	1
	$ 2,495,868	52	$ 2,786,968	46

Other Investments. Investments subject to interest rate risk include the following at June 30:

2013

- Brandywine Global Fixed Income
- CF Multi-Strategy Bond Fund
- CFI Multi-Strategy Bond Investors Fund
- Fidelity Floating Rate High Income
- Harbor Bond Fund
- Income Research and Management
- IR&M Core Bond
- iShares Barclays 3-7 Year Treasury
- iShares Barclays 7-10 Year Treasury
- PIMCO Unconstrained Bond Inst.
- State Street Cash - SSGA Money Market
- U. S. Treasury Notes

2012

- Auction Rate Certificates
- Brandywine Global Fixed Income
- CF Multi-Strategy Bond Fund
- CFI Multi-Strategy Bond Investors Fund
- Fidelity Floating Rate High Income
- Harbor Bond Fund
- Income Research and Management
- IR&M Core Bond
- iShares Barclays 3-7 Year Treasury
- iShares Barclays 7-10 Year Treasury
- PIMCO Unconstrained Bond Inst.
- State Street Cash - SSGA Money Market
- U. S. Treasury Notes
- Wells Fargo

Interest rate risk is managed by limiting the time period or duration of the specific investment. At June 30, 2013, the U.S. Treasury Notes have maturities through January 31, 2015 and interest rates which range from .125% to 3.125%. At June 30, 2012, the U.S. Treasury Notes have maturities through January 31, 2015 and interest rates which range from .375% to 3.125%.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Since this risk is minimized by the commingled funds structure, concentration risk disclosure is not required for external pooled funds.

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

At June 30, 2013 and 2012, the University's investments were not subject to concentration of credit risk.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the agency will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. This risk is not applicable to external investment pools and open end mutual funds.

For BTI investments, repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net position is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

For other investments, at June 30, 2013, there was no custodial credit risk. At June 30, 2012, there was custodial credit risk related to the SPDR Gold Shares, which were uninsured and registered in State Street's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Disclosure is not required for external investment pools unless the fund represents a significant portion of the University's investment.

None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

For the other investments, at June 30, 2013, 97% of the Aberdeen Emerging Markets, 50.18% of the Brandywine Global Fixed Income Fund, 94.5% of the Dodge and Cox International Stock Fund, 16.4% of the Dodge and Cox Stock Fund, and 11.2% of the Harbor Bond Fund are subject to foreign currency risk. These are pooled investments which represent only 8.68% of the total investments.

At June 30, 2012, 98.6% of the Aberdeen Emerging Markets, 50.21% of the Brandywine Global Fixed Income Fund, 95.52% of the Dodge and Cox International Stock Fund, 18.81% of Dodge and Cox Stock Fund, 13.7% of the Harbor Bond Fund, .02% of the PIMCO Unconstrained Bond Inst., 100% of the Vanguard MSCI EAFE ETF, and 100% of the Vanguard MSCI Emerging Markets are subject to foreign currency risk. These are pooled investments which represent 34.59% of the total investments.

6. CAPITAL ASSETS

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

2013	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 42,737	$ 37,813	$ (2,833)	$ 77,717
Construction in progress	49,188	80,955	(33,358)	96,785
Total capital assets not being depreciated or amortized	$ 91,925	$ 118,768	$ (36,191)	$ 174,502
Other capital assets:				
Land improvements	$ 35,340	$ 1,999	$ -	$ 37,339
Buildings	1,211,423	20,461	(17,584)	1,214,300
Equipment	170,176	16,933	(4,219)	182,890
Library books	128,818	6,466	(10)	135,274
Software	51,861	6,436	-	58,297
Infrastructure	267,185	4,303	(123)	271,365
Other assets	99,734	13,036	-	112,770
Intangible assets	150	-	-	150
Total other capital assets	1,964,687	69,634	(21,936)	2,012,385
Less accumulated depreciation and amortization for:				
Land improvements	(16,399)	(1,987)	-	(18,386)
Buildings	(300,369)	(23,368)	3,918	(319,819)
Equipment	(102,073)	(14,847)	3,425	(113,495)
Library books	(102,477)	(7,387)	10	(109,854)
Software	(47,517)	(2,802)	-	(50,319)
Infrastructure	(213,689)	(4,758)	123	(218,324)
Other assets	(31,793)	(18,128)	-	(49,921)
Intangible assets	(14)	(2)	-	(16)
Total accumulated depreciation and amortization	(814,331)	(73,279)	7,476	(880,134)
Other capital assets, net	$ 1,150,356	$ (3,645)	$ (14,460)	$ 1,132,251
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 91,925	$ 118,768	$ (36,191)	$ 174,502
Other capital assets	1,964,687	69,634	(21,936)	2,012,385
Total cost of capital assets	2,056,612	188,402	(58,127)	2,186,887
Less accumulated depreciation and amortization	(814,331)	(73,279)	7,476	(880,134)
Capital assets, net	$ 1,242,281	$ 115,123	$ (50,651)	$ 1,306,753

2012	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 31,628	$ 11,109	$ -	$ 42,737
Construction in progress	75,500	60,762	(87,074)	49,188
Total capital assets not being depreciated or amortized	$ 107,128	$ 71,871	$ (87,074)	$ 91,925
Other capital assets:				
Land improvements	$ 34,693	$ 647	$ -	$ 35,340
Buildings	1,105,656	131,517	(25,750)	1,211,423
Equipment	165,509	19,632	(14,965)	170,176
Library books	122,440	6,381	(3)	128,818
Software	51,368	533	(40)	51,861
Infrastructure	258,133	9,052	-	267,185
Other assets	28,519	71,215	-	99,734
Intangible assets	150	-	-	150
Total other capital assets	1,766,468	238,977	(40,758)	1,964,687
Less accumulated depreciation or amortization for:				
Land improvements	(14,425)	(1,974)	-	(16,399)
Buildings	(279,691)	(22,333)	1,655	(300,369)
Equipment	(99,142)	(16,176)	13,245	(102,073)
Library books	(95,163)	(7,315)	1	(102,477)
Software	(45,499)	(2,058)	40	(47,517)
Infrastructure	(209,343)	(4,346)	-	(213,689)
Other assets	(24,155)	(7,638)	-	(31,793)
Intangible assets	(12)	(2)	-	(14)
Total accumulated depreciation and amortization	(767,430)	(61,842)	14,941	(814,331)
Other capital assets, net	$ 999,038	$ 177,135	$ (25,817)	$ 1,150,356
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 107,128	$ 71,871	$ (87,074)	$ 91,925
Other capital assets	1,766,468	238,977	(40,758)	1,964,687
Total cost of capital assets	1,873,596	310,848	(127,832)	2,056,612
Less accumulated depreciation and amortization	(767,430)	(61,842)	14,941	(814,331)
Capital assets, net	$ 1,106,166	$ 249,006	$ (112,891)	$ 1,242,281

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

The University has been approved to receive $26,500,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2013 and 2012, $26,334,324 and $23,947,377, respectively, of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

The University capitalized interest on borrowings, net of interest earned on related debt of approximately $942,000 and $840,000 during fiscal years 2013 and 2012, respectively.

7. LONG-TERM LIABILITIES

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

2013	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreements payable	$ 29,305	$ 4,018	$ (26,874)	$ 6,449	$ 362
Other post employment benefits liability	161,067	2,927	-	163,994	
Advances from federal government	26,798	-	(35)	26,763	
Debt service assessment payable to the Commission	77,066	-	(4,914)	72,152	4,797
Leases payable	25,292	-	(1,257)	24,035	1,823
Bonds payable	463,990	251,036	(193,780)	521,246	13,272
Notes payable	23,350	22,112	(23,703)	21,759	702
Other noncurrent liabilities	19,539	5,126	(5,589)	19,076	
Total long-term liabilities	$ 826,407	$ 285,219	$ (256,152)	$ 855,474	

2012	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreement payable	$ 3,288	$ 26,385	$ (368)	$ 29,305	$ 26,754
Other post employment benefits liability	114,019	47,048	-	161,067	
College system debt owed to the Commission	75	-	(75)	-	-
Advances from federal government	26,741	57	-	26,798	
Debt service assessment payable to the Commission	82,612	-	(5,546)	77,066	4,914
Leases payable	50,922	9,858	(35,488)	25,292	1,248
Bonds payable	201,204	268,650	(5,864)	463,990	10,913
Notes payable	24,603	-	(1,253)	23,350	1,310
Other noncurrent liabilities	18,686	4,368	(3,515)	19,539	5
Total long-term liabilities	$ 522,150	$ 356,366	$ (52,109)	$ 826,407	

8. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011, the noncurrent liability related to OPEB was $164.0 million, $161.1 million, and $114.0 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were $14.5 million and $11.6 million, respectively, during 2013, $59.0 million and $11.7 million, respectively, during 2012, and $60.9 million and $12.0

million, respectively, during 2011. As of the years ended June 30, 2013, 2012, and 2011, there were 657, 694, and 615 retirees, respectively, receiving these benefits.

9. LEASES PAYABLE

a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2013 are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2014	$	7,110
2015		6,058
2016		4,854
2017		3,478
2018		2,891
2019-2023		12,462
2024-2028		9,916
2029-2033		5,930
2034-2038		5
2039-2043		5
2044-2048		5
2049-2053		5
2054-2058		5
Total	$	52,724

Total rental expense for both the years ended June 30, 2013 and 2012 was $7.8 million. The University leases 6 floors of a seven floor office building from the Foundation. Rental expense under the operating lease is $1,975,000 per year through 2031. The University does not have any non-cancelable leases.

b. *Capital* – The University leases certain property, plant and equipment under capital leases. Net book value of leased assets totaled $25.7 million and $26.8 million at June 30, 2013 and 2012, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2014	$	2,422
2015		2,469
2016		2,467
2017		7,827
2018		1,707
2019-2023		7,797
2024-2027		2,859
Minimum lease payments		27,548
Less amount representing interest		(3,513)
Present value of minimum lease payments		24,035
Current Portion		1,823
Noncurrent Portion	$	22,212

During fiscal year 2012, the University repaid the capital leases for the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Lease Phase III with the 2011 Series B Bonds that were issued in October 2011. The advance payments of capital leases with a portion of bond proceeds resulted in reduced future interest payments of approximately $4.5 million. Also during fiscal year 2012, the University entered into a new capital lease for Energy Performance Phase III B.

10. BONDS PAYABLE

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

	Original Interest Rate	Annual Principal Installment Due	2013 Principal Amount Outstanding	2012 Principal Amount Outstanding
Auction Rate Certificates				
Federally Taxable Revenue Refunding and Improvement, 2004 Series A due through 2012, variable rate		$ 975 to 4,200	$ -	$ 975
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	9,370	53,460
Revenue Improvement Bonds, 2004 Series C, due through 2035	3.75%	0 to 12,780	-	138,710
Revenue Improvement Bonds, 2011 Series A, due through 2026	3.87%	35 to 62	11,914	12,356
Revenue Improvement Bonds, 2011 Series B, due through 2037	4.14%	0 to 21,800	182,630	187,605
Revenue Improvement Bonds, 2011 Series C, due through 2042	variable rate	0 to 10,470	50,000	50,000
Revenue Bonds (Taxable), 2012 Series A, due through 2042	4.50%	35 to 62	13,123	-
Revenue Bonds (Taxable), 2012 Series B, due through 2032	variable rate	0 to 50	4,707	-
Revenue Refunding and Improvement Bonds, 2013 Series A, due through 2043	2.0-5.0%	0 to 13,715	138,325	-
Revenue Refunding and Improvement Bonds (Taxable), 2013 Series B, due through 2043	.532-2.969%	995 to 7,440	72,180	-
Unamortized Bond Discount			(84)	-
Unamortized Bond Premium			39,081	20,884
Net Bonds Payable			521,246	463,990
Current Portion			13,272	10,913
Noncurrent Portion			$507,974	$453,077

1997 Bonds

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

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

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

The 1997 bonds were refinanced with the 2004 bonds.

2004 Bonds

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

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of $25.9 million. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. The 2004 Subseries A-1 and A-2 Bonds bear interest at an auction rate which was .00% and .00%, respectively, at June 30, 2013 and .00% and .00%, respectively, at June 30, 2012. These bonds were used to advance refund outstanding 1997 Series A Dormitory and Athletics Revenue Bonds with a par amount of $12.4 million and to finance a portion of the costs of certain capital projects at the University.

2004 Series B Revenue Refunding Bonds in the amount of $55.4 million with an average interest rate of 4.7%. The 2004 Series B Bonds were issued to advance refund outstanding 1997 Series A and B Student Union Revenue Bonds and 1997 Series B Dormitory and Athletics Revenue Bonds with a par amount of $54.0 million, and to pay the costs of issuance of 2004 Series B Bonds.

2004 Series C Revenue Improvement Bonds in the amount of $138.7 million with an average interest rate of 4.9%. The 2004 Series C Bonds were issued to finance a portion of certain improvements at the University, including capitalized interest and to pay the costs of issuance of the 2004 Series C Bonds.

The bond proceeds of $226.1 million included net original issue premium on the 2004 Bonds in the amount of $5.3 million and $0.8 million in accrued interest.

It is estimated that the advance refunding of the 1997 series bonds will result in a reduction in the University's total debt service payments over the next 19 years of approximately $8.4 million. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately $1.9 million. The reacquisition price exceeded the net carrying amount of the old debt by $6.7 million. This amount is being netted against the new debt and deferred and amortized as interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

The 2013 Series A tax exempt bonds were issued to advance refund the 2004 Series C bonds. The 2013 Series B taxable bonds were issued to advance refund a portion of the 2004 Series B bonds.

2011 Bonds

In fiscal year 2012, the Board issued $250.3 million in revenue bonds as follows:

2011 Series A In August 2011, the Board issued the 2011 Series A bonds in the amount of $12.7 million. These bonds were used to finance the acquisition of a multi-story apartment complex known as "The Augusta on the Square" and other lots, buildings, houses, and structures which were subject to liens thereupon.

2011 Series B In October 2011, the Board issued the Series B Improvement Revenue Bonds in the par amount of $187.6 million. The actual proceeds received equaled $205.6 million. These Bonds were issued to refinance the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Phase III lease purchases and to finance new projects.

2011 Series C In October 2011, the Board issued Series C Improvement Variable Rate Revenue Bonds in the amount of $50.0 million with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2013 and 2012, the average interest rate was .79% and .80%, respectively. The rate at June 30, 2013 and June 30, 2012 was .71% and .83%, respectively. These Bonds were issued to finance new projects.

The 2011 bond proceeds of $268.3 million included net original issue premium of $18.0 million.

2012 and 2013 Bonds

In fiscal year 2013, the Board issued $228.6 million in revenue bonds as follows:

2012 Series A In July 2012, the Board issued $13.3 million of 2012 Series A Bonds (Taxable) to purchase the Suncrest Center. These bonds were a private placement bond issue with The Huntington Investment Company.

2012 Series B In December 2012, the Board issued $4.8 million of 2012 Series B Bonds (Taxable) for the purchase of the Square at Falling Run/Loop. These bonds were a private placement bond issue with First United Bank & Trust, for a fixed rate of 2.5% for three years then adjusting annually based on the average yield on the U.S. Treasury Securities adjusted to a constant maturity of one year plus 175 basis points. The interest rate has a floor of 2.5%

2013 Series A In February 2013, the Board issued the 2013 Series A Bonds in the par amount of $138.3 million. The actual proceeds received equaled $160.5 million. They were issued to advance refund the 2004 Series C Bonds and to finance capital projects.

2013 Series B In February 2013, the Board issued the 2013 Series B Bonds (Taxable) series in the amount of $72.2 million. These bonds were issued to advance refund a portion of the 2004 Series B Bonds and to reimburse the University for the acquisition costs of the Sunnyside property.

The amount of principal of the University Revenue Improvement Bonds 2004 Series C bonds refunded and defeased was the entire issue of $138,710,000. The amount of the University Revenue Refunding Bonds 2004 Series B refunded and defeased was $40,515,000. The difference between the debt service required to service the old debt and the amount required to service the new debt was $24,555,331. The economic gain as represented by the present value savings of the cash flows of the difference noted directly above is $17,520,958 using an effective interest rate of 3.41%.

For the year ended June 30, 2013, the University recorded a deferred loss on refunding of $15,033,000 on the combined statement of net position.

For the year ended June 30, 2012, the University recorded a cumulative effect of adoption of accounting principle of $991,547, an amount equal to the bond issuance costs previously recorded in accordance with GASB standards.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30,	Principal	Interest	Total Payments
2014	$ 11,684	$ 19,473	$ 31,157
2015	12,317	18,010	30,327
2016	12,547	17,576	30,123
2017	13,358	17,217	30,575
2018	13,805	16,809	30,614
2019-2023	76,856	76,455	153,311
2024-2028	90,342	59,256	149,598
2029-2033	97,960	37,155	135,115
2034-2038	103,993	12,612	116,605
2039-2043	49,387	2,690	52,077
Bonds Payable	482,249	$ 277,253	$ 759,502
Unamortized Bond Discount	(84)		
Unamortized Bond Premium	39,081		
Net Bonds Payable	521,246		
Current Portion	13,272		
Noncurrent Portion	$ 507,974		

11. NOTES PAYABLE

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

WVHDF loan. WVHDF made a construction and term loan in the principal amount of $6.0 million for the purpose of financing the construction of the Biomedical Research building and the HSC Learning Center and Library addition, and renovations to the existing HSC laboratories. The principal balance of the WVHDF loan bore interest at a fixed rate of 5.11% per annum. The rate was calculated on the basis of a 360-day year on amounts advanced. The note was due 240 months from the closing date of October 24, 2005.

A note modification agreement dated April 26, 2007 allowed the Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009 and to add it to the principal amount of the loan. Commencing on February 1, 2009, such accrued interest was amortized and paid over the remaining term of the loan. Total principal remaining to be paid June 30, 2012 was $5.6 million. This loan was refinanced in December 2012; see further disclosure herein.

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

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

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

WVEDA loan. WVEDA made a construction and term loan in the principal amount of $9.0 million for the purpose of financing a portion of the Blanchette Rockefeller Neurosciences Institute building. The principal balance of the WVEDA loan bore interest at a fixed rate of 5.51% per annum. The note was due 240 months from the closing date of October 24, 2005.

Interest on the loan accrued but payment will be deferred for the first 36 months of the loan. Commencing on October 1, 2009, such accrued interest was amortized and paid over the remaining term of the loan. Total principal remaining to be paid at June 30, 2012 was $8.8 million. This loan was refinanced in December 2012; see further disclosure herein.

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

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

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

IJDC loan. IJDC made a construction and term loan in the principal amount of $9.4 million for the purpose of financing a portion of the construction of certain improvements to the Blanchette Rockefeller Neurosciences Institute building and the Biomedical Research building. During fiscal year 2009, the Corporation drew down the entire $9.4 million which was recorded as a note payable.

The proceeds of the IJDC loan were disbursed on a draw basis as construction progressed. The principal balance of the IJDC loan bore interest at a fixed rate of 3% per annum. After the expiration of the five year period, the interest rate applicable to $3.0 million in principal for the balance of the term of the loan was based on the satisfaction of certain employment criteria. The note was due 240 months from the closing date of October 24, 2005.

Interest on the loan accrued but payment will be deferred for five years from the date of closing. Commencing on October 24, 2010, such accrued interest was amortized and paid over the remaining term of the loan. Total principal remaining to be paid at June 30, 2012 was $8.9 million. This loan was refinanced in December 2012; see further disclosure herein.

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

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

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

Total principal and interest payments remaining to be paid at June 30, 2012 were approximately $31.1 million. Total facilities and administrative revenues earned by the HSC during 2012 were $8.0 million. Total pledged revenue as of June 30, 2012 was $2.8 million. This loan was refinanced in December 2012; see additional disclosure herein.

These loans required a debt service reserve fund of $1.4 million and the Corporation was prevented from incurring additional indebtedness without prior approval from the financing agencies.

In December 2012, the Corporation refinanced these loans with United Bank, Inc. in the principal amount of $22.1 million at an interest rate, initially 1.90%, resetting every five years. Beginning August 2014, the loan agreement allows the Corporation to prepay the loan with 60 days notice and without any penalty or premium, and it allows the bank to “put” all or part of the loan to the Corporation with 60 days notice and without any penalty or premium.

Refinancing these loans removed the restriction on future indebtedness and released the $1.4 million in debt service reserve fund cash, making these dollars available to support the operations of the HSC.

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

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

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

Total facilities and administrative revenues earned by HSC during fiscal year 2013 were $7.5 million. Total pledged revenue as of June 30, 2013 was $2.5 million.

The scheduled maturities of the notes payable are as follows (dollars in thousands):

Fiscal Year Ending June 30,	
2014	$ 702
2015	716
2016	728
2017	744
2018	758
2019-2023	4,017
2024-2028	4,422
2029-2033	4,870
2034-2038	4,802
	21,759
Current Portion	702
Noncurrent Portion	$ 21,057

12. REAL ESTATE PURCHASE AGREEMENTS PAYABLE

During fiscal year 2012, the University entered into an agreement to purchase the Suncrest Center in Morgantown, WV. The total purchase price of the property was $26,385,000. The unpaid balance of the purchase price for this property, $26,385,000, was secured by a vendor's lien as of June 30, 2012.

During fiscal year 2013, the full purchase price was paid. On June 27, 2012, the University and the Hospital entered into an agreement whereby the Hospital agreed to advance one-half of the purchase price of the property. The University received $13,192,500 in the form of an interest-free purchase money loan on July 26, 2012. The Hospital had the right to convert said loan to an undivided 50% interest in the property upon the Hospital's receipt of a final, non-appealable Certificate of Need (the "CON"), which was received during fiscal year 2013. On December 29, 2012, the loan from the Hospital was canceled and ownership of 50% of the property was transferred to the Hospital.

On July 26, 2012, the University issued $13,270,555 of bonds, the 2012 Series A Bonds (Taxable), to finance its interest in the property.

During fiscal year 2011, the University entered into an agreement to finance the purchase of real property at 992 Elmer Prince Drive in Morgantown, WV. The total purchase price of the property was $3,714,800. The University paid $397,400 at closing and agreed to make installment payments of $368,600 per year through November 30, 2019. This liability is recorded at present value at an interest rate of .18%.

During fiscal year 2013, the University purchased several properties located at the Square at Falling Run/Loop. This purchase included a real estate purchase agreement payable to the City of Morgantown Building Commission in the amount of $4.2 million due in 2026 less the following credits: 1) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenditures on the Loop project in excess of $30 million, 2) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenses on the College Park project, and 3) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 arising from and directly associated with any construction, retail, commercial, rental, and other development activities located in, or with respect to the completion of, the commercial space in the Square at Falling Run, College Park, and Sunnyside, 4) all Airport Grant Funds received or obtained prior to August 31, 2026 as a result of Transferee's direct solicitation efforts, or indirectly as a result of specifically identifiable efforts, contracts, or commitments. Also, the purchase included a Tax Increment Financing (TIF) District Guaranty to First United Bank & Trust for $120,000 annually through October 1, 2033. This has been recorded at a present value of $1,484,607 at the following interest rates: 2.5% through June 2014, 3.5% from June 2014 through June 2017, and 5.69% from June 2017 through June 2033.

These liabilities are classified as real estate purchase agreements payable on the combined statement of net position.

13. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

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

The Commission issued 2004 Series B Higher Education Facilities Revenue Bonds (the "HEPC 2004 B Bonds") in August 2004 to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges, including the University. In June 2012, a portion of the HEPC 2004 Bonds were advance refunded by the State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds (Higher Education Facilities) 2012 Series A and Revenue Bonds (Higher Education Facilities) 2012 Series B Bonds (the "HEPC 2012 Bonds"). The HEPC 2004 B Bonds and the HEPC 2012 Bonds are secured by the pledge of higher education institutions' tuition and registration fees as well as excess lottery revenues. The HEPC 2004 B Bonds and the HEPC 2012 Bonds are considered an indirect obligation of the University and the principal amount of the bonds related to the University is not reported as a payable to the Commission.

14. UNRESTRICTED NET POSITION (DEFICIT)

The University did not have any designated unrestricted components of net position as of June 30, 2013 or 2012.

	2013	2012
Total unrestricted net position before OPEB liability	$ 99,551	$ 99,574
Less: OPEB liability	163,994	161,067
Total unrestricted net position (deficit)	$ (64,443)	$ (61,493)

15. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2013 and 2012. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The contribution rate is set by the Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the

University. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, 4101 MacCorkle Ave S.E., Charleston, WV 25304-1636.

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

Fiscal Year Ending June 30,	**WVU**	**Employees**	**Total**
2013	$ 1,683	$ 688	$ 2,371
2012	1,815	741	2,556
2011	1,997	815	2,812

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

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

Fiscal Year Ending June 30,	**WVU**	**Employees**	**Total**
2013	$ 23,887	$ 23,887	$ 47,774
2012	22,979	22,979	45,958
2011	22,266	22,266	44,532

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

Fiscal Year Ending June 30,	**WVU**	**Employees**	**Total**
2013	$ 284	$ 284	$ 568
2012	272	272	544
2011	308	308	616

The University's total payroll for fiscal years 2013, 2012, and 2011 was $460.3 million, $441.8 million, and $430.9 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were $11.5 million, $401.0 million and $4.7 million in fiscal year 2013, $12.3 million, $385.7 million and $4.5 million in fiscal year 2012, and $13.6 million, $373.3 million, and $5.1 million in fiscal year 2011, respectively.

16. COMMITMENTS

a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. The University's total payments for steam purchased under the agreement were $10.7 million and $9.5 million in fiscal years 2013 and 2012, respectively. An additional $1.0 and $1.2 million was accrued at June 30, 2013 and 2012, respectively, to record the University's liability to meet the minimum steam purchase requirement for the contract years ended September 30, 2013 and 2012. The University anticipates substantially meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately $90.2 million at June 30, 2013.

17. AFFILIATED ORGANIZATIONS

The University has affiliations with separately incorporated organizations including West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated (the "Association"); the Center for Entrepreneurial Studies and Development, Incorporated; University Health Associates; the Physician's Office of Charleston; Potomac State College Alumni Association; Tech Foundation, Incorporated; and WV Campus Housing, LLC. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB standards. Accordingly, the financial statements of all such organizations are not included in the accompanying combined financial statements.

The National Aeronautics and Space Administration Independent Verification and Validation facility was established in Fairmont, West Virginia in 1993 in partnership with the University. Under a cooperative agreement with the University, verification and validation research programs are conducted at the facility. The facility is operated and maintained by the University's Facilities and Services Division.

Related Party Transactions

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

The University is reimbursed by UHA for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses UHA for costs associated with the services it provides to the University. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from UHA.

Total funds disbursed to UHA and total funds collected from UHA totaled $750,000 and $15.9 million in fiscal year 2013 and $259,000 and $13.7 million in fiscal year 2012, respectively. Accounts receivable at June 30, 2013 and 2012 includes $1.5 million and $993,000, respectively, due from UHA for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. Amounts due to UHA at June 30, 2013 and 2012 include $645,000 and $0, respectively, for such items as Institute of Occupational and Environmental Health payments.

b. *West Virginia University Hospitals, Incorporated* – The Hospital is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the HSC. The Hospital's tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal years 2013 and 2012, $33.8 million and $31.7 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, and rent. Accounts receivable at June 30, 2013 and 2012 include $1.8 million and $1.7 million, respectively, due from WVUH for such items. During fiscal years 2013 and 2012, $457,000 and $10,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2013 and 2012 include $100,000 and $3.3 million, respectively, due to WVUH for such items. Accounts payable at June 30, 2012 also included amounts due to WVUH for refunds of FICA tax for medical residents.

c. *West Virginia University Alumni Association, Incorporated* – The Association is a West Virginia not-for-profit corporation and was established to promote and advance the interests and welfare of the University and to foster a spirit of fraternity and loyalty among graduates, former students, faculty and other friends of the University.

Employees of the Association are paid through the University. The University funds a portion of their salary through State funds and graduate fees. The University funded

$444,000 and $410,000 for the years ended June 30, 2013 and 2012, respectively. The remaining payroll is billed to the Association. The Association owed the University $134,000 and $33,000 related to payroll and postage as of June 30, 2013 and 2012, respectively.

The Association reimburses the University up to $50,000 per year for the alumni magazine. These payments were $50,000 and $39,000 for the years ended June 30, 2013 and 2012, respectively.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering and rental revenue received from the University was approximately $961,000 and $650,000 for the years ended June 30, 2013 and 2012, respectively.

The University charged the Association $1,038,000 and $925,000 for catering services for the years ended June 30, 2013 and 2012, respectively. The Association owed the University $364,000 and $308,000 for catering services as of June 30, 2013 and 2012, respectively.

The University owed the Association $12,000 and $16,000 for reimbursement of utilities as of June 30, 2013 and 2012, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University $233,000 and $185,000 for the years ended June 30, 2013 and 2012, respectively. The Association owed the University $80,000 and $0 for the years ended June 30, 2013 and 2012, respectively.

During fiscal year 2009, the old alumni center building reverted back to the University. The fair market value of the building transferred to the University was $1,485,000. The Association entered into a long-term lease with the University for land to construct a new alumni center building and parking lot. The term of the land lease is $1 rent per year for forty years with options to renew for additional forty year periods.

On July 11, 2012, the Association and the University entered into a parking lot shared use agreement. Beginning in July 2012, the Association pays the University $80,000 per year on a quarterly basis.

d. *West Virginia University at Parkersburg and Bridgemont Community and Technical College* — In 2008, the University entered into an agreement with Siemens Building Technologies, Inc. to perform Phase II of the Energy Performance contract. The contract was to install certain energy enhancement equipment in buildings on the University's campuses, including Parkersburg and WVUIT. The cost of the contract was financed with a lease purchase agreement between the University and Suntrust Leasing Corporation ("Suntrust").

Beginning in fiscal year 2009, when Parkersburg and Bridgemont became separate entities from the University, the Parkersburg and Bridgemont portions of the Energy Performance Phase II lease purchase were reported on Parkersburg's and Bridgemont's statements of net position as a lease payable.

During fiscal year 2012, the University issued the 2011 Series B and C bonds which in part paid off the Energy Performance Phase II lease purchase with Suntrust. After the bonds were issued, an agreement was entered into between the University and Parkersburg and Bridgemont wherein Parkersburg and Bridgemont agreed to continue to pay the University based on their portion of the original amortization schedule for the lease purchase with Suntrust. This source of funds is internally assigned by the University to pay the 2011 Series B and C bonds.

The original amount of the notes related to Parkersburg and Bridgemont was $3,316,991 and $211,691, respectively, with an interest rate of 3.98%. The term of the notes were 16 years with the last payment due in January 2024. The new agreements between the University and Parkersburg and Bridgemont used the same terms. The outstanding notes receivable due from Parkersburg and Bridgemont at June 30, 2013 was $2,909,055 and $185,656, respectively. The outstanding notes receivable due from Parkersburg and Bridgemont at June 30, 2012 was $3,062,679 and $195,461, respectively. Interest earned during fiscal year 2013 for the notes related to Parkersburg and Bridgemont was $120,060 and $7,662, respectively. Interest earned during fiscal year 2012 for the notes related to Parkersburg and Bridgemont was $62,220 and $3,971, respectively. This interest is recorded as investment income on the combined statement of revenues, expenses, and changes in net position.

In 2006, the Commission provided funding for deferred maintenance projects to institutions with approved projects that could also provide a 50% match in funding. The total cost for the WVUIT projects was $1,925,000. The University agreed to loan WVUIT the 50% match of $962,500 for these projects at zero percent interest for a term of ten years.

Beginning in fiscal year 2009, when Bridgemont became a separate entity from the University, the Bridgemont portion of the Deferred Maintenance Loan was separated from the WVUIT portion. The remaining principal on the original loan was $673,750 of which $393,750 was allocated to WVUIT and $280,000 was allocated to Bridgemont with both loans having remaining terms of seven years.

The outstanding notes receivable due from Bridgemont at June 30, 2013 and 2012 was $120,000 and $160,000, respectively.

e. *West Virginia Campus Housing, LLC* — In fiscal year 2013, the University entered into a public-private arrangement with Paradigm and WVCH for the design, construction, financing, management and operation of University Place (student housing and commercial facilities). In October 2012, the University acquired 39 parcels of real property with improvements from Paradigm in the Sunnyside area for $14.6 million. Subsequently, in February 2013, the University entered into lease and development, sublease and joint operating agreements with Paradigm and WVCH. Amounts received and incurred by WVHC for the construction of University Place were immaterial at June 30, 2013 and therefore, WVCH has not been included as a component unit in WVU’s financial statements.

18. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED

The Foundation is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose “to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . .” Oversight of the Foundation is the responsibility of an independently elected Board of Directors. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. The Foundation does not meet the criteria for determination as a component unit of the University as described by GASB. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University’s endowments are under the control and management of the Foundation.

The Foundation’s assets totaled $1.2 billion and $1.1 billion at June 30, 2013 and 2012, respectively, with net assets of $672.7 million and $596.8 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled $74.5 million and $87.2 million in fiscal years 2013 and 2012, respectively.

Total funds expended by the Foundation in support of University activities totaled $50.1 million and $66.1 million in fiscal years 2013 and 2012, respectively. This support is primarily recorded as gifts and capital grants and gifts and the related expenditures are primarily recorded as salaries and wages, benefits and capital assets in the University’s combined financial statements.

19. SERVICE CONCESSION AGREEMENT

The University has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements.* The University has identified one contract for services that meets the four criteria of a service concession arrangement (SCA). SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided and the government retains ownership of the assets at the end of the contract.

This contract is with Barnes & Noble College Bookstores, Inc. (“Barnes & Noble”). Barnes & Noble leases and manages four bookstores on the University’s main campus, one bookstore on each of the regional campuses (Potomac State College and WVUIT), and one bookstore at Parkersburg. The current contract term is from March 1, 2008 to April 30, 2018. The parties have agreed to annually negotiate the financial consideration portion of the contract. For the fiscal years ending June 30, 2013 and 2012, the guaranteed portion of the financial consideration consisted of $1,338,000 and $1,328,000, respectively. The contract terms also provide for variable amounts of sales commissions. These amounts were $261,000 and $106,000 for June 30, 2013 and 2012, respectively.

The contract designates Barnes & Noble as the exclusive provider of textbooks, course packs, and a variety of supplies and university-licensed clothing and souvenirs. The University retains the right to limit the price charged for many of these items and, in certain cases, the University specifies items that must be offered for sale in the University bookstores. Barnes & Noble is bound, at the University’s bookstore locations, by all brand exclusivity contracts that affect brands or products sold in the bookstores.

20. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against universities on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations.

While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the University would not have a material effect on the financial position of the University.

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2013 or 2012.

The University owns various buildings that are known to contain asbestos. The University is not required by Federal, State or Local law to remove the asbestos from its buildings. The University is required under Federal Environmental, Health and Safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated, as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

At June 30, 2013 and 2012, the University has recorded a liability of $34,000 and $435,000, respectively, for asbestos removal in accordance with the provisions of GASB.

The University has consented to the reduction of its distributions from future Big 12 revenues (of which $5 million of unearned revenue is recorded as of June 30, 2013 and 2012), if the Foundation does not make required payments under its $10 million promissory note with the Big 12.

21. SUBSEQUENT EVENTS

In August 2013, the University terminated a ground lease agreement with Morgantown DOE, LLC under which the University leased approximately six acres of land to Morgantown DOE, LLC. The University sold that land to Morgantown DOE, LLC for $2.9 million in September 2013.

In September 2013, the University acquired land for $918,247 near the University's Evansdale campus from RCL Evansdale Holdings, LLC ("RCL"). This property is intended to become part of the University Park student housing and related amenities project in support of the University's 2020 strategic plan.

In October 2013, the University acquired approximately seven acres of land from Mon-View LLC in the town of Granville, Monongalia County, West Virginia for $2.3 million. The University intends to construct, operate, and maintain a multi-use recreational complex, including but not limited to a baseball stadium with customary concessions and other related amenities. The funding for the construction will be supported by a tax increment financing district approved by the Legislature in a special session in April 2013.

22. SEGMENT INFORMATION

Descriptive information for the University's segment is shown below:

West Virginia Board of Governors
Refunding and Improvement Revenue Bonds 2013 Series A; 2013 Series B (Taxable) (Collectively the "2013 Bonds")

On February 13, 2013, the Board issued the 2013 Series A bonds in the amount of $138,325,000 and the 2013 Series B bonds in the amount of $72,180,000. The bonds were issued pursuant to a Resolution adopted by the Board on December 13, 2012, and pursuant to a resolution of the Commission adopted on December 7, 2012, approving the issuance of such bonds. The bonds were issued under a Bond Trust Indenture dated as of November 1, 2004, as supplemented and amended by a First Supplemental Indenture dated as of August 1, 2011, a Second Supplemental Indenture dated as of October 1, 2011, a Third Supplemental Indenture dated as of June 1, 2012, a Fourth Supplemental Indenture dated as of December 1, 2012, and a Fifth Supplemental Indenture dated as of February 1, 2013.

The 2013 Series A bonds were issued to (a) advance refund a portion of the University Revenue Improvement Bonds 2004 Series C, dated December 2, 2004, and issued in the original principal amount of $138,710,000, (b) advance refund a portion of the University Revenue Refunding Bonds 2004 Series B, dated December 2, 2004, maturing on and after October 1, 2015 and issued in the original principal amount of $55,430,000, (c) finance a portion of the costs of the 2013 A projects at the University including reimbursement to the University for certain capital expenditures made on the 2013 Series A projects prior to the issuance of the 2013 Series A bonds, and (d) pay the costs of issuance of the 2013 Series A bonds.

The 2013 Series B bonds were issued to (a) advance refund that portion of the 2004 Series C bonds not refunded with the proceeds of the 2013 Series A bonds, (b) finance a portion of the costs of the 2013 Series B projects including reimbursement to the University for certain capital expenditures made on the 2013 Series B projects prior to the issuance of the 2013 Series B bonds, and (c) pay the costs of issuance of the 2013 Series B bonds.

The 2013 bonds are secured by and payable from pledged revenues which have been pledged to the payment of such bonds and certain funds held by the bond trustee under the indenture. The 2013 bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

West Virginia University Board of Governors
Revenue Bonds 2012 Series A (Taxable) and Series B (Taxable) (Collectively the "2012 Bonds")

During fiscal year 2013, the Board issued revenue bonds to finance the acquisition of the Suncrest Plaza and the Loop. The 2012 Series A (taxable) bonds were issued on July 26, 2012 in the amount of $13,270,555 to finance the acquisition of the Suncrest Plaza. These bonds were a private placement bond issue with the Huntington Investment Company. The 2012 Series B (taxable) bonds were issued on December 13, 2012 in the amount of $4,800,000 to finance the acquisition of the Loop. These bonds were a private placement bond issue with First United Bank & Trust. The bonds were issued pursuant to a Resolution adopted by the Board on June 7, 2012 and September 28, 2012. The bonds were issued under a Bond Trust Indenture dated as of November 1, 2004, as supplemented and amended by a First Supplemental Indenture dated as of August 1, 2011, a Second Supplemental Indenture dated as of October 1, 2011, a Third Supplemental Indenture dated as of June 1, 2012, and a Fourth Supplemental Indenture dated as of December 1, 2012.

The 2012 bonds are secured by and payable from pledged revenues which have been pledged to the payment of such bonds and certain funds held by the bond trustee under the indenture. The 2012 bonds are also payable from (but not by) secured other monies legally available to be used for such purposes.

West Virginia University Board of Governors
University Improvement Revenue Bonds 2011 Series A; University Improvement Revenue Bonds 2011 Series B; University Improvement Variable Rate Revenue Bonds 2011 Series C (Collectively the "2011 Bonds")

During fiscal year 2012, the Board issued revenue improvement bonds to finance the acquisition of a multi-story apartment complex known as "The Augusta on the Square" and other lots, buildings, houses and structures which were subject to liens thereupon. The 2011 Series A bonds were issued on August 1, 2011 in the amount of $12,710,197. The bonds were issued as the First Supplemental Indenture, supplementing and amending the Bond Trust Indenture, dated November 1, 2004.

Also during fiscal year 2012, the Board issued revenue improvement bonds (a) University Improvement Revenue Bonds (West Virginia University Projects) 2011 Series B, in the aggregate principal amount of $187,605,000 (the "2011 B Bonds") and (b) University Improvement Variable Revenue Bonds (West Virginia University Projects) 2011 Series C, in the aggregate principal amount of $50,000,000 (the "2011 C Bonds" and together with the 2011 B Bonds, the "2011 Bonds"). The 2011 Bonds were issued pursuant to a Resolution adopted by the Board on June 3, 2011, and pursuant to a resolution of the Commission adopted on August 5, 2011, approving the issuance of such Bonds. The 2011 Bonds were issued under and secured by a Bond Trust Indenture dated as of November 1, 2004 between the Issuer and United Bank, Inc., as Bond Trustee (the "Bond Trustee"), as supplemented by a First Supplemental Bond Indenture dated as of August 1, 2011 and a Second Supplemental Bond Indenture dated as of October 1, 2011. The proceeds of the 2011 Bonds were used to (a) finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures related thereto made prior to the issuance of the 2011 Bonds (the "2011 Projects"), (b) refinance certain tax-exempt lease-purchase agreements entered into by the University (the "Refinancing") and (c) pay the costs of issuance of the 2011 Bonds.

The 2011 Series A, B and C Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The 2011 Series A, B and C Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

West Virginia University Board of Governors
Auction Rate Certificates, Federally Taxable University Revenue Refunding and Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B; and University Revenue Improvement Bonds 2004 Series C
(Collectively the "2004 Bonds")

On November 1, 2004 the Board issued $25,900,000 of 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the $13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bonds 1997 Series A, and the $3,250,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds; and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

On November 1, 2004 the Board also issued 2004 Series B and C Bonds in the amounts of $55,430,000 and $138,710,000, respectively. The 2004 Series B Bonds are being used (1) to advance refund the $4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the $10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the $3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Student Union Series A, and the $38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds. The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs of issuance.

The 2004 Bonds are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

Total principal and interest payments remaining to be paid at June 30, 2013 and 2012 were $786.4 million and $747.5 million, respectively. Total gross pledged revenue for fiscal year 2013 and 2012 was $146.0 million and $138.8 million, respectively.

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

(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2013	AUXILIARIES As of/Year Ended 2012 As Amended
CONDENSED SCHEDULES OF NET POSITION		
Assets and Deferred Outflows:		
Current Assets	$ 49,944	$ 41,590
Noncurrent and Capital Assets *	725,612	700,604
Total Assets	775,556	742,194
Deferred Outflows of Resources:		
Deferred Loss on Refunding	15,033	1,530
Total	$ 790,589	$ 743,724
Liabilities, Deferred Inflows, and Net Position:		
Current Liabilities	$ 45,763	$ 40,971
Long-Term Liabilities	560,183	502,569
Total Liabilities	605,946	543,540
Deferred Inflows of Resources:	-	-
Total	$ 605,946	$ 543,540
Net Position:		
Net investment in capital assets	$ 216,871	$ 235,612
Restricted	91,883	12,766
Unrestricted	(124,111)	(48,194)
Total Net Position	$ 184,643	$ 200,184
CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Auxiliary and Capital Fees	$ 29,379	$ 27,921
Operating Revenues	117,998	113,467
Operating Expenses	(137,814)	(122,676)
Net Operating Income	9,563	18,712
Nonoperating Revenues/Expenses:		
Investment Income	467	236
Net Transfers to Other Funds	(17,118)	(9,228)
Other Nonoperating Income	3,575	11,637
Gifts	8,355	9,444
Other Nonoperating Expenses	(6,201)	(25,967)
Interest Expense *	(14,182)	(25,349)
Decrease in Net Position	(15,541)	(20,515)
Net Position - Beginning of Year (As Amended)	200,184	220,699
Net Position - End of Year	$ 184,643	$ 200,184
CONDENSED SCHEDULES OF CASH FLOWS		
Net Cash Provided by Operating Activities	$ 3,492	$ 24,366
Net Cash Flows Provided by Noncapital Financing Activities	8,355	9,444
Net Cash Flows Provided by (Used in) Capital and Related Financing Activities	75,512	(20,588)
Net Cash Flows Provided by Investing Activities	467	236
Increase in Cash	87,826	13,458
Cash - Beginning of Year	49,038	35,580
Cash - End of Year	$ 136,864	$ 49,038
Reconciliation of cash		
Cash classified as current assets	$ 44,981	$ 36,272
Cash classified as noncurrent assets	91,883	12,766
	$ 136,864	$ 49,038

* Interest of $755,000 and $446,000 was capitalized for fiscal year 2013 and 2012, respectively.

23. FUNCTIONAL CLASSIFICATION OF EXPENSES

(Dollars in Thousands)

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

Year Ended June 30, 2013
Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Other Operating Expenses	Total
Instruction	$ 192,843	$ 56,880	$ -	$ 216	$ 25,685	$ -	$ -	$ -	$ 15	$ 275,639
Research	65,412	26,136	-	1,002	39,863	-	-	-	-	132,413
Public Service	35,955	8,533	-	140	13,721	-	-	-	37	58,386
Academic Support	24,949	6,386	-	88	11,269	-	-	-	-	42,692
Student Services	22,268	10,261	-	23	9,094	-	-	-	-	41,646
Operation and Maintenance of Plant	25,299	8,792	-	19,880	25,480	-	-	-	-	79,451
General Institutional Support	50,279	12,715	-	30	28,534	-	-	-	362	91,920
Student Financial Aid	-	-	37,055	-	-	-	-	-	-	37,055
Auxiliary Enterprises	43,319	9,867	-	8,038	48,635	-	-	-	305	110,164
Depreciation and Amortization	-	-	-	-	-	73,279	-	-	-	73,279
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,764	-	2,764
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	-
Loan Cancellations and Write Offs	-	-	-	-	-	-	409	-	-	409
Total Expenses	$ 460,324	$ 139,570	$ 37,055	$ 29,417	$ 202,281	$ 73,279	$ 409	$ 2,764	$ 719	$ 945,818

Year Ended June 30, 2012
Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Other Operating Expenses	Total
Instruction	$ 178,589	$ 70,903	$ -	$ 257	$ 26,262	$ -	$ -	$ -	$ 18	$ 276,029
Research	68,146	36,798	-	972	37,779	-	-	-	-	143,695
Public Service	36,418	11,313	-	176	13,984	-	-	-	30	61,921
Academic Support	24,105	8,075	-	80	11,251	-	-	-	-	43,511
Student Services	20,981	10,405	-	12	7,846	-	-	-	-	39,244
Operation and Maintenance of Plant	24,385	11,930	-	19,789	21,628	-	-	-	-	77,732
General Institutional Support	48,290	16,987	-	811	32,448	-	-	-	52	98,588
Student Financial Aid	-	-	35,365	-	-	-	-	-	-	35,365
Auxiliary Enterprises	40,897	12,687	-	7,130	49,519	-	-	-	262	110,495
Depreciation and Amortization	-	-	-	-	-	61,842	-	-	-	61,842
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,691	-	2,691
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	-
Loan Cancellations and Write Offs	-	-	-	-	-	-	499	-	-	499
Total Expenses	$ 441,811	$ 179,098	$ 35,365	$ 29,227	$ 200,717	$ 61,842	$ 499	$ 2,691	$ 362	$ 951,612

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

To the West Virginia University Board of Governors:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of the West Virginia University (the "University") as of June 30, 2013, and the related notes to the combined financial statements and have issued our report thereon dated November 6, 2013, which includes an emphasis of a matter paragraph for the early adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the University's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion of the effectiveness of the University's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

November 6, 2013