

# ***WEST VIRGINIA UNIVERSITY***

*Financial Statements  
for the Years Ended June 30, 2014 and 2013  
and Independent Auditors' Reports*

# WEST VIRGINIA UNIVERSITY

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## INDEPENDENT AUDITORS' REPORT

Board of Governors  
West Virginia University & Divisions  
Morgantown, West Virginia

### **Report on the Financial Statements**

We have audited the accompanying financial statements of West Virginia University (the University) as of and for the year ended June 30, 2014, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these 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.

### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 entity'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 financial statements.

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

***Opinions***

In our opinion, based on our audit and the report of another auditor, the 2014 financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis be presented to supplement the financial statements as listed in the table of contents. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 Information***

The 2013 financial statements were audited by other auditors whose report dated November 6, 2013, expressed an unmodified opinion on those statements.

***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2014, on our consideration of West Virginia University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on 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 West Virginia University's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 20, 2014

# **WEST VIRGINIA UNIVERSITY**

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## **Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2014**

### **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, 2014 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2013 compared to fiscal year 2012.

The University's annual report consists of three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement 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 2013), the University had experienced a few noteworthy events that had a significant impact on its financial statements, 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 2013 Series A&B Refunding and Improvement Revenue Bonds ("2013 Bonds"). Some of these special one-time events continued to have an impact on the fiscal year 2014 financial statements, causing fluctuations in some categories of assets, liabilities, revenues and expenses.

At June 30, 2014, the University's total net position increased from the previous year-end by \$23.1 million. This increase is primarily attributable to significant increases in cash, capital assets, net of depreciation, and appropriations due from the State, as well as decreases in bonds payable, unearned revenue, debt service assessment payable to the Higher Education Policy Commission ("HEPC" or "Commission"), leases payable, and accrued liabilities. This increase in net position was partially offset by a decrease in investments and an increase in OPEB liability.

Total revenues in fiscal year 2014 were \$1 billion, remaining relatively unchanged compared to the prior year. Although net tuition and fees, revenues from auxiliary enterprises, investment income, and non-capital grants and contracts revenues increased over the prior year, the University experienced a decline in State support and federal capital grants revenues. Total expenses increased 1.1% from prior year mainly because of increases in supplies and other services, salaries and wages, interest on capital debt, and depreciation.

Total net position had increased from fiscal year 2012 (as amended) to fiscal year 2013 by \$34.6 million.

## Net Position

The statement of net position presents 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 Schedule of Net Position (in thousands)

	As of June 30		
	2014	2013	2012 As Amended
<b>Assets</b>			
Current Assets	\$ 187,736	\$ 183,160	\$ 197,639
Capital Assets, Net	\$ 1,351,814	\$ 1,306,753	\$ 1,242,281
Other Noncurrent Assets	269,753	321,068	324,910
<b>Total Assets</b>	<b>1,809,303</b>	<b>1,810,981</b>	<b>1,764,830</b>
<b>Deferred Outflows of Resources</b>	<b>14,480</b>	<b>15,033</b>	<b>1,530</b>
<b>TOTAL</b>	<b>\$ 1,823,783</b>	<b>\$ 1,826,014</b>	<b>\$ 1,766,360</b>
<b>Liabilities</b>			
Current Liabilities	\$ 145,363	\$ 153,792	\$ 187,090
Noncurrent Liabilities	822,122	839,518	781,263
<b>Total Liabilities</b>	<b>967,485</b>	<b>993,310</b>	<b>968,353</b>
<b>Deferred Inflows of Resources</b>	<b>642</b>	<b>105</b>	<b>31</b>
<b>TOTAL</b>	<b>\$ 968,127</b>	<b>\$ 993,415</b>	<b>\$ 968,384</b>
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 867,614	\$ 869,235	\$ 833,261
Restricted for:			
Nonexpendable	7,045	5,961	5,137
Expendable	23,586	21,846	21,071
Unrestricted Net (Deficit)	(42,589)	(64,443)	(61,493)
<b>TOTAL NET POSITION</b>	<b>\$ 855,656</b>	<b>\$ 832,599</b>	<b>\$ 797,976</b>

Total assets of the University decreased by \$1.7 million, or approximately 0.09%, to a total of \$1.8 billion as of June 30, 2014. The slight decrease was primarily due to decreases in investments and net accounts receivable. These decreases were partially offset by increases in net capital assets, restricted cash and cash equivalents and appropriations due from primary government (State of WV).

- Cash and cash equivalents increased by \$19.1 million primarily due to an increase in the deposits with trustees representing matured bond investments. This increase was partially offset by amounts drawn down for capital projects funded by bond proceeds. Cash and cash equivalents had significantly increased by \$74.3 million from fiscal year 2012 to fiscal year 2013 primarily due to an increase in the deposits with trustees representing proceeds from the issuance of 2012 Series A&B Taxable Bonds and 2013 Bonds during fiscal year 2013.
- Appropriations due from primary government, in the amount of \$5.9 million, represent both unspent appropriations in the State General funds at fiscal year-end and re-appropriated funds.
- Accounts receivable, net, decreased by \$3.4 million mainly as a result of better collection efforts on both grantor and student accounts, as well as write-off of uncollectible, aged student account balances at the

end of fiscal year 2014. Net accounts receivable had experienced a significant decrease of \$14.9 million from fiscal year 2012 to fiscal year 2013 mainly due to the collection of amounts receivable from the IRS for the refund of FICA taxes on medical resident salaries and from Morgantown Energy Associates for a steam dispute settlement.

- \$3.2 million was recorded as amount due from the County Commission in fiscal year 2014 representing unreimbursed construction expenditures. The Monongalia County Commission created an Economic Opportunity Development District, wherein the University bought approximately nine acres of land for the development and construction of a baseball park. WVU serves as the developer of the project, with construction expenditures reimbursed to the University from the proceeds of excise tax revenue bonds issued by the County Commission. At June 30, 2014, \$3.2 million of baseball park construction expenditures were incurred by the University but have yet to be reimbursed by and therefore due from the County.
- Investments decreased by \$70.2 million primarily due to sale of U.S. Treasury notes and bonds to fund construction activity on campus. This decrease was partially offset by an increase in the fair market value of investments with the WVU Foundation. Investments had experienced a similar but slightly larger decrease from fiscal year 2012 to fiscal year 2013 of \$76.8 million.
- Capital assets, net increased by \$45.1 million primarily due to completion of construction of buildings, ongoing construction of buildings, acquisition of land, and land and infrastructure improvements.
  - Construction for the following buildings was completed during this fiscal year: College of Physical Activity and Sports Sciences Building, Student Health Building, and Law Center Abatement. The University also completed certain energy performance projects under Phase IIIB and improvements to the student recreation fields and the PRT communication system and circuit breakers.
  - Major construction-in-process projects included: HSC Animal Facility Annex, Advanced Engineering Research Building, Agricultural Sciences Building II, and Art Museum.
  - During fiscal year 2014, the University acquired several parcels of land in the Evansdale area for construction of student housing and related amenities. The University also purchased approximately nine acres of land in the Town of Granville, Monongalia County, for the construction of a multi-use recreational complex, including a baseball stadium.
  - The University received donated right-to-use software, valued at \$3.3 million from Schlumberger Corporation during fiscal year 2014.

The increase in capital assets during fiscal year 2014 is consistent with but lower than the increase of \$64.5 million noted in this category from fiscal year 2012 to fiscal year 2013.

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 will be recognized as a component of interest expense over the remaining life of the refunded debt. The reduction in the amount from fiscal year 2013 to 2014 denotes the annual amount amortized to interest expense.

Total liabilities for the year decreased by \$25.8 million (or 2.6%). This decrease in total liabilities is primarily attributable to decreases in bonds payable, unearned revenue, the reported debt service assessment payable to the Commission, leases payable, and accrued liabilities. This decrease was partially offset by an increase OPEB liability.



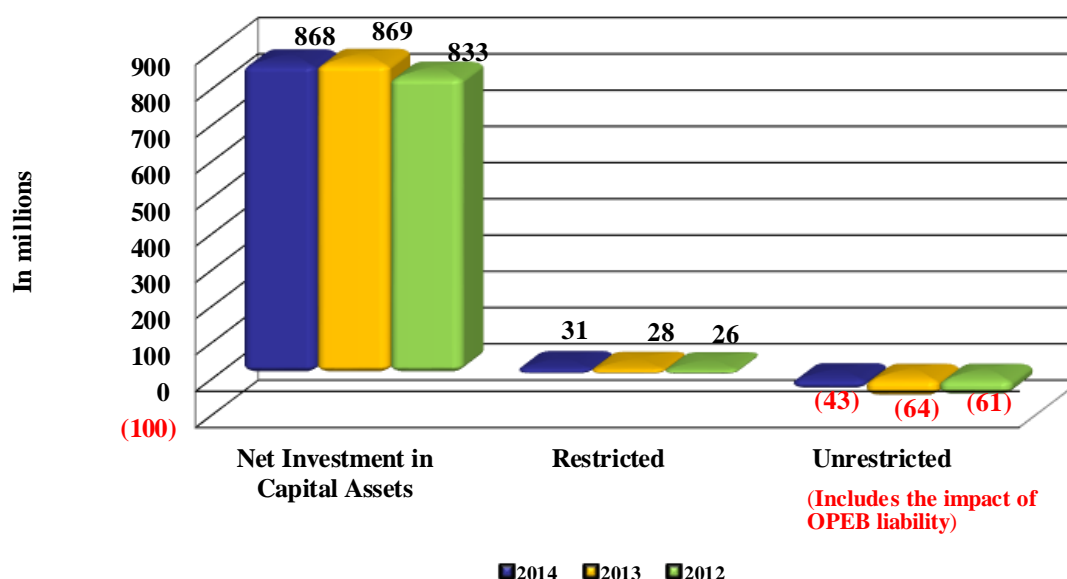
- Accrued liabilities decreased by \$2.1 million primarily as a result of decreases in accrual for interest expense, steam usage liability and amounts due at year end related to the University's voluntary separation incentive program. No significant change was experienced in accrued liabilities from fiscal year 2012 to fiscal year 2013.
- Unearned revenue decreased by \$5.7 million primarily due to a reduction in revenue received in advance from grant awards. Unearned revenue had decreased by \$4.6 million from fiscal year 2012 to fiscal year 2013 due to a reduction in football ticket sales and parking revenue received in advance in fiscal year 2013 but not yet earned.
- Debt service assessment payable to the Commission decreased by \$4.8 million due to scheduled debt service (principal) payments in fiscal year 2014. This decrease is consistent with the decrease in such liability from fiscal year 2012 to fiscal year 2013 of \$4.9 million.
- Leases payable decreased by \$1.8 million due to scheduled principal payments made during the year. This decrease is consistent with the decrease in such liability from fiscal year 2012 to fiscal year 2013 of \$1.3 million.
- Bonds payable decreased by \$13.3 million mainly due to scheduled bond principal payments during the year. Bonds payable had experienced an increase of \$57.3 million from fiscal year 2012 to fiscal year 2013 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.
- OPEB liability increased by \$3.3 million due to the accrual of fiscal year 2014 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 \$2.9 million from fiscal year 2012 to fiscal year 2013. There was a significant decrease in ARC in fiscal year 2013 due to 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 \$167.3 million to zero.

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 well as reclassified gain on refunding of HSC loans in FY 2013 as deferred inflows of resources.

The University's current assets of \$187.7 million were sufficient to cover current liabilities of \$145.4 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2014 and has improved from fiscal year 2013.

The following is a comparative illustration of net position.

### COMPARISON OF NET POSITION June 30, 2014, 2013 and 2012



Net investment in capital assets decreased by \$1.6 million primarily due to a significant decrease in investments with the bond trustees. Net investment in capital assets had increased by \$36.0 million from fiscal year 2012 to fiscal year 2013 mainly due to increase in capital assets, net, and decreases in real estate purchase agreement payable, debt service assessment payable to the Commission and leases payable.

The restricted component of the net position increased by \$2.8 million due to increases in endowed investments related to loans and cash balance in capital projects category. No significant change was noted in the restricted component of the net position from fiscal year 2012 to fiscal year 2013.

The unrestricted component of the net position increased by approximately \$21.9 million primarily due to increases in investments with the Foundation and appropriations due from the primary government, as well as a decrease in vouchers payable balance at year end. This component of net position had decreased by \$2.9 million from fiscal year 2012 to fiscal year 2013 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.

### Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the operating revenues, operating expenses, non-operating 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 non-operating, 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

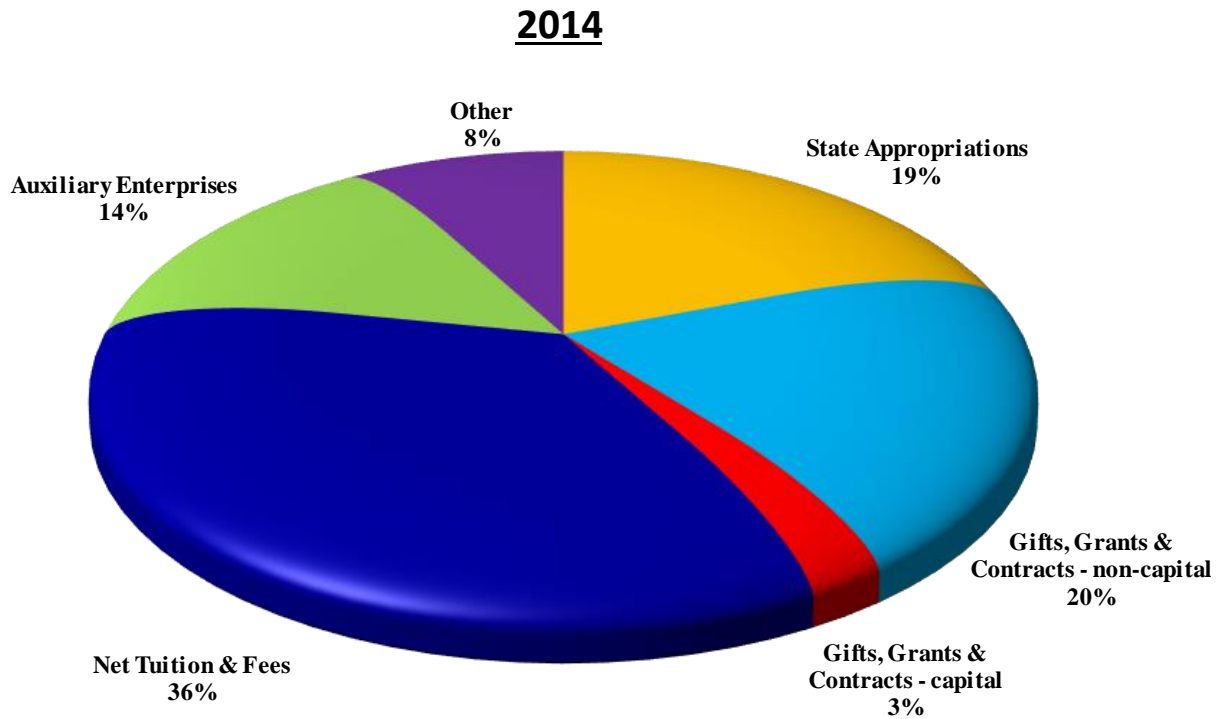
using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

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

	Years Ended June 30		
	2014	2013 As Amended	2012 As Amended
Operating Revenues	\$ 706,075	\$ 683,240	\$ 654,576
Operating Expenses	955,091	945,818	951,612
<b>Operating Loss</b>	(249,016)	(262,578)	(297,036)
Net Nonoperating Revenues	245,828	258,026	235,855
<b>Loss before Other Revenues, Expenses, Gains or Losses</b>	(3,188)	(4,552)	(61,181)
Capital grants and gifts	24,150	21,560	87,758
Capital grants (federal)	2,255	10,894	1,253
Capital bond proceeds from the State	158	1,982	5,645
Bond proceeds/capital projects proceeds from the Commission	274	4,147	390
Gain from early extinguishment of debt	-	592	-
Other expenses	(592)	-	-
<b>Increase in Net Position</b>	23,057	34,623	33,865
<b>Net Position at Beginning of Year (As Amended)</b>	832,599	797,976	764,111
<b>Net Position at End of Year</b>	<u>\$ 855,656</u>	<u>\$ 832,599</u>	<u>\$ 797,976</u>

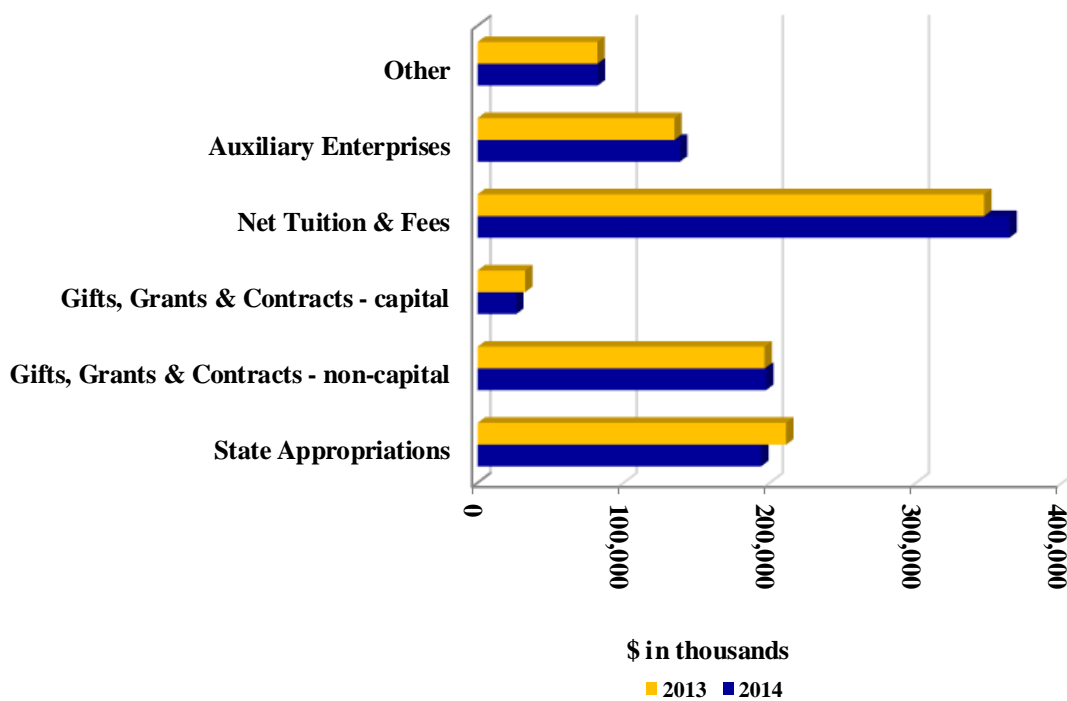
### Revenues:

The following chart illustrates the composition of revenues by source for fiscal year 2014.



Total fiscal year 2014 revenues slightly decreased compared to fiscal year 2013. The University experienced annual growth in most of its recurring revenue sources. These increases were partially offset by a decline in State appropriations.

### **Trend in Revenues**



Total revenues for fiscal year 2014 were \$1,002.2 million which represented a decrease of \$757,000 or 0.1% 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:

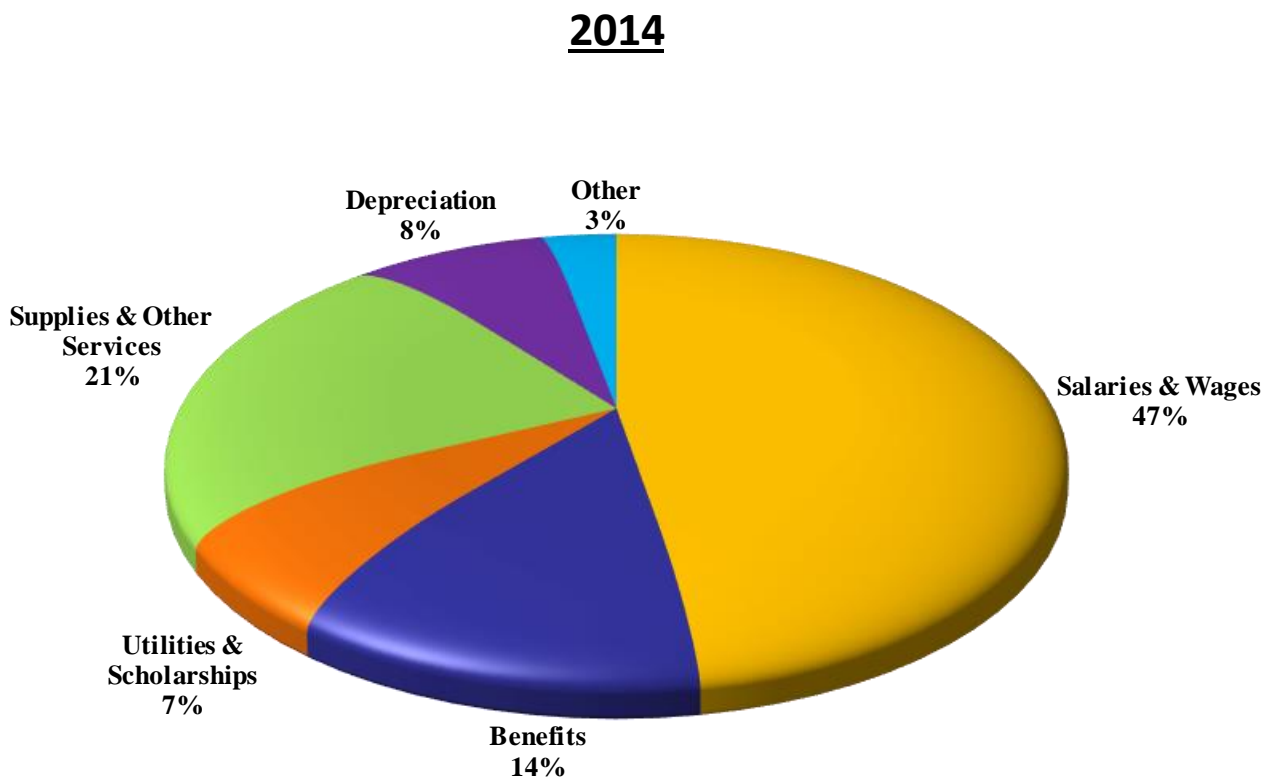
- Tuition and fees, net increased by \$17.3 million primarily due to an increase in the fee rate and a small increase in non-resident student enrollment. This increase was partially offset by an increase in the scholarship allowance of \$3.2 million due to more institutional resources used for awarding financial aid. This net increase is consistent with but lower than the net increase of \$24.6 million in the prior year.
- Grants and contracts revenue (non-capital related) increased by \$1.3 million mainly due to increased revenues from new and existing non-governmental awards, including facilities and administrative overhead revenues on such awards. This increase was partially offset by reduced revenues from federal and state awards, including ARRA awards. A decrease of \$3.4 million was noted in this revenue category from fiscal year 2012 to fiscal year 2013.
- Auxiliary revenue, net increased by \$3.8 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 and an increase in occupancy. Auxiliary fee revenue increased due to increases in Personal Rapid Transit (“PRT”) fees and increased activities and associated room and meal rates at WVU Jackson’s Mill. Athletics revenue increased mainly because of increase in revenues from the Big 12 Athletic Conference, third tier media rights revenues, concession receipts, and parking fees. This increase in Athletics revenue was partially offset by decreases in guarantees associated with non-conference football game and men’s football season game tickets sales. This increase in auxiliary revenue is consistent with but slightly lower than the increase of \$7.0 million in this category from fiscal year 2012 to fiscal year 2013.
- Total State support decreased by approximately \$17.1 million from the previous year as a result of permanent base budget reductions in general appropriations from the State as well as lower soft drink tax revenues. State appropriations, including the stabilization funds, had experienced an increase of \$2.4 million from fiscal year 2012 to fiscal year 2013.
- Investment income increased by \$4.2 million primarily due to an increase in the fair value of investments with the Foundation. Investment income had experienced a similar but larger increase of \$8.3 million from fiscal year 2012 to fiscal year 2013.
- Other net non-operating (expenses) revenues increased by \$2.7 million compared to prior year mainly because last year the University had recorded capital loss representing net book value of buildings demolished for new construction. No such capital loss was recorded in fiscal year 2014. An additional revenue was recorded for amounts received for sale of property located at the WVU Research Park to Morgantown GSA, LLC for \$2.9 million. Other net non-operating revenues had decreased by \$6.0 million from fiscal year 2012 to fiscal year 2013.
- Capital grants and gifts, including federal capital grants, decreased by approximately \$6.0 million compared to prior year primarily due to significantly reduced revenues from ARRA funded awards. Capital grants and gifts had experienced a similar but significantly larger decrease of \$56.6 million from fiscal year 2012 to fiscal year 2013 as a result of the Siemens software donation.
- Capital bond proceeds from the State decreased by \$1.8 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. Last year, such proceeds were used to finance the electrical upgrade at the Health Sciences Center and renovation and expansion projects at the College of

Pharmacy. These projects were completed during fiscal year 2014. Capital bond proceeds from the State had experienced a similar but larger decline of \$3.7 million from fiscal year 2012 to fiscal year 2013.

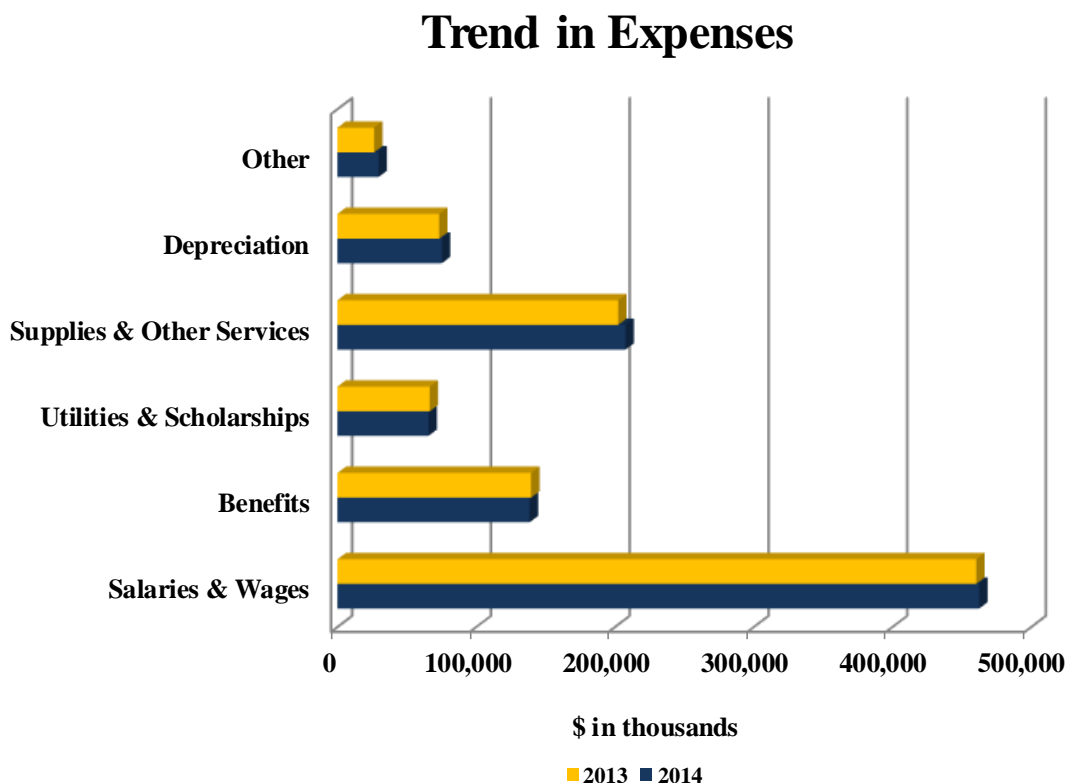
- Capital projects proceeds from the Commission decreased by \$3.9 million compared to prior year mainly because last year reimbursements of expenditures related to the WVU Institute of Technology “Old Main” Building renovations as well as various other projects, funded by the 2010 Series A, B and C Revenue Bonds issued by the Commission and the 2008 High Priority Capital Projects 50/50 grant funds, respectively were recorded. This category had experienced an increase of \$3.8 million from fiscal year 2012 to fiscal year 2013.

Expenses:

The following graph shows the composition of total expenses by category for fiscal year 2014.



The following chart provides a comparison of expenses by significant category between fiscal years 2014 and 2013.



Total fiscal year 2014 expenses of \$979.1 million exceeded those of the prior year by \$10.8 million (or 1.1%). Changes in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by \$2.2 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty and faculty equivalent, 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 increase in number of Research Corporation employees during fiscal year 2014. A significantly larger increase was noted in salaries and wages from fiscal year 2012 to fiscal year 2013 of \$18.5 million.
- Benefits expense decreased by \$1.0 million mainly due to reduced compensated absences expense resulting from lower annual leave balances at year end, as well as decreases in University's share of employment taxes, insurance premiums, and service related waivers. This decrease in benefits expense was partially offset by an increase in the OPEB expense caused by a slight increase in the annual required contribution rate. Benefits expense had experienced a decrease of \$39.5 million from fiscal year 2012 to fiscal year 2013 mainly due to a significant reduction in the amount of annual required contribution accrued for OPEB.
- Supplies and other services increased by \$5.3 million attributable to increases in several areas including: medical equipment bought to furnish the new HSC dental clinic; medical malpractice insurance; contractual and professional services; routine contracts related to maintenance of donated software; Athletic game guaranties and general repairs and maintenance. Supplies and other services had experienced an increase of \$1.6 million from fiscal year 2012 to fiscal year 2013.

- Depreciation and amortization expense increased by \$1.9 million over prior year primarily due to annual amortization expense related to right-to-use software donated by Landmark Graphics Corporation last year as well as partial year amortization of right-to-use software donated by Schlumberger and Simio Corporations during fiscal year 2014. Depreciation on assets acquired as well as construction projects completed and placed in service during fiscal year 2014 also contributed to the increase in depreciation expense and were partially offset by reduction in other depreciation amounts. This category had experienced a similar but larger increase of \$11.4 million from fiscal year 2012 to fiscal year 2013.
- Interest on capital-related debt increased by \$2.0 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. During fiscal year 2014 annual debt service payments were made on the 2013 Bonds. The decrease was partially offset by regularly scheduled debt service payments on the remaining 2004, 2011 and 2012 Bonds. A decrease of \$2.1 million was noted in this category from fiscal year 2012 to fiscal year 2013.
- During last fiscal year, the University recorded debt issuance costs of \$1.1 million 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*.” No such debt issuance costs were recorded in fiscal year 2014, causing a decrease of \$1.1 million from the prior fiscal year.

## 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 Schedule of Cash Flows (in thousands)

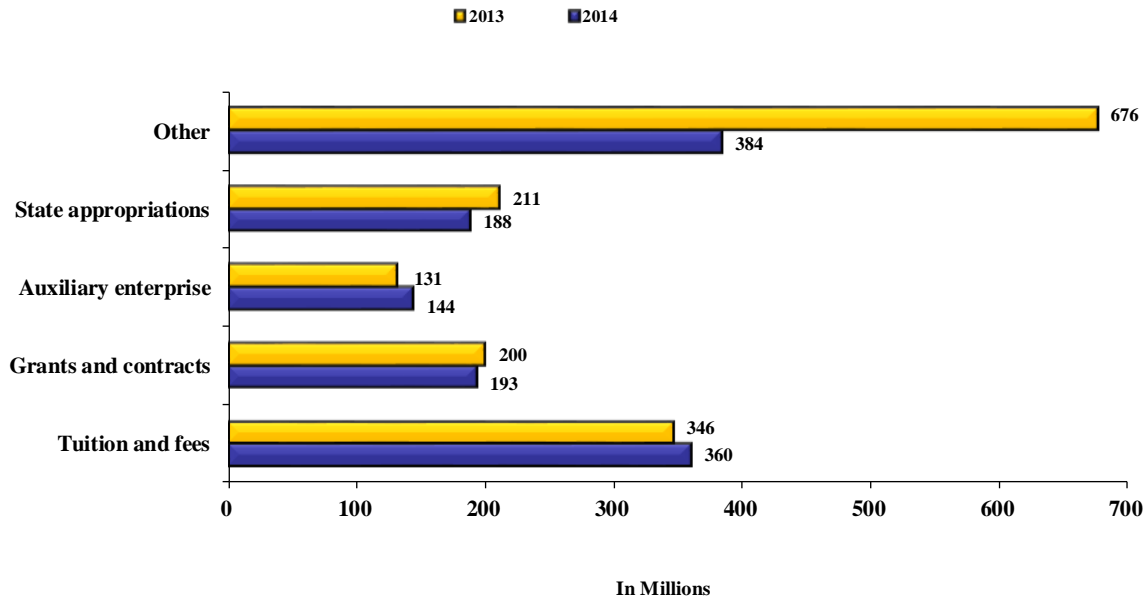
	Years Ended June 30		
	2014	2013	2012
<b>Cash Provided By (Used In):</b>			
Operating Activities	\$ (164,102)	\$ (177,150)	\$ (184,877)
Noncapital Financing Activities	240,980	271,041	254,004
Capital Financing Activities	(142,369)	(106,624)	136,957
Investing Activities	84,603	87,003	(184,679)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>19,112</b>	<b>74,270</b>	<b>21,405</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>228,468</b>	<b>154,198</b>	<b>132,793</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 247,580</b>	<b>\$ 228,468</b>	<b>\$ 154,198</b>

Total cash and cash equivalents increased by \$19.1 million during fiscal year 2014 to \$247.6 million.

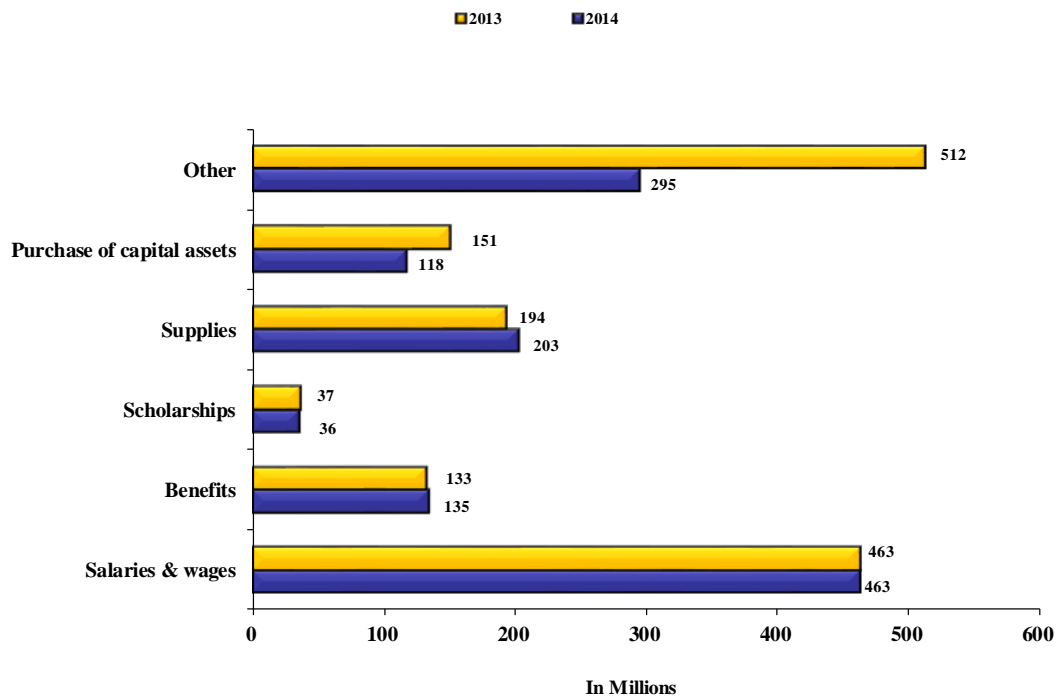
- Net cash used in operating activities decreased by \$13.0 million primarily due to increase in cash inflows from tuition and fees and auxiliary enterprise charges and a decrease in payments for utilities. This increase in inflows was partially offset by an increase in payments to suppliers and for benefits, as well as a decrease in cash inflows from grants and contracts. Cash used in operating activities had experienced a decrease of \$7.7 million from fiscal year 2012 to fiscal year 2013.
- Net cash provided by noncapital financing activities decreased by \$30.1 million primarily due to a decrease in cash inflow from State appropriations. This decrease was partially offset by increased cash inflow from gifts. This category had experienced an increase of \$17.0 million from fiscal year 2012 to fiscal year 2013.
- Net cash provided by (used in) capital financing activities changed by \$35.8 million primarily due to increase in cash outflows for payment of principal and interest on capital debt and leases as well as decrease in cash inflows from bond proceeds, loans and capital proceeds from the State and the Commission. The increase in cash outflows was partially offset by a decrease in purchase of capital assets. Capital financing activities had changed by \$243.6 million in fiscal year 2013.
- Net cash provided by (used in) investing activities changed by approximately \$2.4 million primarily due to an increase in purchase of investments for the WVU Research Corporation as well as a decrease in cash inflows from redemption of matured investments. In contrast, investing activities had changed by \$271.7 million in fiscal year 2013.

The following graphs illustrate the sources and uses of cash –

## SOURCES OF CASH



## 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 \$451.7 million. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University's campuses. 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 2014 was as follows:

- The University completed the construction of several new buildings including the College of Physical Activities and Sports Sciences building and the Student Health building. The University also completed the renovation, including asbestos abatement, of the Law Center; 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.; and improvements to the student recreation fields and the PRT communication system. Other on-going capital activity included: construction of the Animal Facility Annex, Advanced Engineering Research building, Agricultural Sciences building, and the Art Museum.
- During fiscal year 2014, the University executed the following real estate transactions:
  - Acquired 9.18 acres of real property from Mon-View, LLC in the Town of Granville, WV for \$2.3 million to construct, operate and maintain a multi-use recreational complex including a baseball park and stadium. The University also entered into ground lease, development, sub-lease and lease and use agreements with various parties for the design, construction and operation of the **baseball park**. As the developer of the ballpark project, the University expended funds for the construction of the ballpark and then sought reimbursement from the proceeds of the special district excise tax revenue bonds issued by the Monongalia County Commission.
  - Acquired parcels of real estate in the Evansdale area from RCL Evansdale Holdings, LLC ("RCL") for approximately \$1.7 million and from M&J Property Holdings, LLC ("M&J") for approximately \$278,000 for the construction of **University Park** (student housing and related amenities). These acquisitions were in addition to last year's purchase of residential and commercial properties from RCL and M&J for the development of University Park.
  - Conveyed real property located at WVU's Research Park to Morgantown DOE, LLC for \$2.9 million.
  - The University entered into lease, development, management and operating agreements with ACC OP (College Park, WV) LLC ("ACC") to design, finance and manage the **College Park** (student residence) project.
- During fiscal year 2014 the University capitalized costs associated with the implementation of OBIEE (Dataminer) - an Oracle Financial and Human Resources System reporting tool; Office365 - a hosted suite of online collaborative services including Outlook e-mail and calendaring; eCampus - a learning management system; and eRA - an electronic research administration application.
- The University received donation of right-to-use software from Schlumberger Corporation and Simio LLC for educational purposes, valued at \$3.3 million and \$55,600, respectively.

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 \$67.4 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2014.

At June 30, 2014, the University's bonds were rated as Aa3 and A+ by Moody's and Standard and Poor's respectively.

## **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.

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 2014, the State experienced a budget deficit of \$29.9 million in its general revenue funds. While the State achieved a healthy balance of \$955.9 million (or 22% of the State's general fund budget) in its Revenue Shortfall Reserve Fund (Rainy Day Fund), declining revenues, increases to state appropriations for the Medicaid program and the expanding federal deficits have stressed the State's budget. These budget challenges prompted the Governor to not only institute a mid-year budget reduction in fiscal year 2014, but also cut spending by 3.75% for higher education in fiscal year 2015. This resulted in a reduction of approximately \$5.3 million in State appropriations in the University's FY 2015 budget.

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

While continuing its commitment to financially support the 2020 Strategic Plan and the 2012 Ten Year Campus Master Plan, the UPC made a strategic decision to cancel the salary increase program for FY 2014, thus saving \$8.6 million. Additional central cost savings were achieved in FY2014 through reductions in workers' compensation premiums, credit card service fees, and one-time budget reductions across all WVU units. All WVU units also undertook a 10% budget reduction planning exercise to determine opportunities for strategic reallocation, with such budget reductions being implemented by the beginning of FY 2015.

By making one-time budget decisions for FY2014 and allowing almost one year of planning for permanent base reductions in FY 2015, WVU gained 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 supported research programs represent an important component of its mission. Lately, this support has been impacted by events such as increasing federal budget deficits (and 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 actively addressing these challenges by strengthening the competitiveness of its faculty in seeking grants through a combination of faculty training programs and proposal development assistance. This, combined with an evaluation of the effectiveness and efficiency of the Senate Research Grant and Senate Faculty Travel Grant programs should help provide a user friendly infrastructure process that facilitates the identification of external funding opportunities.

As an alternative to traditional federal funding, which is becoming more difficult to obtain, the University's strategy to remain competitive through private sector partnerships continues to produce positive results. This

strategy was best exemplified in 2014 as the Research Corporation (“Corporation”) entered into its second year of operating the WVU Clinical and Pharmacological Research Center. The University and its Health Sciences Center, through the Corporation, has partnered with Mylan Pharmaceuticals (the third largest generic and specialty pharmaceutical company in the world) to conduct clinical trials that generated revenues of approximately \$7.0 million in 2014 and is poised for expansion in the future.

In addition to this successful collaboration, the Corporation is establishing centers specifically targeting corporate and federal opportunities. One example is Center for Smart Defense which is tasked with matching military needs to existing technology capabilities at WVU and elsewhere. This creates new opportunities to secure resources from DoD and defense contractors to support research at the University. Another example is the WVU Energy Institute. The Energy Institute not only serves as the principal route to secure research funding through the National Energy Technology Laboratory, but also facilitating industry-academic partnerships to pursue large opportunities such as the DoE’s “Environmentally-Prudent Unconventional Resource Development” Program.

The University is also developing a strong support system to encourage entrepreneurial activities. The Center of Innovation, Entrepreneurship and Commercialization was started in 2014. The Center is home to the University Launch Pad that is used to provide services and space to entrepreneurial students and faculty to develop their ideas and successfully market them. Thus far, the launch pad has secured dedicated space on the main campus and formed both a marketing and intellectual property group to facilitate the commercialization process.

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. Very good progress has been made since the adoption of the plan, including: creation of the Office of Academic Strategic Planning to support the implementation of the plan and to record progress towards the strategic planning goals; data and input provided by various roundtables – the Educational Responsibility, Lifelong Learning, and Quality of Life roundtables - established to advance the plan; creation of faculty positions in key research areas called “Mountains of Excellence”; alignment of the plan with the University Planning Committee leading to simplification of business processes and allocation of funds for the construction and improvement of academic and research space across campus; and integration of the strategic planning process with institutional reaccreditation process resulting in the University’s accreditation status being reaffirmed by the Higher Learning Commission.
- **Elevating University Visibility:**  
On July 1, 2012, WVU officially joined the Big 12 Conference. This move is generating significant reputational and monetary benefits 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 implemented strategies such as merging or eliminating departments; changing and streamlining business processes; evaluating hiring strategies; reducing workforce through attrition, retirements and separation; reducing the scope of certain services; charging for optional services; and making new local, regional and global affiliations.

- **Maintaining Student Demand:**  
Although preliminary Fall 2014 enrollment numbers suggest a slight decline in the student headcount for the Main Campus (29,158), the first-time freshmen count (4,917) and the freshmen academic profile (high school GPA and average SAT and ACT Composite scores) are expected to remain relatively unchanged from prior year. The University continues to focus 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 2015, WVU-Main Campus tuition and fees were increased by 8% for resident students and 4% for non-resident students. WVU's current tuition levels remain competitive in the higher education marketplace and WVU is consistently recognized as one of the best buys in the nation.
- **Building for the Future:**  
The University has operationalized its \$451.7 million capital plan. The primary focus of this plan is the revitalization of the Evansdale Campus where new facilities either have been or are being constructed for the College of Physical Activities and Sport Sciences, a student health and wellness facility, the College of Agriculture Sciences, and an engineering research building. The University has also engaged in public-private partnerships (University Place, College Park, University Park) to develop safe, modern, and affordable mixed use residential and retail facilities in support of the 2020 Plan.
- **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 \$167.2 million to zero.

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

## STATEMENTS OF NET POSITION AS OF JUNE 30, 2014 AND 2013 (Dollars in Thousands)

	2014	2013
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets:		
Cash and cash equivalents	\$ 130,690	\$ 132,274
Appropriations due from primary government	5,929	-
Accounts receivable, net of allowances for doubtful accounts of \$5,358 and \$6,671	36,633	40,050
Due from the Higher Education Policy Commission	408	1,396
Due from the County Commission	3,172	-
Service agreement receivable from Bridgemont and Parkersburg CTC's	128	13
Loans receivable, current portion	5,283	4,909
Inventories	1,637	1,662
Prepaid expenses	3,589	2,628
Notes receivable from Bridgemont and Parkersburg CTC's, current portion	267	228
Total current assets	187,736	183,160
Noncurrent Assets:		
Restricted cash and cash equivalents	116,890	96,194
Investments	121,382	191,601
Loans receivable, net of allowances for doubtful accounts of \$7,135 and \$6,173	28,762	30,287
Notes receivable from Bridgemont and Parkersburg CTC's	2,719	2,986
Capital assets, net	1,351,814	1,306,753
Total noncurrent assets	1,621,567	1,627,821
<b>TOTAL ASSETS</b>	<b>1,809,303</b>	<b>1,810,981</b>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	14,480	15,033
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 1,823,783</b>	<b>\$ 1,826,014</b>

(continued)

# WEST VIRGINIA UNIVERSITY

## STATEMENTS OF NET POSITION (CONTINUED) AS OF JUNE 30, 2014 AND 2013 (Dollars in Thousands)

	2014	2013
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Current Liabilities:		
Accounts payable	\$ 33,008	\$ 33,875
Accrued liabilities	7,134	9,209
Accrued payroll	20,177	20,226
Deposits	3,317	3,323
Unearned revenue	37,000	42,686
Due to the Commission	120	163
Compensated absences	23,103	23,354
Real estate purchase agreements payable, current portion	362	362
Debt service assessment payable to the Commission, current portion	4,700	4,797
Leases payable, current portion	1,909	1,823
Bonds payable, current portion	13,817	13,272
Notes payable, current portion	716	702
Total current liabilities	145,363	153,792
Noncurrent Liabilities:		
Real estate purchase agreement payable	5,725	6,087
Other post employment benefits liability	167,261	163,994
Advances from federal government	26,707	26,763
Debt service assessment payable to the Commission	62,655	67,355
Leases payable	20,293	22,212
Bonds payable	494,156	507,974
Notes payable	20,342	21,057
Other noncurrent liabilities	24,983	24,076
Total noncurrent liabilities	822,122	839,518
<b>TOTAL LIABILITIES</b>	<b>967,485</b>	<b>993,310</b>
DEFERRED INFLOWS OF RESOURCES		
Deferred federal Pell grants	121	105
Deferred gain on refunding	521	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>642</b>	<b>105</b>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<b>\$ 968,127</b>	<b>\$ 993,415</b>
NET POSITION		
Net investment in capital assets	\$ 867,614	\$ 869,235
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	6,485	5,401
Other	475	475
Total nonexpendable	7,045	5,961
Expendable:		
Scholarships and fellowships	580	363
Sponsored programs	488	492
Loans	18,697	18,952
Capital projects	3,165	185
Other	656	1,854
Total expendable	23,586	21,846
Unrestricted net deficit	(42,589)	(64,443)
<b>TOTAL NET POSITION</b>	<b>\$ 855,656</b>	<b>\$ 832,599</b>

See notes to financial statements.



# WEST VIRGINIA UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

(Dollars in Thousands)

	2014	2013
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship allowances of \$53,901 and \$50,730	\$ 363,820	\$ 346,519
Federal land grants	8,130	7,596
Local land grants	1,171	1,079
Federal grants and contracts	72,447	75,570
State grants and contracts	36,089	39,143
Local grants and contracts	228	240
Nongovernmental grants and contracts	58,088	50,620
Sales and services of educational departments	17,684	18,224
Auxiliary enterprises, net of scholarship allowances of \$10,687 and \$9,580	138,405	134,610
Interest on student loans receivable	853	829
Net service agreement revenue from Bridgemont and Parkersburg CTC's	600	619
Other operating revenues (including revenue from outsourced enterprise of \$1,635 and \$1,599)	8,560	8,191
Total operating revenues	706,075	683,240
<b>OPERATING EXPENSES</b>		
Salaries and wages	462,562	460,324
Benefits	138,555	139,570
Scholarships and fellowships	37,431	37,055
Utilities	28,204	29,417
Supplies and other services	207,591	202,281
Depreciation and amortization	75,194	73,279
Loan cancellations and write-offs	1,290	409
Assessments by the Commission for operations	2,806	2,764
Other operating expenses	1,458	719
Total operating expenses	955,091	945,818
<b>OPERATING LOSS</b>	(249,016)	(262,578)

(continued)

# WEST VIRGINIA UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

(Dollars in Thousands)

	2014	2013
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 190,343	\$ 207,431
State Lottery appropriations	3,649	3,630
Payments on behalf of the University	295	528
Gifts	27,357	27,987
Federal Pell grants	30,504	30,786
Investment income (including unrealized gain of \$11,798 and \$5,328)	14,384	10,165
Interest on capital asset-related debt	(17,459)	(15,430)
Assessments by the Commission for debt service	(5,986)	(5,870)
Debt issuance costs	-	(1,133)
Other nonoperating (expenses) revenues - net	2,741	(68)
Net nonoperating revenues	245,828	258,026
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	(3,188)	(4,552)
Capital grants and gifts	24,150	21,560
Capital grants (federal)	2,255	10,894
Capital bond proceeds from State	158	1,982
Bond/capital projects proceeds from the Higher Education Policy Commission	274	4,147
Gain from early extinguishment of debt	-	592
Other expenses	(592)	-
<b>INCREASE IN NET POSITION</b>	23,057	34,623
<b>NET POSTION - BEGINNING OF YEAR</b>	832,599	797,976
<b>NET POSITION - END OF YEAR</b>	\$ 855,656	\$ 832,599

See notes to financial statements.

# WEST VIRGINIA UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (Dollars in Thousands)

	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 359,549	\$ 346,191
Federal and local land grants	9,301	8,675
Grants and contracts	162,300	168,595
Payments to suppliers	(202,762)	(193,741)
Payments to employees	(463,016)	(462,621)
Payments for benefits	(134,503)	(132,987)
Payments for utilities	(28,238)	(29,794)
Payments for scholarships and fellowships	(36,255)	(36,858)
Loan advances returned to federal government	(51)	(40)
(Cancellations) collections of loans to students	(139)	559
Interest earned on loans to students	853	829
Auxiliary enterprise charges	143,924	131,445
Sales and service of educational departments	16,916	17,602
Payments of net operating expenses from Bridgemont and Parkersburg CTC's	484	659
Other receipts	7,534	4,336
Net cash used in operating activities	(164,103)	(177,150)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	186,714	207,431
State lottery appropriations	1,349	3,630
Gifts	26,557	24,154
Federal Pell grants	30,520	30,861
Assessments by the Commission for debt service	(5,986)	(5,870)
William D. Ford direct lending receipts	212,129	208,089
William D. Ford direct lending payments	(213,493)	(208,023)
Other nonoperating receipts	3,191	10,769
Net cash provided by noncapital financing activities	240,981	271,041
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payments on Commission debt assessment payable	(4,797)	(4,914)
Bond/capital projects proceeds from the Higher Education Policy Commission	846	3,575
Reimbursements from the County Commission	215	-
Proceeds from University bonds	-	251,036
Bond issuance costs	-	(1,133)
Capital bond proceeds from State	-	2,387
Capital gifts and grants received	16,614	6,948
Capital grants - federal received	2,255	10,894
Purchases of capital assets	(118,413)	(150,775)
Proceeds from land swap	135	-
Ballpark construction costs	(3,387)	-
Principal paid on capital debt and leases	(14,245)	(230,588)
Interest paid on capital debt and leases	(21,592)	(16,166)
Proceeds from loans	-	22,112
Net cash used in capital financing activities	(142,369)	(106,624)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	4,139	4,839
Purchase of investments	(1,422)	(16,196)
Redemption of matured bond investments	83,498	97,869
Redemption of matured investments	-	950
Purchase of Research Corporation investments	(1,612)	(459)
Net cash provided by investing activities	84,603	87,003
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	19,112	74,270
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	228,468	154,198
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 247,580	\$ 228,468

(continued)

# WEST VIRGINIA UNIVERSITY

## STATEMENTS OF CASH FLOWS (CONTINUED) FOR THE YEARS ENDED JUNE 30, 2014 AND 2013 (Dollars in Thousands)

	2014	2013
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (249,016)	\$ (262,578)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	75,194	73,279
Donated/noncapitalized expense	3,443	5,305
Expenses paid on behalf of the University	295	528
Changes in assets and liabilities:		
Accounts receivable, net	3,355	13,754
Due from the Commission	417	37
Loans receivable, net	1,151	969
Prepaid expenses	22	139
Inventories	24	101
Accounts payable	4,355	(8,483)
Accrued liabilities	2,698	3,886
Deposits	(6)	87
Unearned revenue	(5,685)	(4,612)
Due to the Commission	(43)	33
Compensated absences	(251)	441
Advances from federal government	(56)	(36)
Net cash used in operating activities	<u>\$ (164,103)</u>	<u>\$ (177,150)</u>
<b>Noncash Transactions:</b>		
Construction in progress additions in accounts payable	<u>\$ 4,327</u>	<u>\$ 7,708</u>
Land and building additions in real estate purchase agreements payable	<u>\$ -</u>	<u>\$ 3,924</u>
Donated capital assets	<u>\$ 5,863</u>	<u>\$ 13,139</u>
Unrealized gain on investments	<u>\$ 11,798</u>	<u>\$ 5,328</u>
Capitalization of interest	<u>\$ 1,881</u>	<u>\$ 942</u>
Donated noncapitalized assets	<u>\$ 800</u>	<u>\$ 3,833</u>
Bond and real estate agreements payable discounts, premiums, and losses	<u>\$ 890</u>	<u>\$ 805</u>
Loss on dispositions	<u>\$ 410</u>	<u>\$ 3,547</u>
Land swap	<u>\$ 278</u>	<u>\$ -</u>
Other post employment benefits liability	<u>\$ 3,267</u>	<u>\$ 2,927</u>
Expenses paid on behalf of the University	<u>\$ 295</u>	<u>\$ 528</u>
Gain from early extinguishment of debt	<u>\$ -</u>	<u>\$ 592</u>
<b>Reconciliation of cash and cash equivalents to the statements of net assets:</b>		
Cash and cash equivalents classified as current assets	\$ 130,690	\$ 132,274
Cash and cash equivalents classified as noncurrent assets	116,890	96,194
	<u>\$ 247,580</u>	<u>\$ 228,468</u>

See notes to financial statements.

# WEST VIRGINIA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2014 AND 2013

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### 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 Bridgmont Community and Technical College (“Bridgmont”) (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University provides Parkersburg and Bridgmont with administrative and academic support services. The University charges Parkersburg and Bridgmont for these services.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The 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 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 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. (See Note 23 for condensed financial statements). Related foundations and other affiliates of the University (see Notes 18 and 19) are not part of the University reporting entity and are not included in the accompanying 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 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 or the insured cash sweep program.

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. Appropriations Due from Primary Government* – For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the Treasurer, but are obligations of the State.
- e. 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.

- f. Accounts Receivable* – Accounts receivable primarily includes amounts due from students for tuition and fees, amounts due from sponsoring agencies for grants and contracts, and other miscellaneous receivables.
- g. 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.
- h. Loans Receivable* – Loans receivable includes amounts due from students for student loans.
- i. Inventories* – Inventories are stated at the lower-of-cost or market, cost primarily determined on the first-in, first-out method and average cost.
- j. Noncurrent Restricted 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.

- k. 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 financial statements reflect all adjustments required by GASB.
- l. Deposits* – Deposits include housing and tuition deposits made by students.
- m. 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.

- n. *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 statement of revenues, expenses, and changes in net position.

- o. *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, 2014 and June 30, 2013 was \$152,000 and \$473,000, respectively, which is recorded as a component of accrued liabilities on the statement of net position. This includes approximately \$4,000 and \$34,000, respectively, for employee benefits as of June 30, 2014 and June 30, 2013.

- p. 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.
- q. 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, 2014 and 2013, 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.

- r. *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.

- s. *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, 2014 or 2013.
- t. *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.

- u. *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 \$213.5 million in fiscal year 2014 and approximately \$208.1 million in fiscal year 2013 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 makes loans to students under the Federal Perkins Loan Program. The University disbursed approximately \$3.7 million in fiscal year 2014 and approximately \$2.3 million in fiscal year 2013 under this program.

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 financial statements. In fiscal years 2014 and 2013, the University received and disbursed \$33.5 million and \$33.4 million, respectively, under these other federal student aid programs.

- v. *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.
- w. *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.
- x. *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.
- y. *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, 2014 and 2013, the University had a deferred loss on refunding of \$14,480,000 and \$15,033,000, respectively. Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refunding.

- z. *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, 2014 and 2013, the University had deferred Federal Pell grants of \$121,000 and \$105,000, respectively.
- aa. *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, 2014 and 2013, 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 \$26.0 million and \$21.8 million as of June 30, 2014 and 2013, 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 \$20.0 million and \$19.1 million to reflect projected claim payments at June 30, 2014 and 2013, 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.

- bb. *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.
- cc. *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.
- dd. *Reclassifications* – Certain reclassifications have been made to the 2013 financial statements to conform to the current year presentation.
- ee. *Newly Adopted Statements Issued by the GASB* – The GASB has 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 adoption of this statement did not have a material impact on the financial statements.

During fiscal year 2014, the University adopted 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. In addition, the Statement requires: (1) a government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) an issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) a government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have an impact on the financial statements.

- ff. *Recent Statements Issued by the GASB* – The GASB 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 also issued Statement No. 71, *Pension Transition for Contributions made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. This statement addresses an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to

amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability. The University has not yet determined the effect that the adoption of GASB Statement No. 71 may have on its financial statements.

### 3. CASH AND CASH EQUIVALENTS

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

#### 2014

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ 54,334	\$ 6,253	\$ 60,587
West Virginia University - Auxiliaries	43,232	-	43,232
Cash on deposit with Trustee	-	107,637	107,637
Deposits with BRIM Escrow Account Treasurer	-	3,000	3,000
Cash in Bank	33,050	-	33,050
Cash on Hand	74	-	74
	<u>\$ 130,690</u>	<u>\$ 116,890</u>	<u>\$ 247,580</u>

#### 2013

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
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	-	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
	<u>\$ 132,274</u>	<u>\$ 96,194</u>	<u>\$ 228,468</u>

*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 financial statements. See Note 5 for additional disclosure relative to the BTI investments.

*Cash on Deposit with Trustee.* Cash on deposit with Trustee represents funds available for various projects, repair and replacement and debt service held by the Trustee and related to the 2011 and 2013 University specific bond issues and the Energy Performance Phase III B contract (see Notes 9 and 10). 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 carrying amount of cash in bank at June 30, 2014 and 2013 was \$33.0 million and \$27.9 million, respectively, as compared with bank balances of \$35.6 million and \$29.9 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 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.

#### 4. ACCOUNTS RECEIVABLE

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

	<u>2014</u>	<u>2013</u>
Student tuition and fees, net of allowances for doubtful accounts of \$3,349 and \$3,776	\$ 2,759	\$ 4,519
Grants and contracts receivable, net of allowances for doubtful accounts of \$444 and \$1,081	23,647	24,481
Due from West Virginia University Hospitals, Incorporated	1,926	1,774
Auxiliary services, net of allowances for doubtful accounts of \$1,560 and \$1,811	1,704	2,576
Investment earnings receivable	8	8
Other, net of allowances for doubtful accounts of \$5 and \$3	5,680	4,937
Due from the Foundation	137	242
Due from other State agencies	772	1,513
Total accounts receivable	<u>\$ 36,633</u>	<u>\$ 40,050</u>

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):

### 2014

<b>Investment Type</b>	<b>Fair Value</b>
U.S. Treasury Notes and U.S. Government Backed Money Market Funds	\$ 21,002
Mutual Bond Funds	23,442
Cash/Mutual Money Market Funds	1,559
Mutual Stock Funds	65,242
Fixed Income Funds	4,814
Land and Other Real Estate Held As Investments	477
Oter Alternative Investments	4,846
	<u>\$ 121,382</u>

### 2013

<b>Investment Type</b>	<b>Fair Value</b>
U.S. Treasury Notes and U.S. Government Backed Money Market Funds	\$ 105,146
Mutual Bond Funds	22,926
Cash/Mutual Money Market Funds	1,475
Mutual Stock Funds	52,808
Fixed Income Funds	4,583
Land and Other Real Estate Held As Investments	477
Oter Alternative Investments	4,186
	<u>\$ 191,601</u>

*Investments with the BTI* – Amounts with the BTI as of June 30, 2014 and 2013 are comprised of three investment pools (the WV Money Market Pool, the WV Government Money Market pool and the WV Short Term Bond Pool) which the University may invest in.

*Investments with the Foundation* – As of June 30, 2014 and 2013, the University's investments held with the Foundation were \$93.9 million and \$81.1 million, respectively. The investments held with the Foundation include the unrestricted investments, the Corporation's investments, and the BRIM investments as follows:

	<b>Unrestricted</b>	<b>Corporation</b>	<b>BRIM</b>	<b>Total</b>
As of June 30, 2014	\$ 57,715	\$ 10,165	\$ 26,014	\$ 93,894
As of June 30, 2013	49,912	9,329	21,813	81,054

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 mutual money market funds, U.S. debt and equity securities, foreign debt and equity securities, 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, 2014, 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.

*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 \$21.0 million and \$105.1 million at June 30, 2014 and 2013, respectively.

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

## **Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations.

*WV Money Market Pool* — For the years ended June 30, 2014 and 2013, 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.

At June 30, 2014 and 2013, the WV Money Market Pool investments had a total carrying value of \$1,960,118,000 and \$2,495,868,000, respectively, of which the University’s ownership represents .13% and 3.20%, 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 (dollars in thousands):

**2014**

<b>Portfolio</b>	<b>Description</b>	<b>Fair Value</b>	<b>Rating</b>
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	\$ 2,028	BBB+
Unrestricted	Brandywine Global Fixed Income	4,744	BBB+
Corporation	Brandywine Global Fixed Income	1,065	BBB+
BRIM	Harbor Bond Fund	595	A2
BRIM	iShares Barclays 3-7 Year Treasury	1,594	AA+
Unrestricted	iShares Barclays 3-7 Year Treasury	3,729	AA+
Corporation	iShares Barclays 3-7 Year Treasury	1,421	AA+
BRIM	iShares Barclays 7-10 Year Treasury	393	AA+
Unrestricted	iShares Barclays 7-10 Year Treasury	1,045	AA+
Corporation	iShares Barclays 7-10 Year Treasury	192	AA+
Cash/Mutual Money Market Funds:			
BRIM	State Street Cash - SSGA Money Marl	510	AAAm
Unrestricted	State Street Cash - SSGA Money Marl	876	AAAm
Corporation	State Street Cash - SSGA Money Marl	173	AAAm
Fixed Income Funds:			
Unrestricted	Income Research and Management	3,883	AA
Corporation	IR&M Core Bond	930	AA-
Other Alternative Investments:			
BRIM	CF Multi-Strategy Bond Fund	1,727	A+
Unrestricted	CF Multi-Strategy Bond Fund	1,637	A+
Corporation	CFI Multi-Strategy Bond Investors Fur	1,352	A+
		<u>\$ 27,894</u>	

2013

Portfolio	Description	Fair Value	Rating
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	\$ 1,903	BBB+
Unrestricted	Brandywine Global Fixed Income	4,452	BBB+
Corporation	Brandywine Global Fixed Income	995	BBB+
BRIM	iShares Barclays 3-7 Year Treasury	1,580	AA+
Unrestricted	iShares Barclays 3-7 Year Treasury	3,696	AA+
Corporation	iShares Barclays 3-7 Year Treasury	1,408	AA+
BRIM	iShares Barclays 7-10 Year Treasury	389	AA+
Unrestricted	iShares Barclays 7-10 Year Treasury	1,034	AA+
Corporation	iShares Barclays 7-10 Year Treasury	190	AA+
Cash/Mutual Money Market Funds:			
BRIM	State Street Cash - SSGA Money Marl	294	AAAm
Unrestricted	State Street Cash - SSGA Money Marl	971	AAAm
Corporation	State Street Cash - SSGA Money Marl	210	AAAm
Fixed Income Funds:			
Unrestricted	Income Research and Management	3,702	AA-
Corporation	IR&M Core Bond	881	AA-
Other Alternative Investments:			
BRIM	CF Multi-Strategy Bond Fund	1,386	A+
Unrestricted	CF Multi-Strategy Bond Fund	1,301	A+
Corporation	CFI Multi-Strategy Bond Investors Fur	1,276	A+
U.S. Treasury Notes and U.S. Govt Backed Money Market Funds:			
2011 Bonds Series B&C	WVU 11 Proj Fund Series B&C	97,747	AA
2013 Series A Bonds	WVU 13 A Project Fund	7,399	AA
		<u>\$ 130,814</u>	

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.

All the amounts with BTI are subject to interest rate risk.

No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

*WV Money Market Pool* — At June 30, 2014 and 2013, the WV Money Market Pool investments had a total carrying value of \$1,960,118,000 and \$2,495,868,000, respectively, with a weighted average maturity of 36 days and 52 days, respectively.

*Other Investments.* The following table shows the maturities for other investments at June 30 (dollars in thousands):

**2014**

<b>Investment Type</b>	<b>Investment Maturities</b>				
	<b>Fair Value</b>	<b>Less Than One Year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>More Than 10 Years</b>
U.S. Treasury Notes and U.S. Govt Backed					
Money Market Funds	\$ 21,003	\$ 21,003	\$ -	\$ -	\$ -
Mutual Bond Funds	23,437	6,245	8,100	6,493	2,599
Cash/Mutual Money Market Funds	1,559	-	1,559	-	-
Fixed Income Funds	4,814	322	2,801	929	762
	4,715	863	1,787	1,169	896
	<u>\$ 55,528</u>	<u>\$ 28,433</u>	<u>\$ 14,247</u>	<u>\$ 8,591</u>	<u>\$ 4,257</u>

**2013**

<b>Investment Type</b>	<b>Investment Maturities</b>				
	<b>Fair Value</b>	<b>Less Than One Year</b>	<b>1-5 Years</b>	<b>6-10 Years</b>	<b>More Than 10 Years</b>
U.S. Treasury Notes and U.S. Govt Backed					
Money Market Funds	\$ 105,146	\$ 83,642	\$ 21,504	\$ -	\$ -
Mutual Bond Funds	22,922	6,419	11,193	3,666	1,645
Cash/Mutual Money Market Funds	1,475	-	1,475	-	-
Fixed Income Funds	4,583	390	2,224	1,499	469
Other Alternative Investments	3,963	808	1,244	1,253	658
	<u>\$ 138,089</u>	<u>\$ 91,259</u>	<u>\$ 37,640</u>	<u>\$ 6,418</u>	<u>\$ 2,772</u>

Interest rate risk is managed by limiting the time period or duration of the specific investment. At June 30, 2014, the U.S. Treasury Notes have maturities through January 31, 2015 and interest rates which range from .5% to 2.63%. 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%.

**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.

At June 30, 2014 and 2013, 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 University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

None of these amounts with the BTI are subject to custodial credit risk.

For other investments, at June 30, 2014, there was custodial credit risk related to the SSgA Money Market, which is uninsured and registered in State Street's name. At June 30, 2013, there was no custodial credit risk.

### **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.

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, the University's exposure to foreign currency risk is as follows at June 30 (dollars in thousands):

<b>Currency</b>		<b>2014</b>		<b>2013</b>
Australian Dollar	\$	756	\$	1,051
Bermuda Dollar		5		-
Brazilian Real		959		462
British Pound		72		-
British Pound Sterling		3,927		3,782
Canadian Dollar		273		156
Chilean Peso		654		44
Chinese Yuan Renminbi		217		196
Danish Krone		126		68
Euro		4,983		4,338
Hong Kong Dollar		294		224
Hungarian Forint		36		42
Indian Rupee		533		341
Indonesian Rupiah		75		87
Japanese Yen		2,210		1,627
Kuwaiti Dinar		5		4
Malaysian Ringgit		220		382
Mexican Peso		1,399		1,268
New Zealand Dollar		15		294
Norwegian Krone		95		95
Other		92		1,403
Philippine Peso		90		73
Polish Zloty		101		566
Russian Ruble		123		84
South African Rand		679		569
South Korean Won		609		500
Swedish Krona		375		148
Swiss Franc		2,304		1,615
Taiwan Dollar		-		73
Taiwanese Dollar		132		134
Thai Baht		244		168
Turkish Lira		230		203
US Dollar		12,008		7,815
	\$	33,841	\$	27,812

## 6. CAPITAL ASSETS

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

2014	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 77,717	\$ 3,478	\$ (411)	\$ 80,784
Construction in progress	96,785	93,469	(72,059)	118,195
Total capital assets not being depreciated or amortized	<u>\$ 174,502</u>	<u>\$ 96,947</u>	<u>\$ (72,470)</u>	<u>\$ 198,979</u>
Other capital assets:				
Land improvements	\$ 37,339	\$ 5,002	\$ -	\$ 42,341
Buildings	1,214,300	58,542	(275)	1,272,567
Equipment	182,890	16,804	(7,622)	192,072
Library books	135,274	5,888	(206)	140,956
Software	58,297	2,174	(308)	60,163
Infrastructure	271,365	6,531	-	277,896
Other assets	112,770	4,354	(972)	116,152
Intangible assets	150	-	-	150
Total other capital assets	<u>2,012,385</u>	<u>99,295</u>	<u>(9,383)</u>	<u>2,102,297</u>
Less accumulated depreciation and amortization for:				
Land improvements	(18,386)	(2,304)	-	(20,690)
Buildings	(319,819)	(23,654)	-	(343,473)
Equipment	(113,495)	(15,290)	5,450	(123,335)
Library books	(109,854)	(7,319)	205	(116,968)
Software	(50,319)	(2,692)	211	(52,800)
Infrastructure	(218,324)	(4,858)	-	(223,182)
Other assets	(49,921)	(19,075)	-	(68,996)
Intangible assets	(16)	(2)	-	(18)
Total accumulated depreciation and amortization	<u>(880,134)</u>	<u>(75,194)</u>	<u>5,866</u>	<u>(949,462)</u>
Other capital assets, net	<u>\$ 1,132,251</u>	<u>\$ 24,101</u>	<u>\$ (3,517)</u>	<u>\$ 1,152,835</u>
Capital Assets Summary:				
Capital assets not being depreciated or amortized	\$ 174,502	\$ 96,947	\$ (72,470)	\$ 198,979
Other capital assets	<u>2,012,385</u>	<u>99,295</u>	<u>(9,383)</u>	<u>2,102,297</u>
Total cost of capital assets	<u>2,186,887</u>	<u>196,242</u>	<u>(81,853)</u>	<u>2,301,276</u>
Less accumulated depreciation and amortization	<u>(880,134)</u>	<u>(75,194)</u>	<u>5,866</u>	<u>(949,462)</u>
Capital assets, net	<u>\$ 1,306,753</u>	<u>\$ 121,048</u>	<u>\$ (75,987)</u>	<u>\$ 1,351,814</u>

<b>2013</b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
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	<u>\$ 91,925</u>	<u>\$ 118,768</u>	<u>\$ (36,191)</u>	<u>\$ 174,502</u>
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	<u>1,964,687</u>	<u>69,634</u>	<u>(21,936)</u>	<u>2,012,385</u>
Less accumulated depreciation or 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	<u>(814,331)</u>	<u>(73,279)</u>	<u>7,476</u>	<u>(880,134)</u>
Other capital assets, net	<u>\$ 1,150,356</u>	<u>\$ (3,645)</u>	<u>\$ (14,460)</u>	<u>\$ 1,132,251</u>
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	<u>2,056,612</u>	<u>188,402</u>	<u>(58,127)</u>	<u>2,186,887</u>
Less accumulated depreciation and amortization	<u>(814,331)</u>	<u>(73,279)</u>	<u>7,476</u>	<u>(880,134)</u>
Capital assets, net	<u>\$ 1,242,281</u>	<u>\$ 115,123</u>	<u>\$ (50,651)</u>	<u>\$ 1,306,753</u>

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, 2014 and 2013, \$26,492,438 and \$26,334,324 of such proceeds have been received, respectively. 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 \$1.9 million and \$942,000 during fiscal years 2014 and 2013, respectively.



## 7. LONG-TERM LIABILITIES

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

2014	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreements payable	\$ 6,449	\$ -	\$ (362)	\$ 6,087	\$ 362
Other post employment benefits liability	163,994	3,267	-	167,261	
Advances from federal government	26,763	-	(56)	26,707	
Debt service assessment payable					
to the Commission	72,152	-	(4,797)	67,355	4,700
Leases payable	24,035	-	(1,833)	22,202	1,909
Bonds payable	521,246	-	(13,273)	507,973	13,817
Notes payable	21,759	-	(701)	21,058	716
Other noncurrent liabilities	24,076	10,277	(9,370)	24,983	
Total long-term liabilities	<u>\$ 860,474</u>	<u>\$ 13,544</u>	<u>\$ (30,392)</u>	<u>\$ 843,626</u>	

2013	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreement 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	10,126	(5,589)	24,076	-
Total long-term liabilities	<u>\$ 826,407</u>	<u>\$ 290,219</u>	<u>\$ (256,152)</u>	<u>\$ 860,474</u>	

## 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, 2014, 2013, and 2012, the noncurrent liability related to OPEB was \$167.3 million, \$164.0 million, and \$161.1 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$17.1 million and \$13.9 million, respectively, during 2014, \$14.5 million and \$11.6 million, respectively, during 2013, and \$59.0 million and \$11.7 million, respectively, during 2012. As of the years ended June 30, 2014, 2013, and 2012, there were 702, 657, and 694 retirees, respectively, receiving these benefits.

## 9. LEASES PAYABLE

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2014 are as follows (dollars in thousands):

<b>Fiscal Year Ending June 30,</b>	
2015	\$ 6,779
2016	5,162
2017	3,796
2018	3,240
2019	3,160
2020-2024	11,662
2025-2029	9,880
2030-2034	3,955
2035-2039	5
2040-2044	5
2045-2049	5
2050-2054	5
2055-2058	4
	<hr/>
Total	<u>\$ 47,658</u>

Total rental expense for the years ended June 30, 2014 and 2013 was \$7.4 million and \$7.8 million, respectively. 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 \$25.1 million and \$25.7 million at June 30, 2014 and 2013, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

<b>Fiscal Year</b> <b>Ending June 30,</b>	
2015	\$ 2,455
2016	2,467
2017	7,828
2018	1,706
2019	1,685
2020-2024	6,929
2025-2027	2,042
Minimum lease payments	25,112
Less amount representing interest	(2,910)
Present value of minimum lease payments	22,202
Current Portion	1,909
Noncurrent Portion	\$ 20,293

## 10. BONDS PAYABLE

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

	<b>Original Interest Rate</b>	<b>Annual Principal Installment Due</b>	<b>2014 Principal Amount Outstanding</b>	<b>2013 Principal Amount Outstanding</b>
Revenue Refunding Bonds, 2004 Series B, due through 2021	3.5-5.0%	0 to 6,685	4,785	9,370
Revenue Improvement Bonds, 2011 Series A, due through 2026	3.87%	35 to 62	11,456	11,914
Revenue Improvement Bonds, 2011 Series B, due through 2037	4.14%	0 to 21,800	177,385	182,630
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	12,896	13,123
Revenue Bonds (Taxable), 2012 Series B, due through 2032	variable rate	0 to 50	4,517	4,707
Revenue Refunding and Improvement Bonds, 2013 Series A, due through 2043	3.55%	0 to 13,715	138,325	138,325
Revenue Refunding and Improvement Bonds (Taxable), 2013 Series B, due through 2043	3.00%	995 to 7,440	71,185	72,180
Unamortized Bond Discount			(81)	(84)
Unamortized Bond Premium			37,505	39,081
Net Bonds Payable			507,973	521,246
Current Portion			13,817	13,272
Noncurrent Portion			\$494,156	\$507,974

### **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 \$25,900,000. 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. These bonds were 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.

**2004 Series B** Revenue Refunding Bonds in the amount of \$55,430,000 with an average interest rate of 4.7%. These bonds were issued (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.

**2004 Series C** Revenue Improvement Bonds in the amount of \$138,710,000 with an average interest rate of 4.9%. These bonds were issued 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.

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.

When the 2004 bonds were issued, it was estimated that the advance refunding of the 1997 series bonds would 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 was 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.

### ***2011 Bonds***

During 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 Improvement Revenue 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.

**2011 Series B** In October 2011, the Board issued the 2011 Series B Improvement Revenue bonds in the par amount of \$187,605,000. 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 the 2011 Series C Improvement Variable Rate Revenue Bonds in the aggregate principal amount of \$50,000,000 with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2014 and 2013, the average interest rate was .71% and .79%, respectively. The rate at both June 30, 2014 and June 30, 2013 was .71%.

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, 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, (b) refinance certain tax-exempt lease-purchase agreements entered into by the University 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.

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

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

### ***2012 Bonds***

**2012 Series A** On July 26, 2012, the Board issued the 2012 Series A (Taxable) bonds 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.

**2012 Series B** On December 13, 2012, the 2012 Series B (taxable) bonds were issued in the amount of \$4,800,000 to finance the acquisition 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%. 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.

### ***2013 Bonds***

On February 13, 2013, the Board issued the 2013 Series A bonds and the 2013 Series B bonds. These 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.

**2013 Series A** The 2013 Series A bonds were issued in the par amount of \$138,325,000. The actual proceeds received equaled \$160.5 million. These 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.

**2013 Series B** The 2013 Series B bonds (Taxable) series were issued in the amount of \$72,180,000 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 (the acquisition of the Sunnyside property), 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.

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 years ended June 30, 2014 and June 30, 2013, the University recorded a deferred loss on refunding of \$14,480,000 and \$15,033,000, respectively, on the statement of net position.

Total principal and interest payments remaining to be paid at June 30, 2014 and 2013 were \$754.5 million and \$786.4 million, respectively. Total gross pledged revenue for fiscal year 2014 and 2013 was \$150.6 million and \$146.0 million, respectively.

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

<b>Fiscal Year Ending June 30,</b>	<b>Principal</b>	<b>Interest</b>	<b>Total Payments</b>
2015	\$ 12,301	\$ 18,875	\$ 31,176
2016	12,547	18,738	31,285
2017	13,358	18,375	31,733
2018	13,805	17,969	31,774
2019	14,254	17,513	31,767
2020-2024	79,574	79,363	158,937
2025-2029	91,913	60,886	152,799
2030-2034	101,310	38,181	139,491
2035-2039	93,655	12,573	106,228
2040-2043	37,832	1,499	39,331
Bonds Payable	470,549	<u>\$ 283,972</u>	<u>\$ 754,521</u>
Unamortized Bond Discount	(81)		
Unamortized Bond Premium	37,505		
Net Bonds Payable	507,973		
Current Portion	13,817		
Noncurrent Portion	<u>\$ 494,156</u>		

## 11. NOTES PAYABLE

In December 2012, the Corporation refinanced various construction 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.

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 principal to be paid at June 30, 2014 and June 30, 2013 was approximately \$21.1 million and \$21.8 million, respectively. Total interest paid through June 30, 2014 and June 30, 2013 was approximately \$618,000 and \$205,000, respectively. Total facilities and administrative revenues earned by HSC during both fiscal year 2014 and 2013 were \$7.5 million. Total pledged revenue as of both June 30, 2014 and June 30, 2013 was \$2.5 million.

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

<b>Fiscal Year Ending June 30,</b>		
2015	\$	716
2016		729
2017		744
2018		758
2019		773
2020-2024		4,093
2025-2029		4,509
2030-2034		4,965
2035-2038		3,771
		<u>21,058</u>
Current Portion		<u>716</u>
Noncurrent Portion	\$	<u>20,342</u>

## **12. REAL ESTATE PURCHASE AGREEMENTS PAYABLE**

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 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 (see Note 10).

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 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.

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, 2014 or 2013.

	<b>2014</b>	<b>2013</b>
Total unrestricted net position before OPEB liability	\$ 124,672	\$ 99,551
Less: OPEB liability	<u>167,261</u>	<u>163,994</u>
Total unrestricted net deficit	<u>\$ (42,589)</u>	<u>\$ (64,443)</u>

#### **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, 2014 and 2013. Required employee contributions were at the rate of 6% of total annual

salary for both years ended June 30, 2014 and 2013. 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 contacting the Consolidated Public Retirement Board, 4101 MacCorkle Ave S.E., Charleston, WV 25304-1636 or <http://www.wvretirement.com>.

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

<b>Fiscal Year Ending June 30,</b>	<b><u>WVU</u></b>	<b><u>Employees</u></b>	<b><u>Total</u></b>
2014	\$ 1,374	\$ 616	\$ 1,990
2013	1,683	688	2,371
2012	1,815	741	2,556

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):

<b>Fiscal Year Ending June 30,</b>	<b><u>WVU</u></b>	<b><u>Employees</u></b>	<b><u>Total</u></b>
2014	\$ 24,146	\$ 24,146	\$ 48,292
2013	23,887	23,887	47,774
2012	22,979	22,979	45,958

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

<b>Fiscal Year Ending June 30,</b>	<b>WVU</b>	<b>Employees</b>	<b>Total</b>
2014	\$ 271	\$ 271	\$ 542
2013	284	284	568
2012	272	272	544

The University's total payroll for fiscal years 2014, 2013, and 2012 was \$462.6 million, \$460.3 million, and \$441.8 million, respectively; total covered employees' salaries in the STRS, TIAA-CREF and the Educators Money were \$10.3 million, \$406.0 million and \$4.5 million in fiscal year 2014, \$11.5 million, \$401.0 million and \$4.7 million in fiscal year 2013, and \$12.3 million, \$385.7 million, and \$4.5 million in fiscal year 2012, respectively.

## **16. NONMONETARY TRANSACTIONS**

During fiscal year 2014, the University entered into a like-kind exchange agreement with M&J Property Holdings, LLC ("M&J") that involved a transfer of a parcel of the University's property in the Seventh Ward, City of Morgantown, Monongalia County, WV for another parcel of property also located in the Seventh Ward owned by M&J. Accounting for the property exchange was based on the net book value of the University's property. A gain of \$13,000 was recorded on the exchange.

## **17. 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. At June 30, 2014, the University is committed to an additional \$828,000 purchase to meet the minimum steam purchase requirement for the contract year ended September 30, 2014. 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 \$116.3 million at June 30, 2014.
- c. *Other Commitments* – The University is involved in legal action in regards to normal business activities. Management does not feel that these actions are material and pose a financial threat to the University and, accordingly, no liability is accrued at June 30, 2014 and 2013.

## 18. 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; West Virginia University Medical Corporation; the Physician’s Office of Charleston; University Healthcare Physicians, Inc.; the West Virginia University Dental Corporation; Potomac State College Alumni Association; Tech Foundation, Incorporated; WV Campus Housing, LLC; and ACC OP LLP. 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 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. *West Virginia University Medical Corporation* – West Virginia University Medical Corporation (the “Morgantown practice plan”) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia University School of Medicine (WVUSOM) in Morgantown WV. The membership of the Morgantown practice plan consists of physicians who are faculty members of the WVUSOM. The Morgantown practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the Morgantown practice plan’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 the Morgantown practice plan 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 the Morgantown practice plan 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 the Morgantown practice plan.

Total funds disbursed to the Morgantown practice plan and total funds collected from the Morgantown practice plan totaled \$1.4 million and \$14.8 million in fiscal year 2014 and \$750,000 and \$14.4 million in fiscal year 2013, respectively. Accounts receivable at June 30, 2014 and 2013 includes \$1.2 million and \$1.3 million, respectively, due from the Morgantown practice plan for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. Amounts due to the Morgantown practice plan at June 30,

2014 and 2013 include \$0 and \$645,000, respectively, for such items as Institute of Occupational and Environmental Health payments.

- b. *West Virginia University Physicians of Charleston* – West Virginia University Physicians of Charleston (the “Charleston practice plan”) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of WVUSOM in Charleston, WV. The membership of the Charleston practice plan consists of physicians who are faculty members of the WVUSOM. The Charleston practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the plan’s membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other practice management services.

The University is reimbursed by the Charleston practice plan for costs of the WVUSOM, Charleston Division, including medical malpractice insurance premiums. The HSC currently receives some state appropriations through the Medicaid program from Physicians of Charleston. Accounts receivable due from Physicians of Charleston for such items as mission support and reimbursement for medical malpractice insurance.

Total funds collected from the Charleston practice plan totaled \$5.3 million in fiscal year 2014 and \$4.8 million in fiscal year 2013, respectively. Accounts receivable at June 30, 2014 and 2013 includes \$104,000 and \$94,000, respectively, for such items as medical malpractice insurance and salary support. There were no amounts due to the Charleston practice plan at June 30, 2014 or 2013. There were no funds disbursed to the Charleston practice plan in fiscal year 2014 or 2013.

- c. *University Healthcare Physicians, Inc.* – University Healthcare Physicians, Inc. (the “Eastern practice plan”) is a West Virginia not-for-profit corporation and serves as the faculty practice plan of WVUSOM in Martinsburg, WV. The membership of the Eastern practice plan consists of physicians who are faculty members of the WVUSOM. The Eastern practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the plan’s membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other practice management services.

The University is reimbursed by the Eastern practice plan for costs of the WVUSOM, Eastern Division, including medical malpractice insurance premiums. The HSC currently receives some state appropriations through the Medicaid program from University Healthcare Physicians. Accounts receivable due from University Healthcare Physicians for such items as mission support and reimbursement for medical malpractice insurance.

Total funds collected from the Eastern practice plan totaled \$1.6 million in fiscal year 2014 and \$103,000 in fiscal year 2013, respectively. Accounts receivable at June 30, 2014 and 2013 includes \$251,000 and \$21,000 for such items as medical malpractice insurance and salary support. There were no amounts due to the Eastern practice plan at June 30, 2014 or 2013. There were no funds disbursed to the Eastern practice plan in fiscal year 2014 or 2013.

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

The University is reimbursed by the dental practice plan for the use of certain facilities and other costs of the School of Dentistry, including medical malpractice insurance premiums. Accounts receivable due from Dental Corporation for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees and reimbursement of dentistry clinic supplies.

Total funds collected from the dental practice plan totaled \$443,000 in fiscal year 2014 and \$1.6 million in fiscal year 2013, respectively. Accounts receivable at June 30, 2014 and 2013 includes \$6,000 and \$275,000, respectively, for such items as medical malpractice insurance, facility rental fees, clinic supplies and student expenses. There were no amounts due to the dental practice plan at June 30, 2014 or 2013. There were no funds disbursed to the dental practice plan in fiscal year 2014 or 2013.

- e. *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 2014 and 2013, \$35.0 million and \$33.8 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, 2014 and 2013 include \$1.4 million and \$1.8 million, respectively, due from WVUH for such items. During fiscal years 2014 and 2013, \$368,000 and \$457,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2014 and 2013 include \$6,000 and \$100,000, respectively, due to WVUH for such items.



- f. *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 \$286,000 and \$444,000 for the years ended June 30, 2014 and 2013, respectively. The remaining payroll is billed to the Association. The Association owed the University \$142,000 and \$134,000 related to payroll and postage as of June 30, 2014 and 2013, respectively.

The Association reimburses the University up to \$50,000 per year for the alumni magazine. These payments were \$50,000 for both years ended June 30, 2014 and 2013.

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 \$1,043,000 and \$961,000 for the years ended June 30, 2014 and 2013, respectively.

The University charged the Association \$915,000 and \$1,038,000 for catering services for the years ended June 30, 2014 and 2013, respectively. The Association owed the University \$335,000 and \$364,000 for catering services as of June 30, 2014 and 2013, respectively.

The University owed the Association \$13,000 and \$12,000 for reimbursement of utilities as of June 30, 2014 and 2013, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University \$130,000 and \$233,000 for the years ended June 30, 2014 and 2013, respectively. The Association owed the University \$0 and \$80,000 for the years ended June 30, 2014 and 2013, 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.

- g. *West Virginia University at Parkersburg and Bridgmont 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, 2014 was \$2,731,913 and \$174,351, respectively. The outstanding notes receivable due from Parkersburg and Bridgemont at June 30, 2013 was \$2,909,055 and \$185,656, respectively. Interest earned during fiscal year 2014 for the notes related to Parkersburg and Bridgemont was \$113,661 and \$7,254, respectively. Interest earned during fiscal year 2013 for the notes related to Parkersburg and Bridgemont was \$120,060 and \$7,662, respectively. This interest is recorded as investment income on the 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, 2014 and 2013 was \$80,000 and \$120,000, respectively.

- h. *West Virginia Campus Housing, LLC ("WVCH")* — 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.

- i. *ACC OP LLP* — In fiscal year 2014, the University entered into an agreement with ACC OP LLP (ACC) to finance, design, construct, furnish, equip, and operate a student housing facility. The agreement will be in place for 40 years with the option to extend the agreement for two additional 10 year terms, at which time the facility is required to be returned back to the University in substantially the same condition it was transferred to them at the start of the agreement. This project was completed at the start of the fall semester 2014. The agreement stipulates that ACC OP will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.

## **19. 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 \$1.4 billion and \$1.2 billion at June 30, 2014 and 2013, respectively, with net assets of \$764.5 million and \$672.7 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$70.3 million and \$74.5 million in fiscal years 2014 and 2013, respectively.

Total funds expended by the Foundation in support of University activities totaled \$58.7 million and \$50.1 million in fiscal years 2014 and 2013, 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 financial statements.

## **20. SERVICE CONCESSION ARRANGEMENT**

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 ACC OP (College Park, WV) LLC. Per the contract, ACC OP financed, designed, constructed, furnished and equipped a student housing facility. This facility was completed at the start of the fall semester 2014. The agreement will be in place for 40 years with the option to extend the agreement for two additional 10 year terms, at which time the facility will be returned to the University in substantially the same condition as it was when transferred to them at the start of the agreement. The agreement stipulates that the ACC OP will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University. Per the operating agreement, the University will

provide certain services including marketing, lease management, billing, collections, security, parking enforcement and other services, and will receive a management fee for providing such services.

## **21. 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, 2014 or 2013.

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, 2014 and 2013, the University has recorded a liability of \$27,000 and \$34,000, 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 is recorded as an other noncurrent liability as of both June 30, 2014 and June 30, 2013) if the Foundation does not make required payments under its \$10 million promissory note with the Big 12.

## **22. SUBSEQUENT EVENTS**

On September 9, 2014, the University entered into a lease purchase agreement with WesBanco for \$13,250,000 to finance the purchase of real property located adjacent to the Evansdale campus. A student housing facility, University Park, will be constructed on this land as part of a public-private partnership. The proceeds of this lease purchase were used to reimburse the University for the cost of the real property as well as pay the costs of issuance. The Board approved this financing at its meeting on March 27, 2013.

On September 17, 2014, the University (Aa3/A) issued \$189.2 million in bonds with a closing on September 30, 2014. The \$60 million 2014 Series A tax-exempt bonds were structured as two term bonds both coming due in 2044 with 5.00% and 4.00% coupons, yielding 3.65% and 4.03%, respectively. Proceeds of the 2014 Series A bonds will be used in Phase II of the Personal Rapid Transit renovations. The bonds sold with a net premium of \$5,562,000.

The \$79.05 million 2014 Series B taxable bonds were structured with one term bond with a final maturity in 2042 and a yield of 4.471%. Proceeds of the 2014 Series B bonds will be used to fund the Athletics Facilities Plan. The University achieved a tax-exempt fixed all-in True Interest Cost (TIC) of 4.29%, a taxable fixed All-in TIC of 4.49%. The bonds were sold at par.

The \$50.19 million 2014 Series B tax-exempt Floating Rate Notes (FRNs) were structured with a 5-year hard put feature and priced at SIFMA plus 0.53%. The proceeds of these bonds will be used to refund the University's 2011 Series C FRNs, which were originally structured with a 3-year hard put at SIFMA plus 0.65%.

## 23. BLENDED COMPONENT UNIT

As described in Note 2, the following presents the condensed financial statements as of June 30 (in thousands):

2014

### Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
<b>Assets</b>				
Current Assets	\$ 146,883	\$ 40,853	\$ -	\$ 187,736
Accounts Receivable - Corporation	9,407	-	(9,407)	-
Total Noncurrent Assets	156,290	40,853	(9,407)	187,736
Capital Assets, net	1,308,692	43,122	-	1,351,814
Other Noncurrent Assets	259,588	10,165	-	269,753
Total Noncurrent Assets	1,568,280	53,287	-	1,621,567
<b>Total Assets</b>	<b>\$ 1,724,570</b>	<b>\$ 94,140</b>	<b>\$ (9,407)</b>	<b>\$ 1,809,303</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 14,480</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 14,480</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,739,050</b>	<b>\$ 94,140</b>	<b>\$ (9,407)</b>	<b>\$ 1,823,783</b>
<b>Liabilities and Deferred Inflow of Resources</b>				
Current Liabilities	\$ 128,792	\$ 16,571	\$ -	\$ 145,363
Accounts Payable - WVU	-	9,407	(9,407)	-
Total Noncurrent Assets	128,792	25,978	(9,407)	145,363
Noncurrent Liabilities	801,780	20,342	-	822,122
<b>Total Liabilities</b>	<b>\$ 930,572</b>	<b>\$ 46,320</b>	<b>\$ (9,407)</b>	<b>\$ 967,485</b>
<b>Deferred Inflows of Resources</b>	<b>\$ 121</b>	<b>\$ 521</b>	<b>\$ -</b>	<b>\$ 642</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 930,693</b>	<b>\$ 46,841</b>	<b>\$ (9,407)</b>	<b>\$ 968,127</b>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 846,083	\$ 21,531	\$ -	\$ 867,614
Restricted Nonexpendable	7,045	-	-	7,045
Restricted Expendable	23,586	-	-	23,586
Unrestricted Net Deficit	(68,357)	25,768	-	(42,589)
<b>Total Net Position</b>	<b>\$ 808,357</b>	<b>\$ 47,299</b>	<b>\$ -</b>	<b>\$ 855,656</b>

# Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
Operating Revenues				
Student Tuition and Fees, net	\$ 363,820	\$ -	\$ -	363,820
Federal Land Grants	8,130	-	-	8,130
Local Land Grants	1,171	-	-	1,171
Federal Grants and Contracts	6,910	65,537	-	72,447
State Grants and Contracts	11,908	24,181	-	36,089
Local Grants and Contracts	-	228	-	228
Nongovernmental Grants and Contracts	29,193	28,895	-	58,088
Sales and Services of Educational Departments	16,916	768	-	17,684
Auxiliary Enterprises, net	138,405	-	-	138,405
Interest on Student Loans Receivable	853	-	-	853
Net Operating Revenue from the Corporation	4,320	-	(4,320)	-
Net Service Agreement Revenue				
from Bridgemont and Parkersburg CTC's	600	-	-	600
Other Operating Revenues	8,367	193	-	8,560
Total Operating Revenues	590,593	119,802	(4,320)	706,075
Operating Expenses				
Depreciation and Amortization	74,098	1,096	-	75,194
Net Operating Expenses to WVU	-	4,320	(4,320)	-
Other Operating Expenses	773,234	106,663	-	879,897
Total Operating Expenses	847,332	112,079	(4,320)	955,091
<b>Operating (Loss) Income</b>	(256,739)	7,723	-	(249,016)
Nonoperating Revenues (Expenses)				
State Appropriations	190,343	-	-	190,343
State Lottery Appropriations	3,649	-	-	3,649
Payments on Behalf of the University	295	-	-	295
Gifts	24,609	2,748	-	27,357
Federal Pell Grants	30,504	-	-	30,504
Investment Income	13,362	1,022	-	14,384
Interest on Capital Asset-Related Debt	(17,117)	(342)	-	(17,459)
Assessments by Commission for Debt Service	(5,986)	-	-	(5,986)
Debt Issuance Costs	-	-	-	-
Other Nonoperating Revenues - Net	2,741	-	-	2,741
Net Nonoperating Revenues	242,400	3,428	-	245,828
<b>(Loss) Income before Other Revenues, Expenses, Gains, or Losses</b>	(14,339)	11,151	-	(3,188)
Capital Grants and Gifts	23,008	1,142	-	24,150
Capital Grants (Federal)	-	2,255	-	2,255
Capital Bond Proceeds from State	158	-	-	158
Bond/Capital Projects Proceeds				
from the Higher Education Policy Commission	274	-	-	274
Other Expenses	-	(592)	-	(592)
Transfer of Assets to the University	8,363	(8,363)	-	-
<b>Increase in Net Position</b>	17,464	5,593	-	23,057
<b>Net Position at Beginning of Year</b>	790,893	41,706	-	832,599
<b>Net Position at End of Year</b>	\$ 808,357	\$ 47,299	\$ -	\$ 855,656

## Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	Total
<b>Cash Provided By (Used In):</b>			
Operating Activities	\$ (169,054)	\$ 4,951	\$ (164,103)
Noncapital Financing Activities	238,233	2,748	240,981
Capital Financing Activities	(136,289)	(6,080)	(142,369)
Investing Activities	84,417	186	84,603
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 17,307</b>	<b>\$ 1,805</b>	<b>\$ 19,112</b>
Cash and Cash Equivalents, Beginning of Year	\$ 208,630	\$ 19,838	\$ 228,468
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 225,937</b>	<b>\$ 21,643</b>	<b>\$ 247,580</b>



2013

Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
<b>Assets</b>				
Current Assets	\$ 143,577	\$ 39,583	\$ -	\$ 183,160
Accounts Receivable - Corporation - Current Portion	8,902	-	(8,902)	-
Total Current Assets	152,479	39,583	(8,902)	183,160
Capital Assets, net	1,262,615	44,138	-	1,306,753
Accounts Receivable - Corporation	400	-	(400)	-
Other Noncurrent Assets	311,739	9,329	-	321,068
Total Noncurrent Assets	1,574,754	53,467	(400)	1,627,821
<b>Total Assets</b>	<b>\$ 1,727,233</b>	<b>\$ 93,050</b>	<b>\$ (9,302)</b>	<b>\$ 1,810,981</b>
<b>Deferred Outflows of Resources</b>	<b>\$ 15,033</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,033</b>
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 1,742,266</b>	<b>\$ 93,050</b>	<b>\$ (9,302)</b>	<b>\$ 1,826,014</b>
<b>Liabilities and Deferred Inflow of Resources</b>				
Current Liabilities	\$ 132,807	\$ 20,985	\$ -	\$ 153,792
Accounts Payable - WVU - Current Portion	-	8,902	(8,902)	-
Total Current Liabilities	132,807	29,887	(8,902)	153,792
Accounts Payable - WVU	-	400	(400)	-
Other Noncurrent Liabilities	818,461	21,057	-	839,518
Total Noncurrent Liabilities	818,461	21,457	(400)	839,518
<b>Total Liabilities</b>	<b>\$ 951,268</b>	<b>\$ 51,344</b>	<b>\$ (9,302)</b>	<b>\$ 993,310</b>
<b>Deferred Inflows of Resources</b>	<b>\$ 105</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 105</b>
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 951,373</b>	<b>\$ 51,344</b>	<b>\$ (9,302)</b>	<b>\$ 993,415</b>
<b>Net Position</b>				
Net Investment in Capital Assets	\$ 846,804	\$ 22,431	\$ -	\$ 869,235
Restricted Nonexpendable	5,961	-	-	5,961
Restricted Expendable	21,846	-	-	21,846
Unrestricted Net Deficit	(83,718)	19,275	-	(64,443)
<b>Total Net Position</b>	<b>\$ 790,893</b>	<b>\$ 41,706</b>	<b>\$ -</b>	<b>\$ 832,599</b>

# Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
Operating Revenues				
Student Tuition and Fees, net	\$ 346,519	\$ -	\$ -	346,519
Federal Land Grants	7,596	-	-	7,596
Local Land Grants	1,079	-	-	1,079
Federal Grants and Contracts	7,116	68,454	-	75,570
State Grants and Contracts	14,325	24,818	-	39,143
Local Grants and Contracts	28	212	-	240
Nongovernmental Grants and Contracts	28,487	22,133	-	50,620
Sales and Services of Educational Departments	17,602	622	-	18,224
Auxiliary Enterprises, net	134,610	-	-	134,610
Interest on Student Loans Receivable	829	-	-	829
Net Operating Revenue from the Corporation	5,638	-	(5,638)	-
Net Service Agreement Revenue				
from Bridgemont and Parkersburg CTC's	619	-	-	619
Other Operating Revenues	7,976	215	-	8,191
Total Operating Revenues	572,424	116,454	(5,638)	683,240
Operating Expenses				
Depreciation and Amortization	72,182	1,097	-	73,279
Net Operating Expenses to WVU	-	5,638	(5,638)	-
Other Operating Expenses	764,318	108,221	-	872,539
Total Operating Expenses	836,500	114,956	(5,638)	945,818
<b>Operating (Loss) Income</b>	(264,076)	1,498	-	(262,578)
Nonoperating Revenues (Expenses)				
State Appropriations	207,431	-	-	207,431
State Lottery Appropriations	3,630	-	-	3,630
Payments on Behalf of the University	528	-	-	528
Gifts	26,114	1,873	-	27,987
Federal Pell Grants	30,786	-	-	30,786
Investment Income	9,433	732	-	10,165
Interest on Capital Asset-Related Debt	(14,707)	(723)	-	(15,430)
Assessments by Commission for Debt Service	(5,870)	-	-	(5,870)
Debt Issuance Costs	(1,133)	-	-	(1,133)
Other Nonoperating Revenues - Net	(68)	-	-	(68)
Net Nonoperating Revenues	256,144	1,882	-	258,026
<b>(Loss) Income before Other Revenues, Expenses, Gains, or Losses</b>	(7,932)	3,380	-	(4,552)
Capital Grants and Gifts	20,567	993	-	21,560
Capital Grants (Federal)	-	10,894	-	10,894
Capital Bond Proceeds from State	1,982	-	-	1,982
Bond/Capital Projects Proceeds				
from the Higher Education Policy Commission	4,147	-	-	4,147
Gain from Early Extinguishment of Debt	-	592	-	592
Other Expenses	-	-	-	-
Transfer of Assets to the University	14,818	(14,818)	-	-
<b>Increase in Net Position</b>	33,582	1,041	-	34,623
<b>Net Position at Beginning of Year</b>	757,311	40,665	-	797,976
<b>Net Position at End of Year</b>	\$ 790,893	\$ 41,706	\$ -	\$ 832,599

## Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	Total
<b>Cash Provided By (Used In):</b>			
Operating Activities	\$ (175,131)	\$ (2,019)	\$ (177,150)
Noncapital Financing Activities	269,168	1,873	271,041
Capital Financing Activities	(101,939)	(4,685)	(106,624)
Investing Activities	85,919	1,084	87,003
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ 78,017</b>	<b>\$ (3,747)</b>	<b>\$ 74,270</b>
Cash and Cash Equivalents, Beginning of Year	\$ 130,613	\$ 23,585	\$ 154,198
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 208,630</b>	<b>\$ 19,838</b>	<b>\$ 228,468</b>

## 24. SEGMENT INFORMATION

See Note 10 for descriptive information for the University's segment.

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

(Dollars in Thousands)

	<b>AUXILIARIES</b> <b>As of/Year Ended</b> <b>2014</b>	<b>AUXILIARIES</b> <b>As of/Year Ended</b> <b>2013</b>
<b>CONDENSED SCHEDULES OF NET POSITION</b>		
Assets and Deferred Outflows of Resources:		
Current Assets	\$ 44,570	\$ 49,944
Noncurrent and Capital Assets *	707,078	725,612
Total Assets	<u>751,648</u>	<u>775,556</u>
Deferred Outflows of Resources:		
Deferred Loss on Refunding	14,480	15,033
Total Assets and Deferred Outflows of Resources	<u>\$ 766,128</u>	<u>\$ 790,589</u>
Liabilities, Deferred Inflows, and Net Position:		
Current Liabilities	\$ 42,556	\$ 45,763
Long-Term Liabilities	549,117	560,183
Total Liabilities	<u>591,673</u>	<u>605,946</u>
Net Position:		
Net investment in capital assets	\$ 211,214	\$ 216,871
Restricted	128,293	91,883
Unrestricted	(165,052)	(124,111)
Total Net Position	<u>\$ 174,455</u>	<u>\$ 184,643</u>
<b>CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Auxiliary and Capital Fees	\$ 31,280	\$ 29,379
Operating Revenues	122,806	117,998
Operating Expenses	(127,880)	(137,814)
Net Operating Income	26,206	9,563
Nonoperating Revenues/Expenses:		
Investment Income	372	467
Net Transfers to Other Funds	(28,213)	(17,118)
Other Nonoperating Income	5,091	3,575
Gifts	8,771	8,355
Other Nonoperating Expenses	(4,864)	(6,201)
Interest Expense *	(17,551)	(14,182)
Decrease in Net Position	(10,188)	(15,541)
Net Position - Beginning of Year	184,643	220,699
Net Position - End of Year	<u>\$ 174,455</u>	<u>\$ 205,158</u>
<b>CONDENSED SCHEDULES OF CASH FLOWS</b>		
Net Cash Provided by Operating Activities	\$ 27,824	\$ 3,492
Net Cash Flows Provided by		
Noncapital Financing Activities	8,771	8,355
Net Cash Flows Provided by (Used in)		
Capital and Related Financing Activities	(25,893)	75,512
Net Cash Flows Provided by		
Investing Activities	282	467
Increase in Cash	10,984	87,826
Cash - Beginning of Year	136,864	49,038
Cash - End of Year	<u>\$ 147,848</u>	<u>\$ 136,864</u>
<b>Reconciliation of cash</b>		
Cash classified as current assets	\$ 40,596	\$ 44,981
Cash classified as noncurrent assets	107,252	91,883
	<u>\$ 147,848</u>	<u>\$ 136,864</u>

\* Interest of \$1,533,000 and \$755,000 was capitalized for fiscal year 2014 and 2013, respectively.

**25. FUNCTIONAL CLASSIFICATION OF EXPENSES**  
**(Dollars in Thousands)**

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

Year Ended June 30, 2014										
Functional Classification	Natural 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	\$ 197,293	\$ 57,140	\$ -	\$ 233	\$ 28,035	\$ -	\$ -	\$ -	\$ 145	\$ 282,846
Research	63,029	27,598	-	580	38,083	-	-	-	153	129,443
Public Service	35,031	8,475	-	150	14,427	-	-	-	261	58,344
Academic Support	24,808	6,013	-	98	15,642	-	-	-	178	46,739
Student Services	22,473	8,433	-	29	10,420	-	-	-	169	41,524
Operation and Maintenance of Plant	23,798	8,614	-	19,369	21,239	-	-	-	47	73,067
General Institutional Support	52,129	13,106	-	41	30,416	-	-	-	132	95,824
Student Financial Aid	-	-	37,431	-	-	-	-	-	37,431	-
Auxiliary Enterprises	44,001	9,176	-	7,704	49,329	-	-	-	373	110,583
Depreciation and Amortization	-	-	-	-	-	75,194	-	-	-	75,194
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,806	-	2,806
Loan Cancellations and Write Offs	-	-	-	-	-	-	1,290	-	-	1,290
Total Expenses	\$ 462,562	\$ 138,555	\$ 37,431	\$ 28,204	\$ 207,591	\$ 75,194	\$ 1,290	\$ 2,806	\$ 1,438	\$ 955,091

Year Ended June 30, 2013										
Functional Classification	Natural 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
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

**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**

Board of Governors  
West Virginia University  
Morgantown, West Virginia

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 financial statements of the business-type activities of West Virginia University, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise West Virginia University's basic financial statements, and have issued our report thereon dated November 20, 2014.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered West Virginia 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of West Virginia University's internal control. Accordingly, we do not express an opinion on the effectiveness of West Virginia 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 a 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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 West Virginia University's 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 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 result of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "CliftonLarsonAllen LLP". The signature is written in a cursive, flowing style.

**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
November 20, 2014