

# ***WEST VIRGINIA UNIVERSITY***

*Financial Statements  
for the Years Ended June 30, 2017 and 2016  
and Independent Auditors' Reports*

# WEST VIRGINIA UNIVERSITY

## TABLE OF CONTENTS

---

	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	3-19
FINANCIAL STATEMENTS FOR YEARS ENDED JUNE 30, 2017 AND 2016:	
Statements of Net Position	20-21
Statements of Revenues, Expenses and Changes in Net Position	22-23
Statements of Cash Flows	24-25
Notes to Financial Statements	26-87
REQUIRED SUPPLEMENTARY INFORMATION (RSI)	88
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 <i>GOVERNMENT AUDITING STANDARDS</i>	89



## 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), a campus of the West Virginia Higher Education Policy Commission as of and for the years ended June 30, 2017 and 2016, and the related statements of revenue, expenses, and changes in net position, and cash flows for the years 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2017 and 2016, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis-of-Matters***

As discussed in Note 1, the financial statements present only West Virginia University and do not purport to, and do not present fairly the financial position of the West Virginia Higher Education Policy Commission as of June 30, 2017 and 2016, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, schedule of proportionate share of net pension liability and contributions, as listed in the table of contents 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 Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated October 18, 2017, 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 solely 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 the effectiveness of 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  
October 18, 2017

# WEST VIRGINIA UNIVERSITY

---

## Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2017

### 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, 2017 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2016 compared to fiscal year 2015.

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

At June 30, 2017, the University's total net position increased from the previous year-end by \$8.4 million. The increase in net position is primarily attributable to increases in capital assets, net of depreciation and deferred outflows from pensions as well as decreases in accounts payable and debt service assessment payable to the Higher Education Policy Commission ("Commission"). This increase in net position was partially offset by increases in unearned revenue, net pension liability, other post-employment benefits liability ("OPEB"), accrued liabilities, notes payable and bonds payable.

Total revenues in fiscal year 2017 were \$1.1 billion, a 6.9% decrease over prior year, primarily due to a significant decrease in capital grants and gifts revenues. Total revenues increased by 9.8% from fiscal year 2015 to fiscal year 2016. During fiscal year 2017 increases in net tuition and fee revenues, non-capital grants and contracts revenues, auxiliary revenues, sales and services of educational activities, investment income and other operating income were offset by increases in several categories of expenses such as salaries and wages, benefits, scholarships and fellowships, utilities, supplies and other services, depreciation and amortization, and other operating and non-operating expenses. Total expenses increased by 1.2% from fiscal year 2016 to fiscal year 2017.

Total net position increased by \$103.1 million from fiscal year 2015 to fiscal year 2016 due to significant increases in capital assets, net, and accounts receivable from public-private partners, students and grantors.

### 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)**

	<b>As of June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Assets</b>			
Current Assets	\$ 247,781	\$ 259,738	\$ 283,602
Capital Assets, Net	1,823,491	1,760,116	1,531,269
Other Noncurrent Assets	134,322	173,002	257,153
<b>Total Assets</b>	<b>2,205,594</b>	<b>2,192,856</b>	<b>2,072,024</b>
<b>Deferred Outflows of Resources</b>	16,376	14,645	15,336
<b>TOTAL</b>	<b>\$ 2,221,970</b>	<b>\$ 2,207,501</b>	<b>\$ 2,087,360</b>
<b>Liabilities</b>			
Current Liabilities	\$ 182,676	\$ 211,940	\$ 177,775
Noncurrent Liabilities	996,505	960,107	980,503
<b>Total Liabilities</b>	<b>1,179,181</b>	<b>1,172,047</b>	<b>1,158,278</b>
<b>Deferred Inflows of Resources</b>	39,787	40,835	37,604
<b>TOTAL</b>	<b>\$ 1,218,968</b>	<b>\$ 1,212,882</b>	<b>\$ 1,195,882</b>
<b>Net Position</b>			
Net Investment in Capital Assets	\$ 1,091,815	\$ 1,085,219	\$ 943,937
Restricted for:			
Nonexpendable	17,803	16,836	17,398
Expendable	8,333	7,743	7,707
Unrestricted Net (Deficit)	(114,949)	(115,179)	(77,564)
<b>TOTAL NET POSITION</b>	<b>\$ 1,003,002</b>	<b>\$ 994,619</b>	<b>\$ 891,478</b>

Total assets of the University increased by about \$12.7 million, or .6%, to a total of \$2.2 billion as of June 30, 2017. The increase was primarily due to increases in net capital assets, net accounts receivable, and deferred outflows related to pensions. These increases were partially offset by decreases in investments, cash and cash equivalents, and accounts receivable from public private partnerships.

- Cash and cash equivalents (including restricted cash) decreased by \$13.0 million primarily due to an increase in salaries and wages, fringe benefits and expenses for utilities and a decrease in bond proceeds on deposit with the Trustees for construction and renovation of campus facilities. This decrease was partially offset by loan proceeds received from a note, in the amount of \$36.1 million, to defray the cost of the acquisition of the WVU Beckley Campus and associated start-up costs. Cash and cash equivalents experienced a similar but larger decline of \$39.2 million from fiscal year 2015 to fiscal year 2016 primarily due to a reduction in State appropriations as a result of base budget reduction in fiscal year 2016 as well as a mid-year budget cut; a significant increase in operating costs; an increase in amounts receivable from the public private partners; and bond proceeds on deposit with the Trustees used for construction and renovation of campus facilities.
- Accounts receivable, net (both current and noncurrent) experienced an increase of \$2.6 million over fiscal year 2016 balances. This was primarily due to an increase of \$4.1 million in amounts due from students that registered but had not paid by June 30. This also caused an increase in the allowance for doubtful accounts, which increased by \$1.2 million. This was offset by a decrease in amounts due from grantors. Accounts receivable, net had increased by \$8.9 million from fiscal year 2015 to fiscal year 2016.
- Accounts receivable from public private partnerships decreased by \$1.1 million representing amounts due from the University's private student housing partners for reimbursable expenses, management fees and additional rent related to fiscal year 2017. Accounts receivable from public private partnerships had increased by \$2.1 million from fiscal year 2015 to fiscal year 2016.
- Investments decreased by \$37.8 million primarily due to sale of U.S. Treasury notes and bonds to fund construction activity on campus. Investments decreased by \$74.1 million from fiscal year 2015 to fiscal year 2016.
- Capital assets, net increased by \$63.4 million primarily due to the acquisition of land and buildings, the completion of improvements to buildings, land and infrastructure, and ongoing construction of buildings and infrastructure.
  - The University took ownership of improvements to the space in the University's Health Sciences Center Cafeteria building from its public-private partner, HSC Fresh Kitchen, LLC in the amount of \$4.5 million. Additionally, capital assets of \$6.3 million were transferred to the University from its public-private partner, University Park at Evansdale LLC, for University Park, a mixed use retail and residential facility including student housing.
  - During fiscal year 2017, the University purchased two parcels of real estate as follows: a parcel on Research Park Road in Morgantown, WV for approximately \$241,000 and a parcel on Oakland Street in Morgantown, WV for \$364,000.
  - The University completed improvements to the following buildings and infrastructure during the fiscal year: Agricultural Sciences Building II, Percival Hall lab renovations, Law Center renovations, Evansdale traffic flow, upgrades to the PRT, Coliseum renovations, various capital projects at the Health Sciences Center ("HSC"), and several internally developed software projects. Additionally, several projects on the Beckley campus were completed including the renovations of the library, Shroyer Hall, Hogan Hall, the Robert C. Byrd Learning Resource Center, the Benedum Center and the Health Sciences Center building. Other on-going capital activity included renovations to the Milan Puskar Stadium, PRT train control upgrades, various energy performance projects, and additional projects at the HSC, in addition to the engineering lab building and information technology infrastructure improvements on the Beckley campus.
  - Major construction-in-process projects included: renovations to the Milan Puskar Stadium, PRT train control upgrades, various energy performance projects, and additional projects at the HSC in addition

to the engineering lab building and information technology infrastructure improvements on the Beckley campus.

Capital assets, net increased by \$228.9 million from fiscal year 2015 to fiscal year 2016 primarily due to the acquisition of land and buildings, completion of improvements to land, buildings and infrastructure, and ongoing construction of buildings.

In accordance with the provisions of GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions*,” and Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date*”, the University reported deferred outflows related to pensions, in the amount of \$3.0 million, at June 30, 2017. This is an increase of \$1.8 million from the deferred outflows related to pensions of \$1.2 million at June 30, 2016. During fiscal year 2017, these deferred outflows represent the University’s proportionate share of the net difference between projected and actual investment earnings on investments, the difference between expected and actual experience, and the change in proportion and difference between employer contributions and proportionate share of contributions, and changes in assumptions.

During fiscal year 2017, the University recorded deferred outflows of \$398,000 related to the acquisition of the Blanchette Rockefeller Neurosciences Institute (“BRNI”).

Total liabilities for the year increased by \$7.1 million (or .6%). This increase in total liabilities is primarily attributable to increases in unearned revenue, accrued liabilities, notes payable, net pension liability, OPEB liability and bonds payable. This increase was partially offset by decreases in accounts payable, real estate purchase agreements payable and debt service assessment payable to the Commission.

- Accounts payable decreased by \$22.6 million primarily due to a decrease in unpaid invoices at year-end. Accounts payable increased by \$13.0 million from fiscal year 2015 to fiscal year 2016.
- Real estate purchase agreement payable decreased by \$1.5 million primarily due to annual payments on prior purchase agreements payable as well as B&O tax credits received from the City of Morgantown against a purchase agreement recorded previously for the Square at Falling Run property. This category experienced a similar decrease of \$1.2 million from fiscal year 2015 to fiscal year 2016.
- Debt service assessment payable to the Commission decreased by \$4.5 million due to scheduled debt service (principal) payments in fiscal year 2017. This decrease is consistent with the decrease in such liability from fiscal year 2015 to fiscal year 2016 of \$4.6 million.
- Unearned revenue increased by \$6.8 million due to an increase in unearned student tuition and fees and room and board revenues for the summer term, unearned revenue for ticket sales and parking for the 2017 football season, and unearned revenue for sponsored awards. There was no significant change in this category from fiscal year 2015 to fiscal year 2016.
- Accrued liabilities increased by \$2.4 million primarily due to an increase in the University’s liability under the Voluntary Separation Incentives Plan (“VSIP”) which provides incentives for the voluntary separation of employees from the University. There was no significant change in this category from fiscal year 2015 to fiscal year 2016.
- Bonds payable increased by \$4.3 million in fiscal year 2017 mainly due to an increase of \$19.3 million in the 2016 bond issue offset by scheduled bond principal payments during the year. Bonds payable experienced a decrease of \$13.9 million from fiscal year 2015 to fiscal year 2016.
- Notes payable increased by \$14.3 million primarily due to a loan received by the Research Corporation during fiscal year 2017 to defray the acquisition and start-up costs of the new campus in Beckley, WV. WVUIC also received a loan during fiscal year 2017. Notes payable increased by \$11.3 million from fiscal year 2015 to fiscal year 2016.

- OPEB liability increased by \$5.1 million due to the accrual of the annual required contribution (“ARC”) allocated to the University by the WV Retiree Health Benefit Trust (“the Trust”) for fiscal year 2017. 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 increased by \$10.0 million from fiscal year 2015 to fiscal year 2016.
- Net pension liability increased by \$2.3 million due to an increase in the University’s proportionate share of the net pension liability of the WV Teachers’ Retirement System, which is administered by the WV Consolidated Public Retirement Board. When comparing fiscal year 2015 to fiscal year 2016, this category experienced a decrease of \$888,000.

In accordance with the provisions of GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions*,” and Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date*,” during fiscal year 2017 and 2016, the University recorded deferred inflows related to pensions in the amount of \$1.5 million and \$2.4 million, respectively. These deferred inflows represent the University’s proportionate share of the difference between employer contributions and proportionate share of contributions as well as the difference between expected and actual experience.

During fiscal year 2015, the University entered into an agreement with ACC OP (College Park, WV) LLC to operate College Park, a multi-use facility including student housing, owned by WVU. The agreement met the definition of a service concession arrangement (“SCA”) under the provisions of GASB Statement No. 60, “*Accounting and Financial Reporting for Service Concession Arrangements*.” During fiscal year 2017 and 2016, an additional \$300,000 and \$4.8 million, respectively, of capital asset improvements were added to the service concession arrangement. This increase was partially offset by amortization of the deferred SCA over the lease term of forty years to auxiliary enterprise revenue.

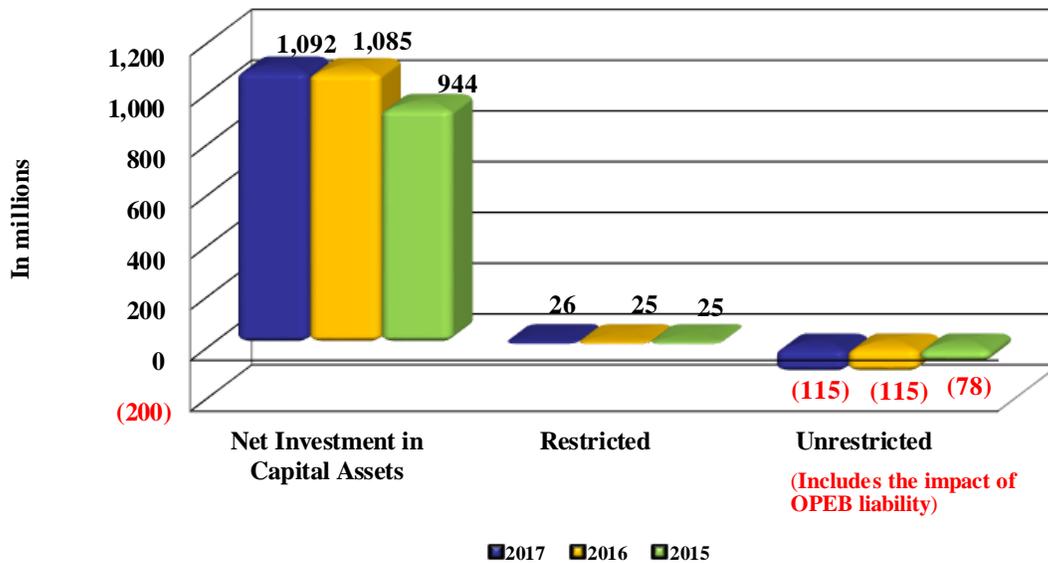
In fiscal year 2017, the University also recorded deferred inflows of \$580,000 related to the public private partnerships for amounts provided to the University by West Virginia Campus Housing (“WVCH”) for information technology improvements to Seneca Hall at University Place.

The University also 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 \$247.8 million were sufficient to cover current liabilities of \$182.7 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2017.

The following is a comparative illustration of net position.

**COMPARISON OF NET POSITION**  
**June 30, 2017, 2016 and 2015**



Net investment in capital assets increased by \$6.6 million mainly due to an increase in capital assets, net, and decreases in debt service assessment payable to the Commission and real estate purchase agreements payable. This increase was partially offset by decreases in cash and investments with the bond trustee, as well as increases in leases payable, notes payable and bonds payable. Net investment in capital assets increased by \$141.3 million from fiscal year 2015 to fiscal year 2016.

During fiscal year 2017, the restricted component of the net position experienced an increase of \$1.6 million. There was no significant change in this component of net position from fiscal year 2015 to fiscal year 2016.

There was no significant change in the unrestricted component of the net position during fiscal year 2017. This component of net position experienced a decrease of approximately \$37.6 million from fiscal year 2015 to fiscal year 2016.

**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.

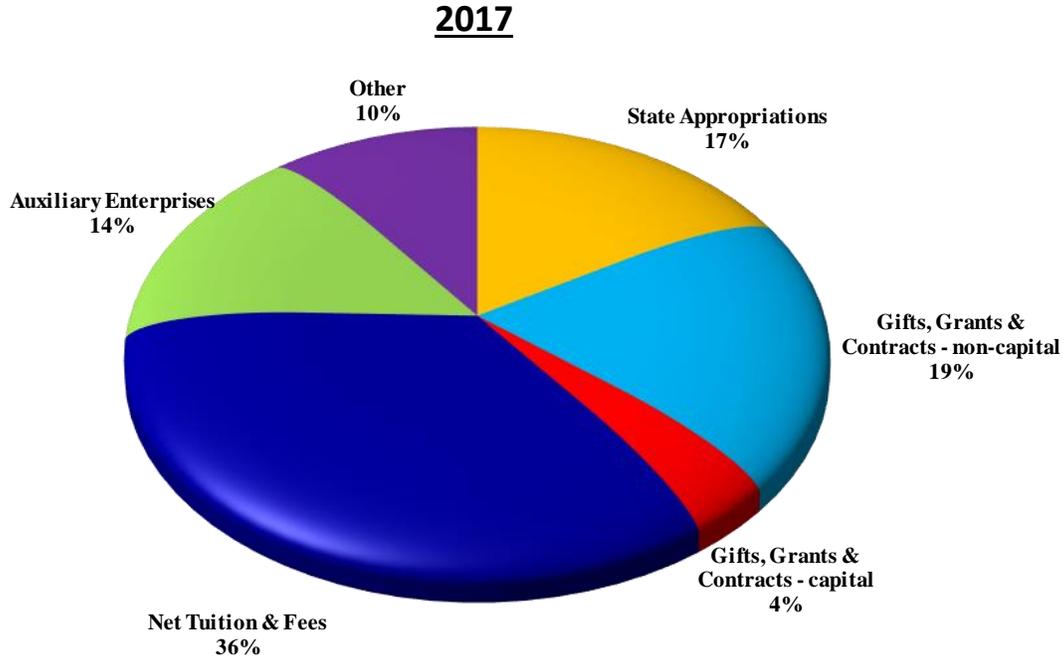
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the “Legislature”) to the University without the Legislature directly receiving commensurate goods and services 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)**

	<b>Years Ended June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
Operating Revenues	\$ 783,219	\$ 752,511	\$ 717,938
Operating Expenses	<u>1,061,936</u>	<u>1,054,048</u>	<u>1,001,523</u>
<b>Operating Loss</b>	(278,717)	(301,537)	(283,585)
Net Nonoperating Revenues	<u>244,840</u>	<u>241,050</u>	<u>236,636</u>
<b>Loss before Other Revenues, Expenses, Gains or Losses</b>	(33,877)	(60,487)	(46,949)
Capital grants and gifts	42,260	163,272	94,946
Capital bond proceeds from the State	-	-	6
Bond/capital projects proceeds from the Commission	-	<u>356</u>	<u>1,646</u>
<b>Increase in Net Position</b>	8,383	103,141	49,649
<b>Net Position - Beginning of Year</b>	994,619	891,478	855,656
<b>Cumulative Effect of Change in Accounting Principle</b>	-	-	(13,827)
<b>Net Position - Beginning of Year, As Restated</b>	<u>994,619</u>	<u>891,478</u>	<u>841,829</u>
<b>Net Position - End of Year</b>	<u>\$ 1,003,002</u>	<u>\$ 994,619</u>	<u>\$ 891,478</u>

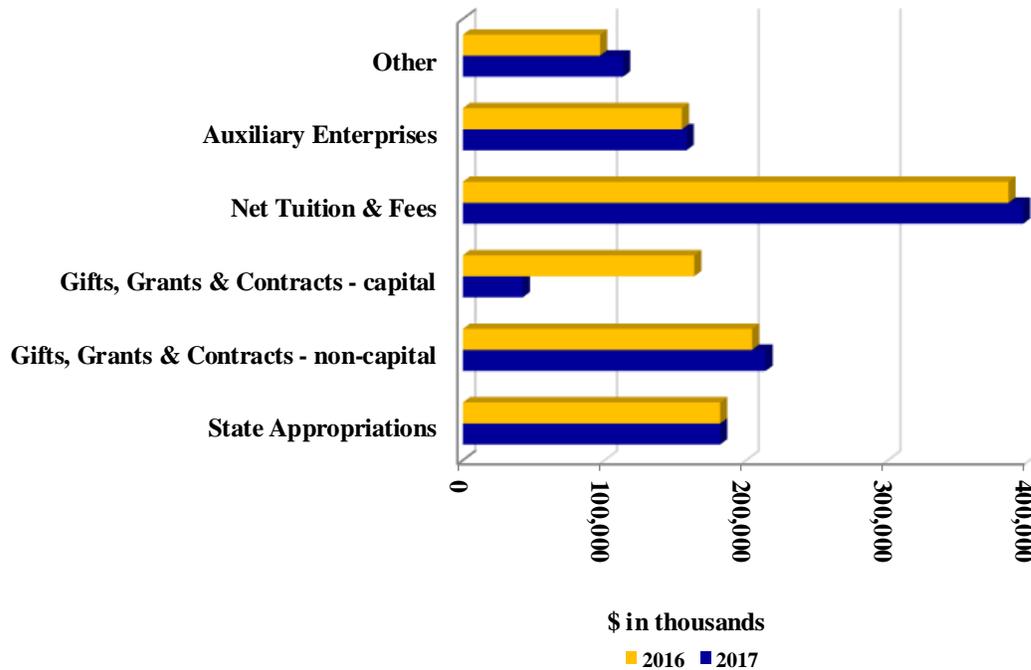
Revenues:

The following graph shows the composition of total revenues by source for fiscal year 2017.



The following chart provides a comparison of revenues by significant category between fiscal years 2017 and 2016.

## Trend in Revenues



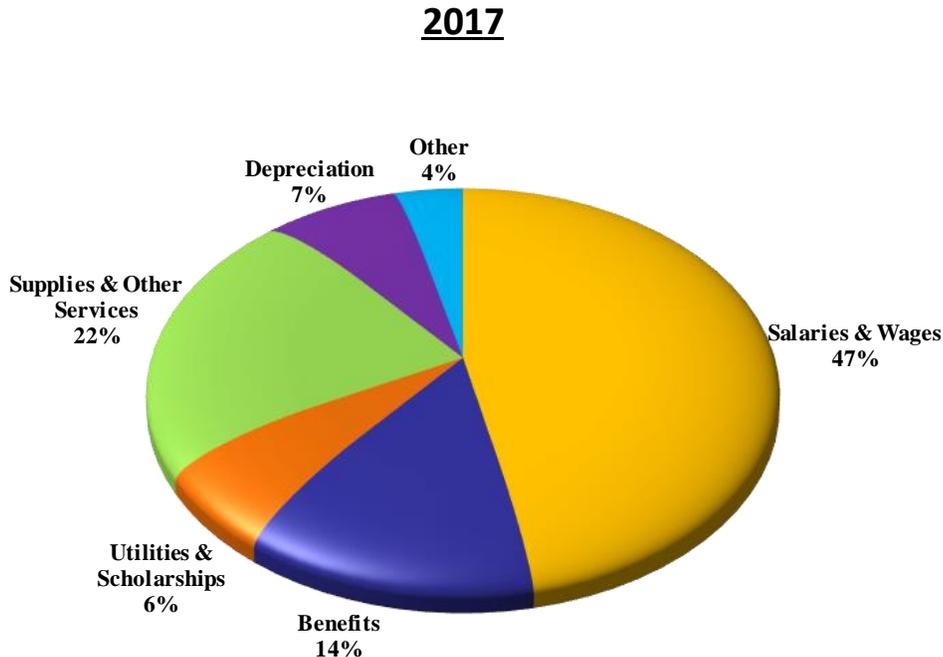
Total fiscal year 2017 revenues were \$1.1 billion, a decrease of \$81.5 million or 6.8%, from fiscal year 2016. Some highlights of the information presented on the statement of revenues, expenses, and changes in net position are as follows:

- Tuition and fees, net increased by \$10.3 million primarily due to an average increase in the fee rate of 5% for both resident and non-resident students and an increase in enrollment. This was offset by an increase in the scholarship allowance of \$8.3 million due to additional institutional resources used for awarding financial aid. A net increase of \$14.3 million was noted in this revenue category from fiscal year 2016 to fiscal year 2016.
- Grants and contracts revenue (non-capital related) increased by \$9.6 million mainly due to increased mission support payments from WVU Hospitals and affiliated entities. An additional increase was due to revenues from new federal and commercial contracts received by the West Virginia University Innovation Corporation, a blended component unit of the University. An increase of \$11.7 million was noted in this revenue category from fiscal year 2015 to fiscal year 2016.
- Revenues from sales and services of educational activities increased by \$3.0 million from the previous year mainly as a result of increases in registration and conference fees, student activities and programs, trademark licensing royalties and other services provided by departments across campus. These revenues increased by \$1.2 million from fiscal year 2015 to fiscal year 2016.
- Auxiliary revenue, net increased by \$3.4 million primarily due to an increase in athletics revenue and room and board revenue. This increase was partially offset by a decrease in revenues from the public private partnerships (this includes management fees received and due from the University’s private developer-partners as well as the University’s share of net revenues from the operation of College Park and University Park.) Athletics revenue increased mainly because of an increase in revenues from the Big 12 Athletic Conference, corporate sponsorships, football guarantees, miscellaneous revenues, and single game ticket sales for both men’s basketball and football games. This increase in Athletics revenue was partially offset by a one-time signing bonus received from Nike in fiscal year 2016. Room and board revenue increased due to an increase in occupancy rates in the residence halls and an increase in housing and meal plan rates. Auxiliary revenue increased by \$6.0 million from fiscal year 2015 to fiscal year 2016.

- Other operating revenue increased by \$4.7 million from the previous year primarily due to settlement proceeds received with regard to BRNI and the White Hall and Percival Hall renovation projects. This category increased by \$1.6 million from fiscal year 2015 to fiscal year 2016.
- Investment income increased by \$10.7 million primarily due to unrealized gains on the unrestricted investments with the Foundation, the BRIM escrow account and the Fred and Nannie Wood endowments. There was no significant change in investment income from fiscal year 2015 to fiscal year 2016.
- Other net non-operating (expenses) revenues changed by \$5.9 million compared to prior year mainly due to the retirement of the Agriculture Sciences building on the Evansdale campus and the Hi-Rise building on the WVU Tech campus. This was partially offset by the sale of a farm at Potomac State College in fiscal year 2016. Other net non-operating revenues changed by \$2.1 million from fiscal year 2015 to fiscal year 2016.
- Capital grants and gifts decreased by \$121.0 million primarily due to the transfer of buildings (University Park at Evansdale, Evansdale Crossing and the Garage at University Place) to WVU from its public private partners for a total value of \$132.1 million, as well as additional transfers from the West Virginia Campus Housing, LLC in the amount of \$14.6 million during fiscal year 2016. This decrease was offset by increases in capital gifts and grants for facility upgrades for the WV Clinical and Translational Science Institute, capital gifts from the Foundation for various Athletics projects including the basketball practice facility and renovations at the Coliseum, and a gift of software to the geology department from Schlumberger. Capital grants and gifts increased by \$68.3 million from fiscal year 2015 to fiscal year 2016.

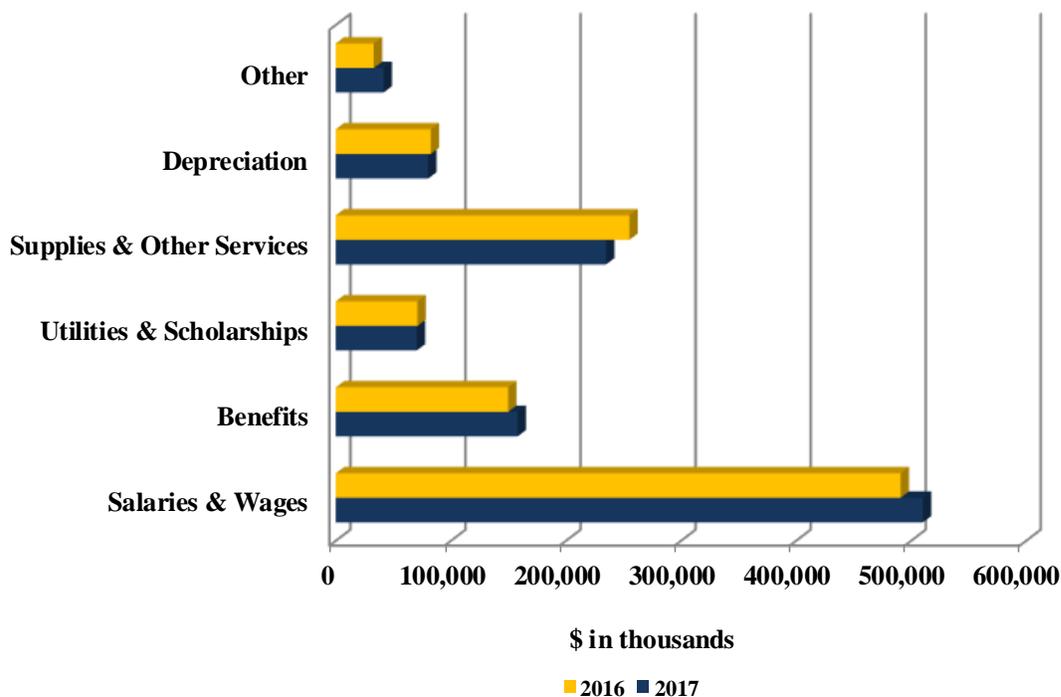
Expenses:

The following graph shows the composition of total expenses by category for fiscal year 2017.



The following chart provides a comparison of expenses by significant category between fiscal years 2017 and 2016.

## Trend in Expenses



Total fiscal year 2017 expenses of \$1.1 billion exceeded those of the prior year by \$13.3 million (or 1.2%). Changes in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by \$19.4 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty, faculty equivalent and non-classified staff salaries. An increase of \$17.1 million was noted in salaries and wages from fiscal year 2015 to fiscal year 2016.
- Benefits expense increased by \$8.3 million mainly due to increases in salary-related benefits, tuition waivers to faculty, staff and graduate assistants and pension expense. These increases were partially offset by a decrease in OPEB expense. Benefits expense increased by \$3.2 million from fiscal year 2015 to fiscal year 2016.
- Scholarship and fellowship expense decreased by \$3.9 million from the prior year mainly as a result of a decrease in Foundation scholarships and an increase in scholarship discounts and allowances due to additional institutional resources used for awarding financial aid. This was offset by an increase in institutional awards. This expense category increased by \$4.7 million from fiscal year 2015 to fiscal year 2016.
- Expenses for utilities increased by \$3.3 million due to increases in expenses for electricity, water and steam. There was no significant change in this expense category from fiscal year 2015 to fiscal year 2016.
- Supplies and other services decreased by \$20.2 million; this was primarily due to a decrease in non-capitalizable equipment and furnishings transferred to the University from its public private partners. Decreases also occurred in several areas including travel, legal services, computer services and supplies, and repairs and maintenance. Supplies and other services increased by \$23.8 million from fiscal year 2015 to fiscal year 2016.

- Depreciation and amortization expense decreased by \$2.2 million. This was due to a decrease in amortization expense for donated right-to-use software, which was offset by an increase in depreciation on construction projects completed and placed in service during fiscal year 2017 including the Agriculture Sciences building and renovations at the Law Center and Coliseum. This category experienced an increase of \$4.0 million from fiscal year 2015 to fiscal year 2016.
- Other operating expenses increased by \$3.3 million primarily due to an increase in expenses related to the Voluntary Separation Incentives Plan (“VSIP”) which provides incentives for the voluntary separation of employees from the University. There was no significant change in this category of expenses from fiscal year 2015 to fiscal year 2016.

## **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)**

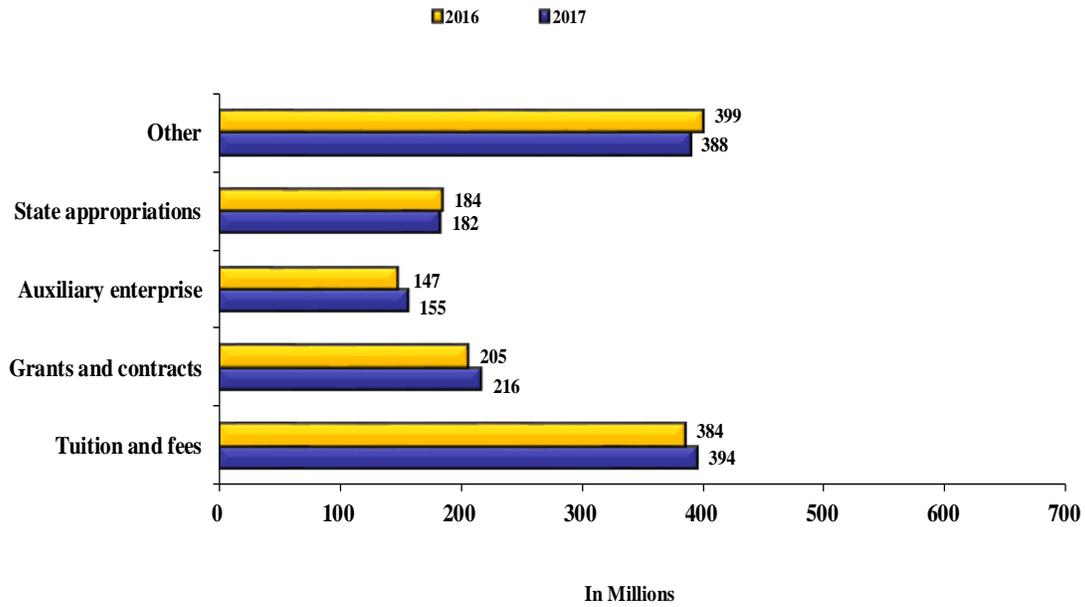
	<b>Years Ended June 30</b>		
	<b>2017</b>	<b>2016</b>	<b>2015</b>
<b>Cash Provided By (Used In):</b>			
Operating Activities	\$ (189,309)	\$ (204,533)	\$ (192,819)
Noncapital Financing Activities	265,800	261,455	258,319
Capital Financing Activities	(140,099)	(172,181)	(11,719)
Investing Activities	50,576	76,097	(115,434)
<b>Decrease in Cash and Cash Equivalents</b>	<b>(13,032)</b>	<b>(39,162)</b>	<b>(61,653)</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<b>146,765</b>	<b>185,927</b>	<b>247,580</b>
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 133,733</b>	<b>\$ 146,765</b>	<b>\$ 185,927</b>

Total cash and cash equivalents decreased by \$13.0 million during fiscal year 2017 to \$133.7 million.

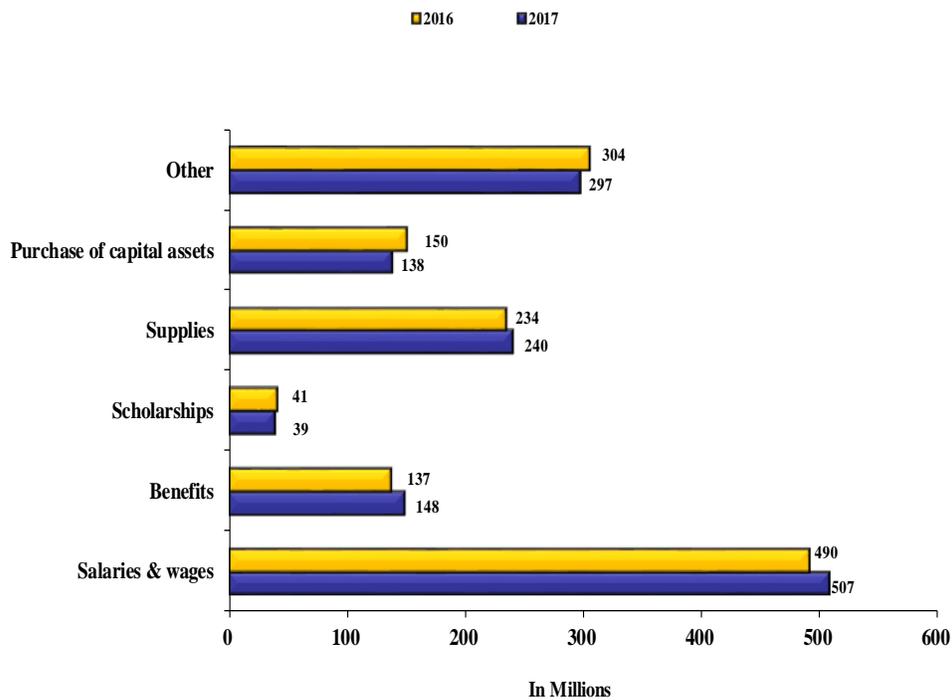
- Net cash used in operating activities decreased by \$15.2 million primarily due to an increase in cash inflows from tuition and fees, grants and contracts, auxiliary enterprises and other receipts. This increase in cash inflows was partially offset by an increase in cash outflows for payments to suppliers and employees and payments for benefits. Cash used in operating activities had experienced an increase of \$11.7 million from fiscal year 2015 to fiscal year 2016.
- Net cash provided by noncapital financing activities increased by \$4.3 million primarily due to an increase in cash inflows from gifts. This increase was partially offset by decreased cash inflows from State appropriations and other nonoperating receipts. This category had experienced an increase of \$3.1 million from fiscal year 2015 to fiscal year 2016.
- Net cash used in capital financing activities increased by \$32.1 million primarily due to a decrease in cash outflows for the purchase of capital assets. The decrease in cash outflows was partially offset by increased cash inflows from proceeds from the issuance of capital debt and bonds. Capital financing activities had changed by \$160.4 million in fiscal year 2016.
- Net cash provided by investing activities changed by approximately \$25.5 million primarily due to a decrease in cash inflows from the redemption of matured bond investments. This decrease in cash inflows was partially offset by an increase in cash inflows from the sale of investments and investment income. In contrast, investing activities had changed by \$191.5 million in fiscal year 2016.

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 \$292.7 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 gifts.

Significant construction, capital and debt activity in fiscal year 2017 was as follows:

- The University completed improvements to buildings, land improvements, infrastructure and land including the Agricultural Sciences Building II, Percival Hall lab renovations, Law Center renovations, Evansdale traffic flow, upgrades to the PRT, Coliseum renovations, various capital projects at the Health Sciences Center, and several internally developed software projects. Additionally, several projects on the Beckley campus were completed including the renovations of the library, Shroyer Hall, Hogan Hall, the Robert C. Byrd Learning Resource Center, the Benedum Center and the Health Sciences Center building. Other on-going capital activity included renovations to the Milan Puskar Stadium, PRT train control upgrades, various energy performance projects, and additional projects at the HSC in addition to the engineering lab building and information technology infrastructure improvements on the Beckley campus.
- During fiscal year 2017, the University executed the following real estate transactions:
  - Took ownership of improvements to the space in the University's Health Sciences Center Cafeteria building from its public-private partner, HSC Fresh Kitchen, LLC in the amount of \$4.5 million. Additionally, capital assets of \$6.3 million were transferred to the University from its public-private partner, University Park at Evansdale LLC, for University Park, a mixed use retail and residential facility including student housing.
  - During fiscal year 2017, the University purchased two parcels of real estate as follows: a parcel on Research Park Road in Morgantown, WV for approximately \$241,000 and a parcel on Oakland Street in Morgantown, WV for \$364,000.
- In June 2016, the WVU Research Corporation received a short-term (90-day note) loan in the principal amount of \$12.0 million from United Bank, Inc. The loan proceeds were used to reimburse the University for the acquisition and start-up costs of the new campus in Beckley, WV. This short term loan was converted to a note payable in December 2016. The note is a drawn down note with a maximum authorized amount of \$36.1 million, of which \$24.0 million was drawn down and payable as of June 30, 2017.
- In June 2016, the University also issued improvement revenue bonds – 2016 Series A – in the principal amount of \$20.0 million to finance infrastructure improvements to the WVU Health Sciences Center. At June 30, 2017, the 2016 Series A bonds payable was \$19.7 million.

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 \$53.5 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2017.

At June 30, 2017, the University's bonds were rated as Aa3 and A/Stable by Moody's and Standard and Poor's respectively.

## Economic Outlook

WVU is a strong, vibrant and vital part of the state of West Virginia and the region. However, WVU is facing an increasingly challenging operating and financial environment due to declining State support, an increasingly competitive enrollment environment, higher tuition discounting to keep tuition affordable, increasing operating costs, and reductions in federal support. The University administration is taking active steps to meet these challenges through prudent financial planning and management practices designed to reduce costs, improve the efficiency and effectiveness of its operations and contracts, and maximize revenue opportunities.

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. During FY 2017, the State experienced a budget deficit of \$20.9 million in its general revenue funds as a result of significant decline in personal income tax and consumer sales tax/use tax collections. While the State achieved a healthy balance of \$652.4 million in its Revenue Shortfall Reserve Fund (Rainy Day Fund), declining revenues, increases in state appropriations for the Medicaid program and the expanding federal deficits have stressed the State's budget. These budget challenges prompted a mid-year budget reduction in fiscal year 2017.

During fiscal year 2017, WVU partnered with the state Department of Commerce and Marshall University to commission the McKinsey & Company in search for a fresh look at our problems and new pathways to solving them. Through McKinsey's consultation with local and regional community leaders who are working diligently to support economic recovery, we have identified a path called West Virginia Forward. This path has three objectives: identify potential sectors in which West Virginia can grow to diversify our economy; reinforce the infrastructure, talent base and business climate that supports economic growth; and create a clear roadmap to our shared destination of a prosperous West Virginia. Through this process, a few key discoveries have been made including: strengthening existing industries, differentiating ourselves from the competition, creating new sectors, attracting new businesses, and developing our people. WVU is in the process of formalizing the partnership, outlining specific actions and dedicating resources to implement the recommendations from the McKinsey report.

The University's federally supported research programs represent an important component of its mission. Lately, this support has been challenged by increasing federal budget deficits. The University has been actively addressing this challenge by strengthening the competitiveness of its faculty in seeking grants through a combination of faculty training programs, proposal development assistance, and corporate infrastructure enhancements. This, combined with internal investments being made in emerging researchers and techniques help provide a simple, user friendly process that facilitates the identification of external funding opportunities.

The University has been successful in increasing its research capacity and activity. During fiscal year 2016, the University earned the highest research activity - R1 research institution – Carnegie classification. Some of the results of that highest level of research are exemplified by the accomplishments of WVU researchers engaged in gravitational wave research and uncovering the Volkswagen emissions scandal. The Humanities Center was created by leveraging endowed funds. This center will support innovative, collaborative and interdisciplinary faculty research in all humanities fields. This center will help solidify the University's classification as an R1 research institution. WVU prides itself in utilizing and implementing its research not only in the classroom but also to tackle and solve problems facing the State.

Although challenging, the University continues to target strategic federal opportunities. One example is through the creation of the University Innovation Corporation (UIC), a tool to enable us to increase the amount of contract-based testing and evaluation that the University performs for industry and government agencies, with a special focus on increasing our funding from the Department of Defense. UIC will also allow the University to build strong service-based relationships with industry, as is evident from its testing and evaluation arm of the Center for Alternative Fuels, Engines and Emissions ("CAFEE"). In addition to the UIC, the WVU Energy Institute serves as the principal route to secure research energy related funding.

The University is also developing a strong support system to encourage entrepreneurial activities that will boost the economy of our community and our state. The University has established a LaunchLab, MakerLab and CodeLab, which provide advice and assistance to students in the areas of start-up business strategy, prototyping and mobile app development. The University also launched a Health Sciences Innovation Center that provides

fully functional biomedical lab space and infrastructure for emerging life science start-ups and connections to industry, capital and start-up mentoring. Moving forward, the University will need to continue expanding its base of funding for the research enterprise and to develop and implement innovative strategies to secure and maintain external funding.

The Foundation's State of Minds campaign has raised \$1.125 billion to date, surpassing its goal of \$1 billion. The campaign raised nearly \$140 million in new gifts and pledges in fiscal year 2017, the second-highest level in Foundation history.

Despite the funding shortfalls and external economic challenges, the University is committed to strategically investing in its core mission and long-term quality, and positioning itself for financial stability well into the future. Examples of these initiatives include:

- Three Critical Pillars:

The University is committed to transforming itself and the State by strengthening three critical pillars: education, healthcare and broad-based prosperity. Priorities within the area of education include increasing enrollment, increasing retention and improving K-12 education through initiatives such as online programming, student success initiatives such as project 168 and Teaching Learning Commons, and partnering with WV's pre-K-12 educators through programs such as WVU Extension's Energy Express, and training more secondary and Math teachers through the UTeach program. The WVU Beckley campus welcomed students for the first time in fall 2016. All WVU Tech academic programs moved to the WVU Beckley campus in August 2017 for the start of the fall term.

The University is pursuing the transformation of healthcare in WV by focusing on translational and clinical cardiac, cancer and critical care, directing WVU Medicine's research and outreach efforts to prevent and treat opiate and opioid abuse, addiction and obesity and addressing the health needs of the State's residents. In line with its goal of advancing knowledge and applying it to solve problems facing the State, in October 2016, the University acquired certain assets of the Blanchette Rockefeller Neurosciences Institute to form a center for brain research at the University and create solutions for brain disorders and diseases like Alzheimer's.

The University is pooling resources with the Uniformed Services University; the Defense and Veterans Center for Integrative Pain Management has created new protocols for the treatment of pain in battlefield medicine. The West Virginia Clinical and Translational Science Institute has expanded its services to treat individuals with substance use disorder. The University is also leading a federally funded effort to prevent HIV and hepatitis C outbreaks related to the opioid epidemic.

The University is also focusing on the priority of helping the State thrive and bringing broad-based prosperity to its citizens by serving as an economic engine for WV and by leveraging its internal expertise with external resources, its fundamental research capabilities, and its entrepreneurial activities, as well as partnering with the federal government, businesses, community and the State. WVU's Center for Big Ideas is gearing up to study how state government can be restructured to make it effective, efficient and forward-thinking and engaging in a project with Gallup to study how one reinvents a University to lead reinvention of a state. As OneWVU, the University will work together to transform the University, and in turn, the lives of its students and all West Virginians.

Additionally, the University has joined with the WV Department of Commerce and Marshall University for a comprehensive study of how to address the state's economic issues and put WV on the road to prosperity. This path, West Virginia Forward, has three objectives: reinforce the foundation that supports economic growth, including the state's infrastructure, talent base and business climate; identify potential sectors in which the state can grow to diversify its economy; and helping partners around the state navigate these new pathways toward a shared destination: a prosperous West Virginia.

- **Effective Financial Management:**  
In order to meet its strategic financial goals of achieving a positive adjusted operating margin, preserving cash position, maintaining bond rating and continuing investments for future growth, the University embarked on a transformational budget program in fiscal year 2017. The goal of the program is to reduce spending by \$45 million by the fiscal year 2020 by reducing centrally allocated budgets, establishing expense limit on non-central spending and setting revenue targets.

The University has established a Bureaucracy SWOT Committee (<http://bureaucracybusters.wvu.edu/>) with the sole mission of cutting bureaucracy to create savings, which can then be directed into the core mission of the University. As a result, many business processes and systems have been streamlined, and several others are under evaluation for simplification. 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:**  
Preliminary fall 2017 enrollment numbers suggest an increase in the incoming freshman class (6,224) across its three campuses in Morgantown, Beckley and Keyser. The academic profile of the incoming freshman class continues to improve in terms of the average grade point average. Additionally, the incoming freshman class also features higher test scores and an increase in international students. The University has also increased its need-based aid to help students and their families with educational costs. President E. Gordon Gee has expressed a desire to increase the number of students enrolled to 40,000 students system-wide, and at the same time increase the number and quality of the academic profile of the freshman class.
- **Value/Price Competitiveness:**  
For fiscal year 2017, WVU-Main Campus tuition and fees were increased by 5% for resident and non-resident students. Despite the increases, 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 engaged in several public-private partnerships to develop safe, modern, and affordable residential and retail facilities. University Place and University Park offer residence halls, apartments and townhomes and College Park offers apartment style beds. These facilities are at record occupancy (98%) levels for Fall 2017. Evansdale Crossing provides not only a new one-stop shop for student services but also has an innovation launch pad, classrooms, restaurants, study spaces and other student-centered amenities. In August 2016, The Market at the Health Sciences Center, a new cafeteria offering dining and other meeting space as well as new food and beverage options to the campus, was opened.
- **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. Over time, as the State funds the OPEB trust, this accrual will become a credit and gradually reverse the current liability of \$191.5 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, 2017 AND 2016  
(Dollars in Thousands)**

	2017	2016
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
Current Assets:		
Cash and cash equivalents	\$ 92,491	\$ 94,855
Appropriations due from primary government	968	868
Investments	75,204	88,497
Accounts receivable, net of allowances for doubtful accounts of \$6,552 and \$5,605	59,537	56,959
Account receivable - public private partnerships, current portion	4,014	4,044
Due from the Higher Education Policy Commission	585	747
Service agreement receivable from BridgeValley and Parkersburg CTC's	-	9
Loans receivable, current portion	5,303	4,943
Inventories	2,043	2,091
Prepaid expenses	7,342	6,449
Notes receivable, current portion	294	276
Total current assets	<u>247,781</u>	<u>259,738</u>
Noncurrent Assets:		
Restricted cash and cash equivalents	41,242	51,910
Investments	52,593	77,105
Other accounts receivable	5,460	7,411
Account receivable - public private partnerships	3,230	4,309
Loans receivable, net of allowances for doubtful accounts of \$5,419 and \$6,015	29,430	29,795
Notes receivable	2,367	2,472
Capital assets, net	1,823,491	1,760,116
Total noncurrent assets	<u>1,957,813</u>	<u>1,933,118</u>
<b>TOTAL ASSETS</b>	<u>2,205,594</u>	<u>2,192,856</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	12,937	13,448
Deferred outflows related to pensions	3,041	1,197
Deferred outflows related to BRNI acquisition	398	-
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<u>16,376</u>	<u>14,645</u>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<u>\$ 2,221,970</u>	<u>\$ 2,207,501</u>

(continued)

**WEST VIRGINIA UNIVERSITY**

**STATEMENTS OF NET POSITION (CONTINUED)  
AS OF JUNE 30, 2017 AND 2016**

(Dollars in Thousands)

	2017	2016
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>		
Current Liabilities:		
Accounts payable	\$ 33,704	\$ 56,335
Accrued liabilities	12,792	10,409
Accrued payroll	29,940	29,703
Deposits	3,199	3,399
Unearned revenue	52,648	45,836
Due to the Commission	24	62
Compensated absences	25,798	25,123
Real estate purchase agreements payable, current portion	600	591
Debt service assessment payable to the Commission, current portion	4,498	4,548
Leases payable, current portion	2,646	7,862
Bonds payable, current portion	16,069	15,328
Notes payable, current portion	758	12,744
Total current liabilities	<u>182,676</u>	<u>211,940</u>
Noncurrent Liabilities:		
Real estate purchase agreement payable	13,211	14,692
Other post employment benefits liability	191,482	186,377
Net pension liability	12,692	10,379
Advances from federal government	30,319	30,094
Debt service assessment payable to the Commission	48,991	53,489
Leases payable	17,464	13,471
Bonds payable	613,128	609,610
Notes payable	45,115	18,869
Other noncurrent liabilities	24,103	23,126
Total noncurrent liabilities	<u>996,505</u>	<u>960,107</u>
<b>TOTAL LIABILITIES</b>	<u><b>1,179,181</b></u>	<u><b>1,172,047</b></u>
DEFERRED INFLOWS OF RESOURCES		
Deferred federal Pell grants	180	84
Deferred gain on refunding	386	431
Deferred service concession arrangements	37,135	37,889
Deferred inflows related to pensions	1,506	2,431
Deferred inflows related to public private partnerships	580	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<u><b>39,787</b></u>	<u><b>40,835</b></u>
<b>TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES</b>	<u><b>\$ 1,218,968</b></u>	<u><b>\$ 1,212,882</b></u>
NET POSITION		
Net investment in capital assets	\$ 1,091,815	\$ 1,085,219
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	17,243	16,276
Other	475	475
Total nonexpendable	<u>17,803</u>	<u>16,836</u>
Expendable:		
Scholarships and fellowships	1,575	1,252
Sponsored programs	371	498
Loans	5,846	5,380
Capital projects	1	2
Other	540	611
Total expendable	<u>8,333</u>	<u>7,743</u>
Unrestricted net deficit	<u>(114,949)</u>	<u>(115,179)</u>
<b>TOTAL NET POSITION</b>	<u><b>\$ 1,003,002</b></u>	<u><b>\$ 994,619</b></u>

See notes to financial statements.

**WEST VIRGINIA UNIVERSITY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

(Dollars in Thousands)

	2017	2016
<b>OPERATING REVENUES</b>		
Student tuition and fees, net of scholarship allowances of \$72,831 and \$64,526	\$ 395,429	\$ 385,121
Federal land grants	7,871	8,055
Local land grants	1,229	1,147
Federal grants and contracts	72,133	77,642
State grants and contracts	38,752	38,650
Local grants and contracts	355	336
Nongovernmental grants and contracts	72,514	57,546
Sales and services of educational departments	21,700	18,701
Auxiliary enterprises, net of scholarship allowances of \$12,844 and \$12,022	157,957	154,607
Interest on student loans receivable	765	842
Net service agreement revenue from BridgeValley and Parkersburg CTC's	348	389
Other operating revenues (including revenue from outsourced enterprise of \$1,110 and \$1,319)	14,166	9,475
Total operating revenues	<u>783,219</u>	<u>752,511</u>
<b>OPERATING EXPENSES</b>		
Salaries and wages	510,234	490,860
Benefits	158,089	149,794
Scholarships and fellowships	38,678	42,572
Utilities	31,741	28,425
Supplies and other services	234,894	255,128
Depreciation and amortization	80,354	82,523
Loan cancellations and write-offs	293	411
Assessments by the Commission for operations	2,780	2,803
Other operating expenses	4,873	1,532
Total operating expenses	<u>1,061,936</u>	<u>1,054,048</u>
<b>OPERATING LOSS</b>	<u>(278,717)</u>	<u>(301,537)</u>

(continued)

**WEST VIRGINIA UNIVERSITY**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016**

(Dollars in Thousands)

	2017	2016
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State appropriations	\$ 178,052	\$ 178,104
State Lottery appropriations	3,559	3,488
Payments on behalf of the University	3,475	2,805
Gifts	50,701	51,259
Federal Pell grants	29,940	29,890
Investment income (including unrealized gain (loss) of \$6,831 and (\$2,461))	12,783	2,049
Interest on capital asset-related debt	(23,035)	(22,056)
Assessments by the Commission for debt service	(6,284)	(6,169)
Debt issuance costs	(168)	(40)
Other nonoperating (expenses) revenues - net	(4,183)	1,720
	<u>244,840</u>	<u>241,050</u>
<b>LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	(33,877)	(60,487)
Capital grants and gifts	42,260	163,272
Bond/capital projects proceeds from the Higher Education Policy Commission	-	356
	<u>8,383</u>	<u>103,141</u>
<b>INCREASE IN NET POSITION</b>	8,383	103,141
<b>NET POSTION - BEGINNING OF YEAR</b>	994,619	891,478
	<u>994,619</u>	<u>891,478</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ 1,003,002</u>	<u>\$ 994,619</u>

See notes to financial statements.

**WEST VIRGINIA UNIVERSITY**

**STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
(Dollars in Thousands)**

	2017	2016
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Tuition and fees	\$ 394,256	\$ 383,746
Federal and local land grants	9,100	9,201
Grants and contracts	185,755	174,993
Payments to suppliers	(239,851)	(233,951)
Payments to employees	(506,920)	(489,511)
Payments for benefits	(147,765)	(136,610)
Payments for utilities	(29,758)	(28,310)
Payments for scholarships and fellowships	(38,907)	(41,248)
Loan advances returned to federal government	(266)	(2,407)
Collections (cancellations) of loans to students	307	(213)
Interest earned on loans to students	765	842
Auxiliary enterprise charges	154,650	147,005
Sales and service of educational departments	19,895	18,274
Receipt of net operating expenses from BridgeValley and Parkersburg CTC's	356	406
Net receipts (payments) for public private partnerships	3,294	(358)
Assessments by Commission for operations	(2,780)	(2,803)
Other receipts (payments)	8,560	(3,589)
	<u>(189,309)</u>	<u>(204,533)</u>
Net cash used in operating activities		
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State appropriations	177,952	180,259
State lottery appropriations	3,559	3,488
Gifts	49,418	43,826
Purchase of secured promissory notes	(190)	(320)
Federal Pell grants	30,036	29,885
William D. Ford direct lending receipts	224,833	213,807
William D. Ford direct lending payments	(223,301)	(213,769)
Other nonoperating receipts	3,493	4,279
	<u>265,800</u>	<u>261,455</u>
Net cash provided by noncapital financing activities		
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payments on Commission debt assessment payable	(4,548)	(4,617)
Bond/capital projects proceeds from the Higher Education Policy Commission	-	1,915
Assessments by the Commission for debt service	(6,284)	(6,169)
Proceeds from issuance of University bonds	19,673	327
Bond issuance costs	(168)	(40)
Capital gifts and grants received	22,391	11,963
Purchases of capital assets	(137,883)	(149,791)
Proceeds from issuance of capital debt	24,004	12,000
Ballpark construction receipts	-	141
Capital projects proceeds from lease trustees	684	2,723
Principal paid on capital debt and leases	(31,875)	(14,908)
Interest paid on capital debt and leases	(26,093)	(25,725)
	<u>(140,099)</u>	<u>(172,181)</u>
Net cash used in capital financing activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment income	5,877	4,565
Sale (purchase) of investments	12,477	(3,855)
Redemption of matured bond investments	32,700	75,600
Purchase of Research Corporation investments	(478)	(213)
	<u>50,576</u>	<u>76,097</u>
Net cash provided by investing activities		
<b>DECREASE IN CASH AND CASH EQUIVALENTS</b>	(13,032)	(39,162)
<b>CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR</b>	<u>146,765</u>	<u>185,927</u>
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	<u>\$ 133,733</u>	<u>\$ 146,765</u>

(continued)

**WEST VIRGINIA UNIVERSITY**

**STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2017 AND 2016  
(Dollars in Thousands)**

	2017	2016
<b>Reconciliation of operating loss to net cash used in operating activities:</b>		
Operating loss	\$ (278,717)	\$ (301,537)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	80,354	82,523
Donated/noncapitalized expense	2,009	7,896
Expenses paid on behalf of the University	2,616	2,175
Changes in assets and liabilities:		
Accounts receivable, net	(5,597)	(12,324)
Due from the Commission	162	104
Loans receivable, net	5	236
Prepaid expenses	(2,440)	1,404
Inventories	48	10
Accounts payable	(2,975)	6,863
Accrued liabilities	8,208	9,331
Deposits	(200)	100
Unearned revenue	6,811	534
Due to the Commission	(38)	(2)
Compensated absences	675	883
Defined benefit pension plan	(455)	(1,164)
Advances from federal government	225	(1,565)
Net cash used in operating activities	<u>\$ (189,309)</u>	<u>\$ (204,533)</u>
Noncash Transactions:		
Construction in progress additions in accounts payable	<u>\$ 3,978</u>	<u>\$ 19,066</u>
Donated capital assets	<u>\$ 19,165</u>	<u>\$ 149,282</u>
Unrealized gain (loss) on investments	<u>\$ 6,831</u>	<u>\$ (2,556)</u>
Capitalization of interest	<u>\$ 2,011</u>	<u>\$ 2,539</u>
Donated noncapitalized assets	<u>\$ 1,283</u>	<u>\$ 7,434</u>
Bond and real estate agreements payable discounts, premiums, and losses	<u>\$ 1,534</u>	<u>\$ 1,534</u>
Loss on dispositions	<u>\$ (4,300)</u>	<u>\$ (867)</u>
Other post employment benefits liability	<u>\$ (5,105)</u>	<u>\$ (10,043)</u>
Expenses paid on behalf of the University	<u>\$ 3,475</u>	<u>\$ 2,805</u>
Adjustment to medical malpractice liability	<u>\$ (7,193)</u>	<u>\$ (5,050)</u>
Deferred gain on refunding	<u>\$ 45</u>	<u>\$ 45</u>
Deferred loss on refunding	<u>\$ (511)</u>	<u>\$ (510)</u>
Deferred service concession arrangements - net	<u>\$ 754</u>	<u>\$ 3,738</u>
<b>Reconciliation of cash and cash equivalents to the statements of net assets:</b>		
Cash and cash equivalents classified as current assets	\$ 92,491	\$ 94,855
Cash and cash equivalents classified as noncurrent assets	41,242	51,910
	<u>\$ 133,733</u>	<u>\$ 146,765</u>

See notes to financial statements.

# WEST VIRGINIA UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2017 AND 2016

---

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

The University provides Parkersburg and BridgeValley with administrative and academic support services. The University charges Parkersburg and BridgeValley 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"), West Virginia University Beckley ("Beckley"), West Virginia University Innovation Corporation ("WVUIC") 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 26 for condensed financial statements). Related foundations and other affiliates of the University (see Notes 20 and 21) 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 deposited into the WV Money Market Pool with the West Virginia Board of Treasury Investments (BTI).

Cash in bank accounts includes deposits in the Insured Cash Sweep (ICS) 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. 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.

- f. *Accounts Receivable – Public Private Partnerships* – Accounts receivable – public private partnerships includes amounts due from partners for reimbursable project expenses, management fees, share of net revenues, lease payments and additional lease payments. (Also see Notes 20 and 22.)
- 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 and Cash Equivalents* – Cash that is (1) externally restricted to make debt service payments 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.
- k. *Noncurrent Investments* – Investments that are (1) externally restricted to make debt service payments 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. All other investments are classified as current or noncurrent based on the underlying investment.
- l. *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.
- m. *Deposits* – Deposits include housing and tuition deposits made by students.
- n. *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.
- o. *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. Employees hired prior to July 1, 1988 and participating in PEIA on and before July 1, 1988 are eligible for 100% premium paid retiree health and basic life insurance based on accumulated premium credits. For employees hired after July 1, 1988, or who were hired before July 1, 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 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 9).

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 on or 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 had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may 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.

- p. 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, 2017 and June 30, 2016 was \$1.2 million and \$247,000, respectively, which is recorded as a component of accrued liabilities on the statement of net position. This includes approximately \$64,000 and \$30,000, respectively, for employee benefits as of June 30, 2017 and June 30, 2016.

- q. *Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, real estate purchase agreements payable, and capital lease obligations with contractual maturities greater than one year; (2) OPEB liability, net pension liability, and other liabilities that will not be paid within the next fiscal year; and (3) projected claim payments for self insurance.
- r. *Net Pension Liability* – For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Teachers' Retirement System (TRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at <https://www.wvretirement.com/Publications.html#CAFR>. The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ. (See Note 10.)
- s. *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, 2017 and 2016, 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.

- t. *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, (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 and bond/capital project proceeds from the Commission.

- u. *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, 2017 or 2016.

- v. *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.

- w. *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 unsubsidized 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 \$224.8 million in fiscal year 2017 and approximately \$213.8 million in fiscal year 2016 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 \$3.3 million in fiscal year 2017 and approximately \$4.2 million in fiscal year 2016 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 2017 and 2016, the University received and disbursed \$33.3 million and \$32.9 million, respectively, under these other federal student aid programs.

- x. *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.
- y. *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.

- z. *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.
- aa. *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, 2017 and 2016, the University had a deferred loss on refunding of \$12,937,000 and \$13,448,000, respectively, and deferred outflows of resources related to pensions of \$3,041,000 and \$1,197,000 as of June 30, 2017 and 2016, respectively (see Note 10). Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refunding. As of June 30, 2017, the University had a deferred outflow related to the acquisition of the Blanchette Rockefeller Neurosciences Institute of \$398,000 (See Note 23).
- bb. *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, 2017 and 2016, the University had deferred Federal Pell grants of \$180,000 and \$84,000, respectively, and a deferred gain on refunding of \$386,000 and \$431,000, respectively. As of June 30, 2017 and 2016, the University also had deferred service concession arrangements of \$37,135,000 and \$37,889,000, (see Note 22) and deferred inflows related to pensions of \$1,506,000 and \$2,431,000, respectively (see Note 10). Additionally, the University had deferred inflows related to the public private partnerships of \$580,000 as of June 30, 2017 (also see Note 20h).
- cc. *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 claim amounts in excess of \$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. 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. For fiscal year 2017, BRIM will provide coverage for indemnity amounts between \$250,000 and \$1,511,000 per occurrence. For fiscal year 2016, BRIM will provide coverage for indemnity amounts between \$250,000 and \$1,500,000 per occurrence. After June 30, 2016, BRIM coverage may increase annually based on the Consumer Price Index until it reaches a maximum of \$2,000,000 per occurrence. Prior to July 1, 2005, the HSC was totally covered by BRIM at a limit of \$1,000,000 per occurrence.

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, 2017 and 2016, 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 \$25.3 million and \$26.0 million as of June 30, 2017 and 2016, respectively, in an investment earnings account with the West Virginia University Foundation, Incorporated (the "Foundation") that is used to cover the liabilities under this program by replenishing the escrow account after BRIM withdraws indemnity and expense payments.

Based on an actuarial valuation of this self-insurance program and premium levels determined by BRIM, the University has recorded a liability of \$20.7 million and \$20.1 million to reflect projected claim payments at June 30, 2017 and 2016, 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.

- dd. 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.
- ee. 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.
- ff. Newly Adopted Statements Issued by the GASB* – The University has implemented Statement No. 74, "Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans". This statement establishes financial reporting standards for state and local governmental other postemployment benefit plans – defined benefit plans and defined contribution plans – that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing other postemployment benefits through defined benefit plans that are not

administered through trusts or equivalent arrangements that meet certain criteria. The adoption of this statement did not have a material impact on the financial statements.

The University has also implemented Statement No. 77, “*Tax Abatement Disclosures*”. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The adoption of this statement did not have a material impact on the financial statements.

The University has also implemented Statement No. 80, “*Blending Requirements for Certain Component Units*”. This statement amends the blending requirements for the financial presentation of component units of all state and local governments established in Statement No. 14, “*The Financial Reporting Entity*”, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, “*Determining Whether Certain Organizations Are Component Units*”. The adoption of this statement did not have a material impact on the financial statements.

The University has early implemented Statement No. 81, “*Irrevocable Split-Interest Agreements*”, which is effective for fiscal years beginning after December 15, 2016. This statement establishes recognition and measurement requirements for irrevocable split-interest agreements created through trusts – or other legally enforceable agreements with characteristics that are equivalent to irrevocable split-interest agreements – in which a donor irrevocably transfers resources to an intermediary. The intermediary administers these resources for the unconditional benefit of a government or at least one other beneficiary. The adoption of this statement did not have a material impact on the financial statements.

The University has also implemented Statement No. 82, “*Pension Issues*”. This statement establishes accounting and financial reporting requirements for pensions provided to employees of state or local governmental employers. This statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in Statement No. 67. The adoption of this statement did not have a material impact on the financial statements.

The University has also early implemented Statement No. 86, “*Certain Debt Extinguishment Issues*”, which is effective for fiscal years beginning after June 15, 2017. This statement establishes accounting and financial reporting for in-substance defeasance transactions in which cash and other monetary assets acquired with only existing resources are placed in an irrevocable trust for the purpose of extinguishing debt. This statement also amends accounting and financial reporting requirements for prepaid insurance associated with debt that is extinguished, whether through a legal extinguishment or through an in-substance defeasance, regardless of how the cash and other monetary assets were acquired. The adoption of this statement did not have a material impact on the financial statements.

- gg. *Recent Statements Issued by the GASB* – The GASB has issued Statement No. 75, “*Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*”, which is effective for fiscal years beginning after June 15, 2017. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits

that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are not administered through trusts that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The GASB has also issued Statement No. 83, “*Certain Asset Retirement Obligations*”, which is effective for fiscal years beginning after June 15, 2018. This statement establishes accounting and financial reporting for certain asset retirement obligations. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The GASB has also issued Statement No. 84, “*Fiduciary Activities*”, which is effective for fiscal years beginning after December 15, 2018. This statement establishes standards of accounting and financial reporting for fiduciary activities. The University has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 85, “*Omnibus 2017*”, which is effective for fiscal years beginning after June 15, 2017. This statement establishes accounting and financial reporting requirements for blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). The University has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

The GASB has also issued Statement No. 87, “*Leases*”, which is effective for fiscal years beginning after December 15, 2019. This statement establishes accounting and financial reporting for leases by lessees and lessors. This statement requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases. It establishes a single model for lease accounting based on the principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources. The University has not yet determined the effect that the adoption of GASB Statement No. 87 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):

#### 2017

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ -	\$ 560	\$ 560
West Virginia University - Auxiliaries	57,637	-	57,637
Cash on deposit with Trustee	-	37,677	37,677
Deposits with BRIM Escrow Account Treasurer	-	3,005	3,005
Cash in Bank	34,774	-	34,774
Cash on Hand	80	-	80
	<u>\$ 92,491</u>	<u>\$ 41,242</u>	<u>\$ 133,733</u>

#### 2016

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	\$ -	\$ 560	\$ 560
West Virginia University - Auxiliaries	56,493	-	56,493
Cash on deposit with Trustee	-	48,348	48,348
Deposits with BRIM Escrow Account Treasurer	-	3,002	3,002
Cash in Bank	38,282	-	38,282
Cash on Hand	80	-	80
	<u>\$ 94,855</u>	<u>\$ 51,910</u>	<u>\$ 146,765</u>

*Cash on Deposit with the Treasurer.* Cash on deposit with the Treasurer includes deposits in the State Treasury bank account and the WV Money Market Pool. Deposits in the bank account are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the bank in the name of the State. Deposits in the WV Money Market Pool 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 as directed by the University and then the BTI invests 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. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

**Credit Risk** — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the BTI credit risk as of June 30:

<b>External Pool</b>	<b>2017</b>		<b>2016</b>	
	<b>Carrying Value (In Thousands)</b>	<b>S &amp; P Rating</b>	<b>Carrying Value (In Thousands)</b>	<b>S &amp; P Rating</b>
WV Money Market Pool	\$ 1,780,967	AAAm	\$ 1,556,503	AAAm

*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, 2013, 2014 and 2016 University specific bond issues, the Energy Performance Phase III B contract and the WVUIC equipment lease/purchase agreement (see Notes 11 and 12). 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.

*Cash in bank.* Cash in bank includes bank balances and deposits in the ICS program. The carrying amount of cash in bank at June 30, 2017 and 2016 was \$34.8 million and \$38.3 million, respectively, as compared with bank balances of \$36.7 million and \$22.3 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank accounts and ICS deposits are FDIC insured up to \$250,000 per Federal Employer Identification Number. In addition, bank balances 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>2017</u>	<u>2016</u>
Student tuition and fees, net of allowances for doubtful accounts of \$5,642 and \$4,412	\$ 15,218	\$ 10,106
Grants and contracts receivable, net of allowances for doubtful accounts of \$231 and \$368	30,360	30,738
Due from West Virginia University Hospitals, Incorporated	2,627	2,561
Auxiliary services, net of allowances for doubtful accounts of \$659 and \$793	1,879	1,760
Investment earnings receivable	22	10
Other, net of allowances for doubtful accounts of \$20 and \$32	5,889	6,080
Due from the Foundation	2,449	4,507
Due from other State agencies	1,093	1,197
Total accounts receivable	<u>\$ 59,537</u>	<u>\$ 56,959</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.

In November 2009, the University changed the payroll method for all non-exempt benefit-eligible employees from current payroll to payroll in arrears. In September 2014, all other employees remaining on current payroll were moved to payroll in arrears. For both groups of employees, the University issued a “no hardship payment” to cover the transition period from current payroll to arrears payroll. Upon termination, the net amount of the “no hardship payment” will be deducted from the employee’s last paycheck. This “no hardship payment” is recorded as other noncurrent accounts receivable on the statement of net position.

#### 5. NOTES RECEIVABLE

During fiscal year 2016, the Corporation purchased a secured convertible promissory note and a warrant to convert the promissory note to shares of common stock from CereDx, Inc. for \$220,000 (\$200,000 cash and \$20,000 in deferred lease costs for laboratory space for two years; \$11,000 of which was recognized in fiscal year 2017).

During fiscal year 2016, the Corporation also purchased a secured convertible promissory note and a warrant to convert the promissory note to shares of common stock from Aspinity, Inc. for \$100,000.

During fiscal year 2017, the Corporation purchased a secured convertible promissory note and a warrant to convert the promissory note to shares of common stock from Modulation Therapeutics, Inc. for \$200,000.

Notes receivable also includes notes receivable due from Parkersburg and Bridge Valley (see note 20).

## 6. INVESTMENTS

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

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

2017	Fair Value	Level 1	Level 2	Level 3
Investment Type				
U.S. Treasury Securities	\$ 18,473	\$ 18,473	\$ -	\$ -
Investment Cash Accounts	1,525	-	1,525	-
Mutual Bond Funds:				
Brandywine Global Fixed Income (BGIMT)	2,125	321	1,804	-
Brandywine Global Fixed Income (BIT)	482	77	405	-
iShares Barclays 3-7 Year Treasury	4,329	-	4,329	-
iShares Barclays 7-10 Year Treasury	4,130	41	4,089	-
Guggenheim TR Bond	10,061	496	9,405	160
Wells Fargo	5	5	-	-
Loomis Sayles Core	1,012	-	1,012	-
Mutual Stock Funds:				
Aberdeen Emerging Markets	2,766	919	1,847	-
Dodge & Cox International Stock Fund	5,992	1,414	4,578	-
Dodge & Cox Stock Fund	8,255	8,020	235	-
Maingate MLP Fund	930	930	-	-
Eaton Vance	891	891	-	-
MFS International Value Fund	6,112	4,573	1,539	-
MFS Investment Management	5,960	5,960	-	-
Oppenheimer International Growth Fund	6,104	1,770	4,334	-
SPDR S&P Oil & Gas	442	442	-	-
Van Eck Global Hard Assets	959	901	58	-
Vanguard Total Stock Market ETF	23,570	23,570	-	-
Vanguard S&P 500 ETF	11,700	11,700	-	-
Wells Fargo	386	386	-	-
Fixed Income Funds:				
IR&M Core Bond	9,966	-	9,966	-
Limited Partnership Equity:				
Frontier Small Cap	832	832	-	-
TI Platform Fund	153	-	-	153
Land and Other Real Estate Held As Investments	477	-	-	477
Other Investments:				
WV Growth Investment LLC	160	-	-	160
	<u>\$ 127,797</u>	<u>\$ 81,721</u>	<u>\$ 45,126</u>	<u>\$ 950</u>

2016	Fair Value	Level 1	Level 2	Level 3
Investment Type				
U.S. Treasury Securities	\$ 67,367	\$ 67,367	\$ -	\$ -
Mutual Money Market Funds	1,878	-	1,878	-
Mutual Bond Funds:				
Brandywine Global Fixed Income (BGIMT)	4,945	4,166	779	-
Brandywine Global Fixed Income (BIT)	1,043	870	173	-
iShares Barclays 3-7 Year Treasury	3,616	379	3,237	-
iShares Barclays 7-10 Year Treasury	2,190	132	2,058	-
Guggenheim TR Bond	4,601	369	4,157	75
Wells Fargo	5	5	-	-
Mutual Stock Funds:				
Aberdeen Emerging Markets	1,478	349	1,129	-
Burgundy Emerging Markets	1,293	1,263	30	-
Dodge & Cox International Stock Fund	1,322	744	578	-
Dodge & Cox Stock Fund	5,614	5,491	123	-
Maingate MLP Fund	880	880	-	-
Eaton Vance	839	839	-	-
MFS International Value Fund	8,455	6,326	2,129	-
MFS Investment Management	5,064	5,064	-	-
Oppenheimer International Growth Fund	7,220	1,860	5,360	-
SPDR S&P Oil & Gas	482	482	-	-
Van Eck Global Hard Assets	1,026	990	34	2
Vanguard Total Stock Market ETF	18,958	18,937	7	14
Vanguard S&P 500 ETF	9,488	9,485	3	-
Wells Fargo	326	326	-	-
Fixed Income Funds:				
CF Multi-Strategy Bond Fund	5,652	-	5,652	-
CFI Multi-Strategy Bond Investors Fund	1,428	-	1,428	-
IR&M Core Bond	8,962	-	8,962	-
Limited Partnership Equity:				
Frontier Small Cap	693	693	-	-
TI Platform Fund	138	-	-	138
Land and Other Real Estate Held As Investments	477	-	-	477
Other Investments:				
Arden-Sage Capital International - SPV	2	-	-	2
WV Growth Investment LLC	160	-	-	160
	<u>\$ 165,602</u>	<u>\$ 127,017</u>	<u>\$ 37,717</u>	<u>\$ 868</u>

The values of investments classified as current and noncurrent were as follows (dollars in thousands):

	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
As of June 30, 2017	\$ 75,204	\$ 52,593	\$ 127,797
As of June 30, 2016	88,497	77,105	165,602

*Investments with the Foundation* – As of June 30, 2017 and 2016, the University’s investments held with the Foundation were \$101.4 million and \$91.4 million, respectively. The investments held with the Foundation include the unrestricted investments, the Corporation’s investments, and the BRIM investments as follows (dollars in thousands):

	<b>Unrestricted</b>	<b>Corporation</b>	<b>BRIM</b>	<b>Total</b>
As of June 30, 2017	\$ 65,110	\$ 11,055	\$ 25,279	\$ 101,444
As of June 30, 2016	58,341	10,334	22,688	91,363

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. In 2013, the Legislature passed Senate Bill 444 (“S.B. 444”) which increased the maximum investment amount to \$70 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 2015, the Legislature passed Senate Bill 425 (“S.B. 425”) which allowed all monies of the University to be invested with the Foundation except for General Revenue funds. In August 2015, the University began investing in the ICS and/or Certificate of Deposit Account Registry Service (CDARS) programs as allowed by S.B. 425. These investments are classified as cash and cash equivalents.

*Research Corporation Investments* – Beginning in 2007, an investment strategy was initiated for the Corporation. These long-term investments are managed by the Foundation. In addition, funds are deposited in the ICS program to maximize investment earnings and for FDIC insurance coverage. The ICS investments are classified as cash and cash equivalents.

*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* –The unspent bond proceeds from the 2011, 2014 and 2016 series bonds are invested in U.S. government securities or U.S. government backed money market funds. Such restricted investments were \$18.5 million and \$67.4 million at June 30, 2017 and 2016, respectively. These investments are classified as a noncurrent asset on the statement of net position.

*West Virginia Growth Investment, LLC* – During fiscal year 2015, the Corporation purchased eight units of membership interest in West Virginia Growth Investment, LLC ("WVGI") for a total of \$160,000. WVGI is a limited liability company formed to pool the capital resources and the business connections of accredited investors in and around the State of WV. Since the Corporation holds less than 20% of the ownership interest in WVGI, is not an officer of WVGI, cannot exercise significant influence over WVGI's operations and the fair value of the membership units cannot be readily determined, this investment was recorded using the cost basis of accounting.

*Other* – The University also has investments - the Wood investments – from the estate of donors with restricted purposes. In addition, funds are deposited in the ICS program to maximize investment earnings and for FDIC insurance coverage. The ICS investments are classified as cash and cash equivalents.

### **Credit Risk**

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

The investment management agency agreement with the Foundation states that the investment agent shall invest the client's assets in investments 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.

Credit ratings were as follows at June 30 (dollars in thousands):

2017

<b>Portfolio</b>	<b>Description</b>	<b>Fair Value</b>	<b>Rating</b>
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	\$ 616	Aa2
Unrestricted	Brandywine Global Fixed Income	1,509	Aa2
Corporation	Brandywine Global Fixed Income	482	A1
BRIM	Guggenheim TR Bond	2,346	A
Unrestricted	Guggenheim TR Bond	5,901	A
Corporation	Guggenheim TR Bond	1,814	A
BRIM	iShares Barclays 3-7 Year Treasury	1,015	Aaa
Unrestricted	iShares Barclays 3-7 Year Treasury	2,493	Aaa
Corporation	iShares Barclays 3-7 Year Treasury	821	Aaa
BRIM	iShares Barclays 7-10 Year Treasury	949	Aaa
Unrestricted	iShares Barclays 7-10 Year Treasury	2,431	Aaa
Corporation	iShares Barclays 7-10 Year Treasury	750	Aaa
BRIM	Loomis Sayles Core	204	A2
Unrestricted	Loomis Sayles Core	606	A2
Corporation	Loomis Sayles Core	202	A2
Investment Cash Accounts:			
BRIM	Cash Account - BRIM	329	Aaa-mf
Unrestricted	Cash Act - Unrestr Inv	1,020	Aaa-mf
Corporation	Cash Act - Research Co	176	Aaa-mf
Fixed Income Funds:			
BRIM	IR&M Core Bond	2,286	Aa3
Unrestricted	IR&M Core Bond	5,871	Aa3
Corporation	IR&M Core Bond	1,809	Aa3
		<u>\$ 33,630</u>	

2016

<b>Portfolio</b>	<b>Description</b>	<b>Fair Value</b>	<b>Rating</b>
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	\$ 1,306	AA-
Unrestricted	Brandywine Global Fixed Income	3,639	AA-
Corporation	Brandywine Global Fixed Income	1,043	Aa3
BRIM	Guggenheim TR Bond	1,116	A
Unrestricted	Guggenheim TR Bond	2,489	A
Corporation	Guggenheim TR Bond	996	A
BRIM	iShares Barclays 3-7 Year Treasury	1,077	Aaa
Unrestricted	iShares Barclays 3-7 Year Treasury	1,899	Aaa
Corporation	iShares Barclays 3-7 Year Treasury	641	Aaa
BRIM	iShares Barclays 7-10 Year Treasury	650	Aaa
Unrestricted	iShares Barclays 7-10 Year Treasury	1,201	Aaa
Corporation	iShares Barclays 7-10 Year Treasury	339	Aaa
Cash/Mutual Money Market Funds:			
BRIM	Cash Account - BRIM	582	Aaa-mf
Unrestricted	Cash Act - Unrestr Inv	1,053	Aaa-mf
Corporation	Cash Act - Research Co	243	Aaa-mf
Fixed Income Funds:			
BRIM	IR&M Core Bond	972	Aa3
Unrestricted	IR&M Core Bond	6,259	Aa3
Corporation	IR&M Core Bond	1,732	Aa3
BRIM	CF Multi-Strategy Bond Fund	1,829	Average Quality A+
Unrestricted	CF Multi-Strategy Bond Fund	3,823	Average Quality A+
Corporation	CFI Multi-Strategy Bond Investors Fund	1,428	Average Quality A+
		<u>\$ 34,317</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. This risk is applicable to debt securities only.

The following table shows the maturities at June 30 (dollars in thousands):

**2017**

<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	\$ 18,473	\$ 18,473	\$ -	\$ -	\$ -
Mutual Bond Funds	22,144	1,408	4,465	7,857	8,414
Investment Cash Accounts	1,525	1,525	-	-	-
Fixed Income Funds	9,966	478	5,918	1,707	1,863
Other Investments	160	-	-	-	160
	<u>\$ 52,268</u>	<u>\$ 21,884</u>	<u>\$ 10,383</u>	<u>\$ 9,564</u>	<u>\$ 10,437</u>

**2016**

<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	\$ 67,367	\$ 40,768	\$ 26,599	\$ -	\$ -
Mutual Bond Funds	16,400	944	5,338	5,614	4,504
Cash/Mutual Money Market Funds	1,878	1,878	-	-	-
Fixed Income Funds	16,042	1,023	4,825	3,667	6,527
Other Investments	162	2	-	-	160
	<u>\$ 101,849</u>	<u>\$ 44,615</u>	<u>\$ 36,762</u>	<u>\$ 9,281</u>	<u>\$ 11,191</u>

Interest rate risk is managed by limiting the time period or duration of the specific investment. At June 30, 2017, the U.S. Treasury Notes have maturities through November 30, 2017 and interest rates which range from .63% to 1.0%. At June 30, 2016, the U.S. Treasury Notes have maturities through November 30, 2017 and interest rates which range from .5% to 1.1%.

**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, 2017 and June 30, 2016, 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. This risk is not applicable to external investment pools and open-end mutual funds.

No investments were subject to custodial credit risk at June 30, 2017 or 2016.

### Foreign Currency Risk

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

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

Currency	2017	2016
Australian Dollar	\$ 551	\$ 1,126
Brazilian Real	519	652
British Pence	2,749	3,246
British Pound Sterling	-	333
British Pound	398	-
Canadian Dollar	793	727
Chilean Peso	27	587
China Renminbi	142	-
Czech Koruna	74	14
Danish Krone	326	360
Euro	5,861	5,586
Hong Kong Dollar	350	349
Hungarian Forint	34	17
Indian Rupee	762	572
Indonesian Rupiah	140	66
Israeli Agorot	-	34
Israeli Shekel	2	-
Japanese Yen	2,613	2,577
Malaysian Ringgit	167	297
Mexican Peso	532	989
New Turkish Lira	135	82
New Zealand Dollar	-	227
Norwegian Krone	342	421
Philippine Peso	103	64
Polish Zloty	168	327
Russian Ruble	103	25
Singapore Dollar	-	114
South African Cent	454	199
South African Rand	137	193
South Korean Won	456	219
Swedish Krona	596	1,015
Swiss Franc	1,943	1,989
Taiwan Dollar	132	66
Thai Baht	251	169
US Dollar	38,322	27,436
\$	59,182	\$ 50,078

## 7. CAPITAL ASSETS

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

2017	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 84,111	\$ 1,481	\$ (1)	\$ 85,591
Construction in progress	204,643	102,800	(182,144)	125,299
Total capital assets not being depreciated or amortized	<u>\$ 288,754</u>	<u>\$ 104,281</u>	<u>\$ (182,145)</u>	<u>\$ 210,890</u>
Other capital assets:				
Land improvements	\$ 51,681	\$ 5,041	\$ -	\$ 56,722
Buildings	1,669,647	176,801	(8,313)	1,838,135
Equipment	210,680	20,904	(10,015)	221,569
Library books	152,215	5,673	(512)	157,376
Software	61,879	1,663	-	63,542
Infrastructure	303,936	11,043	(142)	314,837
Other assets	118,772	6,007	-	124,779
Intangible assets	150	-	-	150
Total other capital assets	2,568,960	227,132	(18,982)	2,777,110
Less accumulated depreciation and amortization for:				
Land improvements	(25,806)	(3,262)	-	(29,068)
Buildings	(399,072)	(34,107)	4,198	(428,981)
Equipment	(143,081)	(15,766)	8,671	(150,176)
Library books	(130,082)	(6,482)	486	(136,078)
Software	(57,727)	(1,991)	-	(59,718)
Infrastructure	(234,411)	(6,383)	88	(240,706)
Other assets	(107,397)	(12,363)	-	(119,760)
Intangible assets	(22)	-	-	(22)
Total accumulated depreciation and amortization	<u>(1,097,598)</u>	<u>(80,354)</u>	<u>13,443</u>	<u>(1,164,509)</u>
Other capital assets, net	<u>\$ 1,471,362</u>	<u>\$ 146,778</u>	<u>\$ (5,539)</u>	<u>\$ 1,612,601</u>
Capital Assets Summary:				
Capital assets not being depreciated or amortized	\$ 288,754	\$ 104,281	\$ (182,145)	\$ 210,890
Other capital assets	2,568,960	227,132	(18,982)	2,777,110
Total cost of capital assets	2,857,714	331,413	(201,127)	2,988,000
Less accumulated depreciation and amortization	(1,097,598)	(80,354)	13,443	(1,164,509)
Capital assets, net	<u>\$ 1,760,116</u>	<u>\$ 251,059</u>	<u>\$ (187,684)</u>	<u>\$ 1,823,491</u>

2016	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 83,547	\$ 1,833	\$ (1,269)	\$ 84,111
Construction in progress	176,501	137,044	(108,902)	204,643
Total capital assets not being depreciated or amortized	<u>\$ 260,048</u>	<u>\$ 138,877</u>	<u>\$ (110,171)</u>	<u>\$ 288,754</u>
Other capital assets:				
Land improvements	\$ 46,152	\$ 5,529	\$ -	\$ 51,681
Buildings	1,417,688	251,959	-	1,669,647
Equipment	201,114	17,507	(7,941)	210,680
Library books	146,312	6,055	(152)	152,215
Software	61,512	367	-	61,879
Infrastructure	301,006	2,930	-	303,936
Other assets	118,654	118	-	118,772
Intangible assets	150	-	-	150
Total other capital assets	<u>2,292,588</u>	<u>284,465</u>	<u>(8,093)</u>	<u>2,568,960</u>
Less accumulated depreciation or amortization for:				
Land improvements	(23,109)	(2,697)	-	(25,806)
Buildings	(368,511)	(30,561)	-	(399,072)
Equipment	(134,133)	(15,856)	6,908	(143,081)
Library books	(122,670)	(6,796)	(616)	(130,082)
Software	(55,184)	(2,543)	-	(57,727)
Infrastructure	(228,534)	(5,877)	-	(234,411)
Other assets	(89,206)	(18,191)	-	(107,397)
Intangible assets	(20)	(2)	-	(22)
Total accumulated depreciation and amortization	<u>(1,021,367)</u>	<u>(82,523)</u>	<u>6,292</u>	<u>(1,097,598)</u>
Other capital assets, net	<u>\$ 1,271,221</u>	<u>\$ 201,942</u>	<u>\$ (1,801)</u>	<u>\$ 1,471,362</u>
Capital Assets Summary:				
Capital assets not being depreciated or amortized	\$ 260,048	\$ 138,877	\$ (110,171)	\$ 288,754
Other capital assets	2,292,588	284,465	(8,093)	2,568,960
Total cost of capital assets	<u>2,552,636</u>	<u>423,342</u>	<u>(118,264)</u>	<u>2,857,714</u>
Less accumulated depreciation and amortization	<u>(1,021,367)</u>	<u>(82,523)</u>	<u>6,292</u>	<u>(1,097,598)</u>
Capital assets, net	<u>\$ 1,531,269</u>	<u>\$ 340,819</u>	<u>\$ (111,972)</u>	<u>\$ 1,760,116</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 capitalized interest on borrowings, net of interest earned on related debt of approximately \$2.0 million and \$2.5 million during fiscal years 2017 and 2016, respectively.

## 8. LONG-TERM LIABILITIES

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

2017	Beginning			Ending	
	Balance	Additions	Reductions	Balance	Due within One Year
Real estate purchase agreements payable	\$ 15,283	\$ -	\$ (1,472)	\$ 13,811	\$ 600
Other post employment benefits liability	186,377	5,105	-	191,482	
Net pension liability	10,379	2,313	-	12,692	
Advances from federal government	30,094	225	-	30,319	
Debt service assessment payable					
to the Commission	58,037	-	(4,548)	53,489	4,498
Leases payable	21,333	3,730	(4,953)	20,110	2,646
Bonds payable	624,938	19,678	(15,419)	629,197	16,069
Notes payable	31,613	27,004	(12,744)	45,873	758
Other noncurrent liabilities	24,126	8,614	(7,637)	25,103	1,000
Total long-term liabilities	<u>\$1,002,180</u>	<u>\$ 66,669</u>	<u>\$ (46,773)</u>	<u>\$ 1,022,076</u>	

2016	Beginning			Ending	
	Balance	Additions	Reductions	Balance	Due within One Year
Real estate purchase agreement payable	\$ 16,516	\$ -	\$ (1,233)	\$ 15,283	\$ 591
Other post employment benefits liability	176,334	10,043	-	186,377	
Net pension liability	11,267	-	(888)	10,379	
Advances from federal government	31,659	-	(1,565)	30,094	
Debt service assessment payable					
to the Commission	62,654	-	(4,617)	58,037	4,548
Leases payable	20,492	2,723	(1,882)	21,333	7,862
Bonds payable	638,819	327	(14,208)	624,938	15,328
Notes payable	20,342	12,000	(729)	31,613	12,744
Other noncurrent liabilities	25,418	5,050	(6,342)	24,126	1,000
Total long-term liabilities	<u>\$ 1,003,501</u>	<u>\$ 30,143</u>	<u>\$ (31,464)</u>	<u>\$ 1,002,180</u>	

## 9. 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, 2017, 2016, and 2015, the noncurrent liability related to OPEB was \$191.5 million, \$186.4 million, and \$176.3 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$18.1 million and \$13.2 million, respectively, during 2017, \$22.7 million and \$13.0 million, respectively, during 2016, and \$22.0 million and \$13.0 million, respectively, during 2015. As of the years ended June 30, 2017, 2016, and 2015, there were 821, 762, and 731 retirees, respectively, receiving these benefits.

## 10. DEFINED BENEFIT PENSION PLAN

Some employees of the University are enrolled in a defined benefit pension plan, the West Virginia Teachers' Retirement System (TRS), which is administered by the West Virginia Consolidated Public Retirement Board (CPRB).

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30 (dollars in thousands):

	<u>2017</u>		<u>2016</u>
Net Pension Liability	\$ 12,692	\$	10,379
Deferred Outflows of Resources	3,041		1,197
Deferred Inflows of Resources	1,506		2,431
Revenues	2,256		1,788
Pension Expense	3,017		1,994
Contributions Made by the University	1,096		1,197

### TRS

#### Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State and certain personnel of the 13 State-supported institutions of higher education, State Department of Education and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991, are required to participate in the Higher Education Retirement System. TRS closed membership to new hires effective July 1, 1991.

TRS is considered a component unit of the State for financial reporting purposes, and, as such, its financial report is also included in the State's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at <https://www.wvretirement.com/Publications.html#CAFR>

#### Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. All members hired after July 1, 2015 may retire with the pension reduced actuarially if the member is between the ages of 60 and 62 with 10 years of service or between ages 55 and 62 with 30 years of service. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. For all employees hired after July 1, 2015, this age increases to 64.

Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the Legislature.

### **Contributions**

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

**Member Contributions:** TRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially determined.

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2016, the University's proportionate share attributable to this special funding subsidy was \$2,066,336. As of June 30, 2015, the University's proportionate share attributable to this special funding subsidy was \$1,680,515.

The University's contributions to TRS for the years ended June 30, 2017, 2016, and 2015, were approximately \$1,096,000, \$1,197,000, and \$1,378,000, respectively.

### **Assumptions**

For the year ended June 30, 2017, the total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2015 and rolled forward to June 30, 2016. For the year ended June 30, 2016, total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2014 and rolled forward to June 30, 2015. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.

- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.00–6.00% and non-teachers 3.00–6.50%, based on age.
- Inflation rate of 3.0%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-35% and non-teachers 1.4-24.75%.
- Disability rates: 0-0.704%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 0-100%
- Ad hoc cost-of-living increases in pensions are periodically granted by the Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2005 to June 30, 2010. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2017 and June 30, 2016, are summarized below.

<b>2017</b>		
<b>Asset Class</b>	<b>Long-term Expected Real Rate of Return</b>	<b>Target Allocation</b>
Domestic equity	7.0%	27.5%
International equity	7.7%	27.5%
Core fixed income	2.7%	15.0% *
High-yield fixed income	5.5%	
TIPS	2.7%	0.0%
Real estate	7.0%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%

\* Core and high-yield fixed income securities have a combined target allocation of 15.0%.

**2016**

<b>Asset Class</b>	<b>Long-term Expected Real Rate of Return</b>	<b>Target Allocation</b>
Domestic equity	7.0%	27.5%
International equity	7.7%	27.5%
Core fixed income	2.7%	15.0% *
High-yield fixed income	5.5%	
TIPS	2.7%	0.0%
Real estate	5.6%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%
Cash	1.5%	0.0%

\* Core and high-yield fixed income securities have a combined target allocation of 15.0%.

**Discount rate.** The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.73% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

**Sensitivity of the net pension liability to changes in the discount rate.** The following presents the University's proportionate share of the TRS net pension liability as of June 30, 2017 and June 30, 2016 calculated using the discount rate of 7.50%, as well as what the University's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

**2017**

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Net pension liability	\$ 16,057	\$ 12,692	\$ 9,816

**2016**

	<b>1% Decrease (6.50%)</b>	<b>Current Discount Rate (7.50%)</b>	<b>1% Increase (8.50%)</b>
Net pension liability	\$ 13,456	\$ 10,379	\$ 7,737

## **Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

The TRS net pension liability at June 30, 2017 was measured as of June 30, 2015 rolled forward to June 30, 2016, which is the measurement date. The total pension liability at June 30, 2017 was determined by an actuarial valuation as of July 1, 2015 and rolled forward to the measurement date.

The TRS net pension liability at June 30, 2016 was measured as of June 30, 2015. The total pension liability at June 30, 2016 was determined by an actuarial valuation as of July 1, 2014 and rolled forward to the measurement date.

At June 30, 2017, the University's proportionate share of the TRS net pension liability was \$36,867,000. Of this amount, the University recognized approximately \$12,692,000 as its proportionate share on the statement of net position. The remainder of \$24,175,000 denotes the University's proportionate share of net pension liability attributable to the special funding.

At June 30, 2016, the University's proportionate share of the TRS net pension liability was \$34,061,000. Of this amount, the University recognized approximately \$10,379,000 as its proportionate share on the statement of net position. The remainder of \$23,682,000 denotes the University's proportionate share of net pension liability attributable to the special funding.

At June 30, 2017, the amount recognized as the University's proportionate share of the TRS net pension liability was approximately \$12,692,000. TRS measured the net pension liability as of June 30, 2016.

At June 30, 2016, the amount recognized as the University's proportionate share of the TRS net pension liability was approximately \$10,379,000. TRS measured the net pension liability as of June 30, 2015.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2016 and 2015. Employer contributions are recognized when due. At June 30, 2016, the University's proportion was 0.308824%, a decrease of 0.009306% from its proportion of 0.299518% calculated as of June 30, 2015. At June 30, 2015, the University's proportion was 0.299518%, a decrease of 0.027044% from its proportion of 0.326562% calculated as of June 30, 2014.

For the year ended June 30, 2017, the University recognized TRS pension expense of \$3,016,478. Of this amount, \$760,829 was recognized as the University's proportionate share of the TRS expense and \$2,145,936 as the amount of pension expense attributable to special funding and \$109,663 as the pension expense related to a non-special funding from a non-employer contributing entity. The University also recognized revenue of \$2,255,599 for support provided by the State.

For the year ended June 30, 2016, the University recognized TRS pension expense of \$1,993,742. Of this amount, \$205,643 was recognized as the University's proportionate share of the TRS expense and \$1,680,515 as the amount of pension expense attributable to special funding and \$107,584 as the pension expense related to a non-special funding from a

non-employer contributing entity. The University also recognized revenue of \$1,788,099 for support provided by the State.

For the years ended June 30, 2017 and 2016, the University recognized TRS pension expense of \$760,879 and \$205,643, respectively. Deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows at June 30 (dollars in thousands):

**2017**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ 282	\$ 1,432
Net difference between projected and actual investment earnings	1,045	-
Difference between expected and actual experience	116	74
Contributions after the measurement date	1,096	-
Changes in assumptions	502	-
	<u>\$ 3,041</u>	<u>\$ 1,506</u>

**2016**

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 1,903
Net difference between projected and actual investment earnings	-	438
Difference between expected and actual experience	-	90
Contributions after the measurement date	1,197	-
	<u>\$ 1,197</u>	<u>\$ 2,431</u>

The University will recognize the \$1,096,000 and \$1,197,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the years ended June 30, 2018 and 2017, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows:

<b>Fiscal Year Ended</b>	<b>Amortization</b>
June 30, 2018	\$ 184
June 30, 2019	184
June 30, 2020	(204)
June 30, 2021	(429)
June 30, 2022	(174)
	<u>\$ (439)</u>

### **Payables to the Pension Plan**

The University did not report any amounts payable for normal contributions to the TRS as of June 30, 2017 or 2016.

## **11. LEASES PAYABLE**

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2017 are as follows (dollars in thousands):

<b>Fiscal Year Ending</b>	
<b>June 30,</b>	
2018	\$ 4,943
2019	4,393
2020	2,981
2021	2,713
2022	2,045
2023-2027	10,021
2028-2032	7,905
2033-2037	5
2038-2042	5
2043-2047	5
2048-2052	5
2053-2057	5
2058	<u>1</u>
Total	<u>\$ 35,027</u>

Total rental expense for the years ended June 30, 2017 and 2016 was \$6.5 million and \$6.8 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. 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 Ending June 30,</b>	
2018	\$ 3,125
2019	3,148
2020	3,190
2021	3,228
2022	5,330
2023-2027	3,801
2028-2032	125
2033-2037	125
2038-2042	125
2043-2044	50
Minimum lease payments	<u>22,247</u>
Less amount representing interest	<u>(2,137)</u>
Present value of minimum lease payments	20,110
Current Portion	<u>2,646</u>
Noncurrent Portion	<u>\$ 17,464</u>

The net book value of leased assets was as follows as of June 30 (dollars in thousands):

	<u>2017</u>	<u>2016</u>
Buildings	\$ 28,387	\$ 28,387
Equipment	2,512	87
Land Improvements	6	6
Construction in progress	-	503
Less: Accumulated Depreciation	<u>(4,246)</u>	<u>(3,428)</u>
New Book Value	<u>\$ 26,659</u>	<u>\$ 25,555</u>

Cash on deposit with the trustee includes \$0 and \$2.2 million at June 30, 2017 and 2016, respectively, related to the WVUIC equipment lease/purchase agreement (see notes 3 and 13).

## 12. BONDS PAYABLE

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

	<u>Original Interest Rate</u>	<u>Annual Principal Installment Due</u>	<u>2017 Principal Amount Outstanding</u>	<u>2016 Principal Amount Outstanding</u>
Revenue Improvement Bonds, 2011 Series A, due through 2026	3.87%	\$ 35 to \$ 62	\$ 9,969	\$ 10,484
Revenue Improvement Bonds, 2011 Series B, due through 2037	4.14%	\$ 0 to \$ 21,800	161,815	167,240
Revenue Bonds (Taxable), 2012 Series A, due through 2042	4.50%	\$ 35 to \$ 62	12,152	12,411
Revenue Bonds (Taxable), 2012 Series B, due through 2032	variable rate	\$ 0 to \$ 50	3,919	4,123
Revenue Refunding and Improvement Bonds, 2013 Series A, due through 2043	3.55%	\$ 0 to \$ 13,715	137,030	137,475
Revenue Refunding and Improvement Bonds (Taxable), 2013 Series B, due through 2043	3.00%	\$ 995 to \$ 7,440	57,440	63,950
Improvement Revenue Bonds, 2014 Series A, due through 2045	4.30%	\$ 855 to \$ 30,285	60,000	60,000
Improvement Revenue Bonds (Taxable), 2014 Series B, due through 2043	4.50%	\$ 10,075 to \$ 24,105	79,050	79,050
Improvement Revenue Bonds, 2014 Series C, due through 2042	0.58%	\$ 9,730 to \$ 10,705	50,190	50,190
Improvement Revenue Bonds, 2016 Series A, due through 2046,	1.74%	\$ 0 to \$ 678	19,605	327
Unamortized Bond Discount			(120)	(124)
Unamortized Bond Premium			<u>38,147</u>	<u>39,812</u>
Net Bonds Payable			629,197	624,938
Current Portion			<u>16,069</u>	<u>15,328</u>
Noncurrent Portion			<u>\$ 613,128</u>	<u>\$ 609,610</u>

***Bond Indenture, Pledged Revenues and Board Authorization***

The 2004 Bonds and all subsequently issued WVU Bonds (“the 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 Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

The WVU Bond Trust Indenture, dated as of November 1, 2004, is the original indenture upon which the 2004 Bonds were issued. Subsequently issued WVU Bonds were issued based on Supplemental Indentures to the 2004 Indenture, as resolved by the Board as follows:

<b><u>Bond Issue</u></b>	<b><u>Indenture or Supplemental Indenture</u></b>	<b><u>Board Resolution</u></b>
2004 A, B and C	Original indenture	Adopted November 5, 2004
2011A	First Supplemental Indenture	Adopted April 8, 2011/Amended August 10, 2011
2011 B and C	Second Supplemental Indenture	Adopted June 6, 2011
2012 A	Third Supplemental Indenture	Adopted June 7, 2012
2012 B	Fourth Supplemental Indenture	Adopted September 28, 2012
2013 A and B	Fifth Supplemental Indenture	Adopted December 13, 2012
2014 A, B and C	Sixth Supplemental Indenture	Adopted April 4, 2014
2016 A	Seventh Supplemental Indenture	Adopted June 1, 2016

***2004 Bonds***

On November 1, 2004 the Board issued \$220.0 million in revenue bonds.

The 2004 Series A bonds were paid in full on April 1, 2013. The 2004 Series B and C bonds were advance refunded with the 2013 bonds. The amount of the University Revenue Refunding Bonds 2004 Series B refunded and defeased was \$40,515,000. 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 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%.

### ***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.

**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. On October 1, 2014, these bonds were refunded with the 2014 Series C bonds as required by the original issuance. 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 bond proceeds of \$268.3 million included net original issue premium of \$18.0 million.

### ***2012 Bonds***

During fiscal year 2013, the Board issued the 2012 Bonds as follows:

**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%.

### ***2013 Bonds***

On February 13, 2013, the Board issued \$210.5 million in revenue bonds as follows.

**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.

### ***2014 Bonds***

On October 1, 2014, the Board issued \$189.2 million in revenue bonds as follows:

**2014 Series A** The 2014 Series A bonds (tax exempt) were issued in the amount of \$60,000,000. The actual proceeds received equaled \$65,562,000. These bonds were issued to (a) finance the modernization of the University's Personal Rapid Transit system (the "PRT") including reimbursement for prior capital expenditures related to this project and (b) pay the costs of issuance of the 2014 Series A bonds.

**2014 Series B** The 2014 Series B bonds (taxable) were issued in the amount of \$79,050,000 to (a) finance certain Athletics capital projects including reimbursement for prior capital expenditures related to these projects and (b) pay the costs of issuance of the 2014 B bonds.

**2014 Series C** The 2014 Series C bonds (tax exempt) were issued in the amount of \$50,190,000 with an interest rate based on the SIFMA index plus 53 basis points to (a) refund (the "Refunding") the 2011 Series C bonds, dated October 5, 2011 and (b) pay the costs of issuance of the 2014 C bonds. During fiscal year 2017 and 2016, the average interest rate was 1.21% and .66%, respectively. The rate at June 30, 2017 and 2016 was 1.44% and .94%, respectively. The initial Par Call Date with respect to the 2014 C Bonds is April 1, 2019.

## 2016 Bonds

On June 29, 2016, the Board issued \$20,000,000 in revenue bonds as follows:

**2016 Series A** The 2016 Series A bonds (tax exempt) were issued in the amount of \$20,000,000 to finance Phase 1 of the Health Science Center infrastructure plan and to pay the costs of issuance. As of June 30, 2017 and 2016, the University received proceeds of \$19.3 million and \$327,000, respectively, for project expenses and cost of issuance incurred to date. The remaining project funds are available to the University on a draw down basis to reimburse expenses associated with the project. In January 2017, the unspent project funds will be deposited or invested with the Trustee. During the six month timeframe, interest is accrued and paid only on the project funds drawn.

### Bond Summary

For the years ended June 30, 2017 and June 30, 2016, the University recorded a deferred loss on refunding of \$12,937,000 and \$13,448,000, respectively, on the statement of net position.

Total principal and interest payments remaining to be paid at June 30, 2017 and 2016 were \$985.3 million and \$999.2 million, respectively. Total gross pledged revenue for fiscal year 2017 and 2016 was \$179.5 million and \$177.4 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>
2018	\$ 14,522	\$ 24,658	\$ 39,180
2019	14,932	24,264	39,196
2020	15,447	23,755	39,202
2021	16,014	23,214	39,228
2022	16,607	22,644	39,251
2023-2027	92,629	102,443	195,072
2028-2032	97,982	80,672	178,654
2033-2037	117,167	55,321	172,488
2038-2042	117,871	30,694	148,565
2043-2046	87,999	6,428	94,427
Bonds Payable	<u>591,170</u>	<u>\$ 394,093</u>	<u>\$ 985,263</u>
Unamortized Bond Discount	(120)		
Unamortized Bond Premium	<u>38,147</u>		
Net Bonds Payable	<u>629,197</u>		
Current Portion	<u>16,069</u>		
Noncurrent Portion	<u>\$ 613,128</u>		

### 13. NOTES PAYABLE

*Health Sciences Center Construction Loan* – 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, 2017 and June 30, 2016 was approximately \$18.9 million and \$19.6 million, respectively. Total interest paid through June 30, 2017 and June 30, 2016 was approximately \$1,775,000 and \$1,404,000, respectively. Total facilities and administrative revenues earned by HSC during fiscal year 2017 and 2016 were \$8.7 and \$8.0 million, respectively. Total pledged revenue as of June 30, 2017 and June 30, 2016 was \$3.4 million and \$2.9 million, respectively.

*Beckley Loan* – During fiscal year 2016, the Corporation negotiated a 90-day note with United Bank in the amount of \$12 million for reimbursement of the purchase and start-up costs related to the Beckley campus of the University. This note, which would have ended on September 27, 2016, was extended until December 27, 2016. The extension was for the same amount under the same terms.

On December 15, 2016, the Corporation closed on a note with United Bank for \$36,090,000. The proceeds of the loan were used to pay the 90 day note in full and to reimburse the University for the purchase of the Beckley campus as well as for capital improvements to the campus. Additionally, the proceeds include capital interest of \$3,000,000 as the loan will have a capitalized interest period of three years.

The amortization term is 30 years. The interest rate is set for 5-year increments beginning with a rate of 3.11% fixed for the first five years and a spread to the 5-year constant U.S. Treasury Maturity rate thereafter. The spread is based on the University’s rating with Moody’s.

On August 9, 2016, the Corporation entered into a lease agreement with the University for the lease of assets required by the University for the operation of the Beckley campus. This agreement was amended on December 15, 2016 to reflect an increase in the principal amount of the loan.

The base rentals are to equal the principal and interest payments on the loan with the appropriate credit reflected during the three-year capitalized interest period.

*WVUIC Loan* – During fiscal year 2017, WVUIC negotiated a loan with United Bank in the amount of \$3.0 million. This loan will bear interest at a rate of 3.50% until June 28, 2021, at which time the loan will bear interest at a fixed rate equal to the five-year USD Libor Swap Rate plus 2.150 percentage points. Interest only will be payable on this note from July 28, 2017, to and including June 28, 2018. The amortization term is ten years. The proceeds of this loan were used to pay WVUIC’s equipment lease/purchase agreement with United Bank in full. This loan is secured by certain property of WVUIC.

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

<b>Fiscal Year</b>	<b>Principal</b>	<b>Interest</b>
<b>Ending June 30,</b>		
2018	\$ 758	\$ 1,222
2019	1,061	1,201
2020	1,371	1,175
2021	1,695	1,132
2022	1,740	1,087
2023-2027	9,426	4,706
2028-2032	8,644	3,539
2033-2037	9,786	2,396
2038-2042	5,854	1,312
2043-2047	5,538	410
	<u>45,873</u>	<u>18,180</u>
Current Portion	<u>758</u>	<u>1,222</u>
Noncurrent Portion	<u>\$ 45,115</u>	<u>\$ 16,958</u>

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

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

During fiscal year 2013, the University purchased several properties located at the Square at Falling Run/Loop. This purchase included a real estate purchase agreement payable to the City of Morgantown Building Commission in the amount of \$4.2 million due in 2026 less the following credits: 1) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenditures on the Loop project in excess of \$30 million, 2) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenses on the College Park project, and 3) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 arising from and directly associated with any construction, retail, commercial, rental, and other development activities located in, or with respect to the completion of, the commercial space in the Square at Falling Run, College Park, and

Sunnyside, 4) all Airport Grant Funds received or obtained prior to August 31, 2026 as a result of Transferee's direct solicitation efforts, or indirectly as a result of specifically identifiable efforts, contracts, or commitments. The above credits have reduced the liability to \$457,719 as of June 30, 2017. Also, the purchase included a Tax Increment Financing (TIF) District Guaranty to First United Bank & Trust for \$120,000 annually through September 1, 2032. 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.

During fiscal year 2015, the University obtained external financing from WesBanco in the amount of \$13,250,000 to finance the purchase of real estate on the Evansdale Campus. The University agreed to make installment payments of \$759,000 per year through September 1, 2024.

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

#### **15. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (DEBT SERVICE PAYABLE TO COMMISSION)**

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.

## 16. UNRESTRICTED NET POSITION (DEFICIT)

The University did not have any designated unrestricted components of net position as of June 30, 2017 or 2016.

	2017	2016
Total unrestricted net position before OPEB liability, net pension liability, deferred inflows and deferred outflows	\$ 87,690	\$ 81,577
Plus: Deferred outflows of resources related to pensions	3,041	-
Less: OPEB liability	191,482	186,377
Less: net pension liability	12,692	10,379
Less: Deferred inflows of resources related to pensions	1,506	-
Total unrestricted net deficit	<u>\$ (114,949)</u>	<u>\$ (115,179)</u>

## 17. DEFINED CONTRIBUTION PENSION PLANS

Substantially all eligible employees of the University participate in either TRS or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). (See Note 10 for information regarding TRS.)

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. Educators Money was a brand utilized by Great West Financial; this has since transitioned to Empower Retirement.

The TIAA-CREF and Empower Retirement 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 Empower Retirement) of their total annual compensation. The University simultaneously matches the employees' 3% or 6% contribution. Contributions are immediately and fully vested.

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

Fiscal Year Ending June 30,	<u>WVU</u>	<u>Employees</u>	<u>Total</u>
2017	\$ 26,848	\$ 26,848	\$ 53,696
2016	25,800	25,800	51,600
2015	24,765	24,765	49,530

Contributions to Empower Retirement 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>
2017	\$ 298	\$ 298	\$ 596
2016	294	294	588
2015	302	302	604

The University's total payroll for fiscal years 2017, 2016, and 2015 was \$510.2 million, \$491.0 million, and \$473.8 million, respectively; total covered employees' salaries in TIAA-CREF and the Empower Retirement were \$451.9 million and \$5.0 million in fiscal year 2017, \$434.2 million and \$4.9 million in fiscal year 2016, and \$306.9 million, and \$5.0 million in fiscal year 2015, respectively.

## **18. NONMONETARY TRANSACTIONS**

During fiscal year 2016, the University entered into a like-kind exchange agreement with ACC that involved a transfer of a parcel of the University's property in the Fourth Ward of the City of Morgantown, Monongalia County, WV, adjacent to the University's downtown campus and contiguous to the University Place parking garage, for another parcel of property, also located in the Fourth Ward, owned by ACC. Accounting for the property exchange was based on the net book value of the University's property. A loss of \$222,000 was recorded on the exchange.

## **19. 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, 2017, the University is committed to an additional \$1.5 million purchase to meet the minimum steam purchase requirement for the contract year ended September 30, 2017. 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 \$21.7 million at June 30, 2017.
- 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, 2017 and 2016.

## 20. AFFILIATED ORGANIZATIONS

The University has affiliations with separately incorporated organizations including West Virginia United Health System, Inc., which includes West Virginia University Hospitals, Incorporated; 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; WV Campus Housing, LLC; American Campus Communities Operating Partnership, LLP (“ACC”), University Park at Evansdale, LLC; Downtown Campus Parking Associates; WVU Connector, LLC, and HSC Fresh Kitchen, LLC. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB standards. Accordingly, the financial statements of all such organizations are not included in the accompanying 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 \$2.2 million and \$28.6 million in fiscal year 2017 and \$690,000 and \$16.9 million in fiscal year 2016, respectively. Accounts receivable at June 30, 2017 and 2016 includes \$116,000 and \$702,000, 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. There were no amounts due to the Morgantown practice plan at June 30, 2017 or 2016.

- 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 and salary support. 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 \$4.5 million in fiscal year 2017 and \$4.7 million in fiscal year 2016, respectively. Accounts receivable at June 30, 2017 and 2016 includes \$910,000 and \$504,000, respectively, for such items as medical malpractice insurance and salary support. There were no amounts due to the Charleston practice plan at June 30, 2017 or 2016. There were no funds disbursed to the Charleston practice plan in fiscal year 2017 or 2016.

- 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 and salary support. 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 \$2.4 million in fiscal year 2017 and \$2.7 million in fiscal year 2016, respectively. Accounts receivable at June 30, 2017 and 2016 includes \$121,000 and \$115,000 for such items as medical malpractice insurance and salary support. Amounts due to the Eastern practice plan at both June 30, 2017 or 2016 were \$0. Total funds disbursed to the Eastern practice plan were \$0 and \$78,000 in fiscal year 2017 and 2016, respectively.

- 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, salary support and dental clinic supplies. 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 \$1.9 million in fiscal year 2017 and \$2.4 million in fiscal year 2016, respectively. Accounts receivable at June 30, 2017 and 2016 includes \$353,000 and \$174,000, 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, 2017 or 2016. There were no funds disbursed to the dental practice plan in fiscal year 2017 or 2016.

- 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 2017 and 2016, \$37.7 million and \$36.3 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, 2017 and 2016 include \$1.5 million and \$1.4 million, respectively, due from WVUH for such items. During fiscal years 2017 and 2016, \$303,000 and \$305,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2017 and 2016 include \$4,000 and \$3,000, 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 \$450,000 and \$603,000 for the years ended June 30, 2017 and 2016, respectively. The remaining payroll is billed to the Association. The Association owed the University \$238,000 and \$394,000 related to payroll and postage as of June 30, 2017 and 2016, 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, 2017 and 2016.

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 \$1.0 million and \$1.1 million for the years ended June 30, 2017 and 2016, respectively.

The University charged the Association \$921,000 and \$947,000 for catering services for the years ended June 30, 2017 and 2016, respectively. The Association owed the University \$297,000 and \$202,000 for catering services as of June 30, 2017 and 2016, respectively.

The University owed the Association \$12,000 for reimbursement of utilities as of both June 30, 2017 and 2016.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University \$15,000 and \$14,000 for the years ended June 30, 2017 and 2016, respectively. The Association owed the University \$0 for both years ended June 30, 2017 and 2016, 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 BridgeValley Community and Technical College*

*Energy Performance Contract* — 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 BridgeValley became separate entities from the University, the Parkersburg and BridgeValley portions of the Energy Performance Phase II lease purchase were reported on Parkersburg’s and BridgeValley’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 BridgeValley wherein Parkersburg and BridgeValley 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 BridgeValley 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 BridgeValley used the same terms. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2017 was \$2,022,928 and \$129,103, respectively. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2016 was \$2,282,243 and \$145,653, respectively. Interest earned during fiscal year 2017 for the notes related to Parkersburg and BridgeValley was \$87,336 and \$5,574, respectively. Interest earned during fiscal year 2016 for the notes related to Parkersburg and BridgeValley was \$97,101 and \$6,197, respectively. This interest is recorded as investment income on the statement of revenues, expenses, and changes in net position.

- 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. This project was completed in November 2014, and in accordance with the lease and development agreement, WVCH transferred buildings in the amount of \$75.4 million, and non-capital furniture and equipment in the amount of \$2.1 million, to the University during fiscal year 2015.

After making inquiries of WVCH in fiscal year 2016, the University became aware that WVCH had spent an additional \$14.6 million on capital assets (buildings, land improvements and infrastructure) and \$0.2 million on non-capital items (furniture and equipment) forming part of University Place. Per the lease and development agreement, since the University has and owns the title to all improvements forming part of University Place, these assets were transferred to the University and are reported as part of the University’s total capital assets on the statement of net position, and the non-capital items are reported on the University’s statement of revenues, expenses and changes in net position.

During fiscal year 2017, the University received \$600,000 from WVCH for information technology improvements at University Place. At June 30, 2017, \$580,000 was recorded as a deferred inflow of net position on the statement of net position.

- i. *American Campus Communities Operating Partnership, LLP* — In fiscal year 2014, the University entered into an agreement with 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.
- j. *University Park at Evansdale, LLC (“UPE”)* — In fiscal year 2014, the University entered into a public-private arrangement with UPE for the development, financing, construction and management of University Park (student housing and commercial facilities). Per this agreement, the University will lease the land to UPE. UPE will construct improvements upon the land and transfer the improvements to the University. The University will lease the land, improvements and personal property located on the premises to UPE. The agreement will be in place for 40 years with a guaranteed option to renew for a term equal to the remaining term of any leasehold deed of trust then outstanding, if any, plus 15 years and an option to extend the agreement for one additional term of 10 years. This project was completed in August 2015. The agreement stipulates that UPE will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.
- k. *Downtown Campus Parking Associates (“DCPA”)* — In fiscal year 2013, the University entered into a public-private arrangement with Paradigm and WVCH for the development, financing, construction and management of student housing facilities and various amenities including commercial and parking facilities (known as University Place). WVCH entered into an agreement with DCPA (an affiliate of WVCH) to sublease the certain portion of real property and delegate, transfer and assign its duties and obligations under the lease and development agreement with the University for the acquisition, design, development, financing, construction and operation of the parking facilities project. Under this agreement, DCPA constructed and transferred ownership of certain parking facility improvements, including a 500 space parking garage with first floor commercial space. This project was completed in November 2015 and DCPA transferred the garage building and parking equipment in the amount of \$17.9 million to the University in fiscal year 2016.

The parking facilities sublease agreement stipulates that the University will remit 100% of net revenues received from the operation of the parking facilities to DCPA as lease payments, not to exceed DCPA’s scheduled principal and interest on the parking facilities financing for the current year plus its net operating margin (deficit) from the parking facilities project. If the University’s net revenues from the operation of the parking facilities are insufficient to meet DCPA’s debt-service and operating needs, the University will make additional lease payments in the amount of the shortfall, which will be owed back to the University from housing revenues of WVCH. Accordingly, the University recorded lease payments of \$139,246 and \$43,927 and additional lease payments of \$588,267 and \$288,079 to DCPA (and a corresponding accounts receivable from WVCH) as of June 30, 2017 and 2016, respectively.

DCPA obtained financing for the project in an amount not to exceed \$40.0 million. WVU's understanding is that up to \$24.0 million was to construct the parking garage and the remaining \$16.0 million was to be used to acquire additional property and to construct a surface lot on the additional property. The University has become aware that \$14.0 million of the \$16.0 million was used to make improvements to the WVCH property. It is the position of the University that it is only required to cover any shortfall on the \$24.0 million allocated to the parking garage.

1. *WVU Connector, LLC* — In fiscal year 2014, the University entered into a public-private arrangement with WVU Connector for the development of certain real property owned by the University on its Evansdale campus for a full service student support services project, amenities and limited commercial development (Evansdale Crossing). According to this agreement, the University will lease the property to WVU Connector and WVU Connector will construct improvements upon the property. The initial term of the lease will be for 40 years with the option to extend the lease term for two additional terms of 10 years. The project was completed in December 2015. The agreement stipulates that WVU Connector will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.
  
- m. *HSC Fresh Kitchen, LLC* – In fiscal year 2017, the University entered into a public-private arrangement with HSC Fresh Kitchen for the lease and development of the cafeteria space at the Health Sciences Center (the Market at West Virginia University). According to this agreement, the University will lease the space to HSC Fresh Kitchen and HSC Fresh Kitchen will construct improvements on the property. The initial term of the lease will be 10 years with the option to extend the lease term for two additional terms of 5 years. The project was completed in August 2016. The agreement stipulates that HSC Fresh Kitchen will pay base rent as a percentage of gross revenues and additional rent as a percentage of net revenues.

If HSC Fresh Kitchen's actual cash basis operating expenses exceed gross revenues, the University will reimburse HSC Fresh Kitchen for such annual net operational losses during the first three lease years, subject to the following annual limitation: up to \$300,000 for lease year 1, up to \$200,000 for lease year 2 and up to \$100,000 for lease year 3. All payments by the University to HSC Fresh Kitchen for annual net operational losses will be repaid to the University from future year net revenues in equal annual amounts divided by 7 (the remaining term of the initial term) as additional rent.

## **21. 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 \$1.7 billion and \$1.4 billion at June 30, 2017 and 2016, respectively, with net assets of \$854.9 million and \$774.8 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$99.6 million and \$55.8 million in fiscal years 2017 and 2016, respectively.

Total funds expended by the Foundation in support of University activities totaled \$85.8 million and \$76.6 million in fiscal years 2017 and 2016, 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.

## **22. SERVICE CONCESSION ARRANGEMENT**

The University has identified one contract for services that meets the four criteria of a service concession arrangement (SCA) per GASB Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements"*. 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.

During fiscal year 2015, the University recorded a capital asset with a fair market value of \$34,952,000 and a deferred inflow of resources. This deferred inflow is being amortized to auxiliary revenue over the term of the agreement (40 years). The University has recorded an accounts receivable of \$123,000 and \$199,000 at June 30, 2017 and 2016, respectively, for reimbursable project expenses. At June 30, 2017, the University recognized management fee revenue and its share of the net revenue of \$41,000 and \$199,000, respectively. At June 30, 2016, the University recognized management fee revenue and its share of the net revenue of \$20,000 and \$346,000, respectively. This revenue is included in revenue from auxiliary enterprises on the statement of revenues, expenses and changes in net position.

## **23. GOVERNMENT ACQUISITION**

On July 28, 2016, the Blanchette Rockefeller Neurosciences Institute (BRNI) filed a voluntary petition for relief under Chapter 11 of the U.S. Bankruptcy Code. On July 29, 2016, the University entered into an agreement with BRNI to purchase certain assets including the names "Blanchette Rockefeller Neurosciences Institute" and "BRNI", equipment and personal property, and intellectual property. The University obtained control of the assets on October 4, 2016. Per the agreement, the University paid \$1,077,847 (\$1,950,000 less amounts already paid by the University in support of BRNI of \$872,153).

The University also agreed to provide funding through June 30, 2020 under the center for brain health and for neurodegenerative diseases at the University, which will carry on the broad mission previously undertaken by BRNI. The University recorded assets with a fair market value of \$187,328, expenses of \$393,398 (for those assets that did not meet the criteria for capitalization) and a deferred outflow of resources of \$497,121. This deferred outflow is being amortized to other operating expense through June 30, 2020.

## **24. 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, 2017 or 2016.

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, 2017 and 2016, the University has recorded a liability of \$468,000 and \$816,000, 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, \$2 million and \$3 million is recorded as an other noncurrent liability as of June 30, 2017 and June 30, 2016, respectively) if the Foundation does not make required payments under its \$10 million promissory note with the Big 12.

## **25. SUBSEQUENT EVENTS**

On July 13, 2017, the University entered into a lease purchase agreement with KVC Health Systems, Inc. (“KVC”) for the lease of select parcels of real and personal property associated with the former WVU Tech campus located in the city of Montgomery, Fayette County, West Virginia. Following WVU Tech’s relocation to Beckley, West Virginia, KVC envisions repurposing the campus of WVU Tech into a specialized, accredited college with a focus on young adults emerging from foster care. The term of this agreement will be for a period of 25 years commencing on July 13, 2017 and expiring on June 30, 2042. On or before the expiration of the lease term, KVC has the right to purchase the premises for a total purchase price of \$8,300,000 if purchased between July 1, 2017 and June 30, 2020; \$8,900,000 if purchased between July 1, 2020 and June 30, 2027; and \$9,400,000 if purchased any time after July 1, 2027; rent payments will be credited towards the purchase price.

## 26. BLENDED COMPONENT UNIT

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

2017

### Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
<b>Assets</b>					
Current Assets	\$ 187,368	\$ 58,903	\$ 1,510	\$ -	\$ 247,781
Accounts Receivable - Corporation	11,960	-	-	(11,960)	-
Accounts Receivable - WVUIC, Current Portion	-	1,496	-	(1,496)	-
Total Noncurrent Assets	199,328	60,399	1,510	(13,456)	247,781
Capital Assets, net	1,755,286	64,320	3,885	-	\$ 1,823,491
Accounts Receivable - WVUIC	-	3,500	-	(3,500)	-
Other Noncurrent Assets	133,566	932	(176)	-	134,322
Total Noncurrent Assets	1,888,852	68,752	3,709	(3,500)	1,957,813
<b>Total Assets</b>	<b>2,088,180</b>	<b>129,151</b>	<b>5,219</b>	<b>(16,956)</b>	<b>2,205,594</b>
<b>Deferred Outflows of Resources</b>	16,376	-	-	-	16,376
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 2,104,556</b>	<b>\$ 129,151</b>	<b>\$ 5,219</b>	<b>\$ (16,956)</b>	<b>\$ 2,221,970</b>
<b>Liabilities and Deferred Inflows of Resources</b>					
Current Liabilities	\$ 150,633	\$ 31,164	\$ 879	\$ -	\$ 182,676
Accounts Payable - WVU	-	11,960	-	(11,960)	-
Accounts Payable - WVUIC, Current Portion	-	-	1,496	(1,496)	-
Total Current Liabilities	150,633	43,124	2,375	(13,456)	182,676
Noncurrent Liabilities	951,390	42,115	3,000	-	996,505
Accounts Payable - WVUIC	-	-	3,500	(3,500)	-
Total Noncurrent Liabilities	951,390	42,115	6,500	(3,500)	996,505
<b>Total Liabilities</b>	<b>1,102,023</b>	<b>85,239</b>	<b>8,875</b>	<b>(16,956)</b>	<b>1,179,181</b>
<b>Deferred Inflows of Resources</b>	39,401	386	-	-	39,787
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 1,141,424</b>	<b>\$ 85,625</b>	<b>\$ 8,875</b>	<b>\$ (16,956)</b>	<b>\$ 1,218,968</b>
<b>Net Position</b>					
Net Investment in Capital Assets	\$ 1,071,744	\$ 20,071	\$ -	\$ -	\$ 1,091,815
Restricted Nonexpendable	17,803	-	-	-	17,803
Restricted Expendable	8,333	-	-	-	8,333
Unrestricted Net Deficit	(134,748)	23,455	(3,656)	-	(114,949)
<b>Total Net Position</b>	<b>\$ 963,132</b>	<b>\$ 43,526</b>	<b>\$ (3,656)</b>	<b>\$ -</b>	<b>\$ 1,003,002</b>

2017

Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
Operating Revenues					
Student Tuition and Fees, net	\$ 395,429	\$ -	\$ -	\$ -	\$ 395,429
Federal Land Grants	7,871	-	-	-	7,871
Local Land Grants	1,229	-	-	-	1,229
Federal Grants and Contracts	8,707	61,167	2,259	-	72,133
State Grants and Contracts	9,601	29,151	-	-	38,752
Local Grants and Contracts	33	322	-	-	355
Nongovernmental Grants and Contracts	49,297	22,303	914	-	72,514
Sales and Services of Educational Departments	19,895	1,805	-	-	21,700
Auxiliary Enterprises, net	157,957	-	-	-	157,957
Interest on Student Loans Receivable	765	-	-	-	765
Net Operating Revenue from the Corporation	9,767	-	-	(9,767)	-
Net Operating Revenue from WVUIC	-	874	-	(874)	-
Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's	348	-	-	-	348
Other Operating Revenues	13,996	149	21	-	14,166
<b>Total Operating Revenues</b>	<b>674,895</b>	<b>115,771</b>	<b>3,194</b>	<b>(10,641)</b>	<b>783,219</b>
Operating Expenses					
Depreciation and Amortization	78,775	1,414	165	-	80,354
Net Operating Expenses to WVU	-	9,767	-	(9,767)	-
Net Operating Expenses to the Corporation	-	-	874	(874)	-
Other Operating Expenses	857,488	119,902	4,192	-	981,582
<b>Total Operating Expenses</b>	<b>936,263</b>	<b>131,083</b>	<b>5,231</b>	<b>(10,641)</b>	<b>1,061,936</b>
<b>Operating (Loss) Income</b>	<b>(261,368)</b>	<b>(15,312)</b>	<b>(2,037)</b>	<b>-</b>	<b>(278,717)</b>
Nonoperating Revenues (Expenses)					
State Appropriations	178,052	-	-	-	178,052
State Lottery Appropriations	3,559	-	-	-	3,559
Payments on Behalf of the University	3,464	11	-	-	3,475
Gifts	44,425	6,276	-	-	50,701
Federal Pell Grants	29,940	-	-	-	29,940
Investment Income	11,941	842	-	-	12,783
Interest on Capital Asset-Related Debt	(22,394)	(558)	(83)	-	(23,035)
Assessments by Commission for Debt Service	(6,284)	-	-	-	(6,284)
Debt Issuance Costs	(95)	(73)	-	-	(168)
Other Nonoperating Expenses - Net	(4,183)	-	-	-	(4,183)
<b>Net Nonoperating Revenues</b>	<b>238,425</b>	<b>6,498</b>	<b>(83)</b>	<b>-</b>	<b>244,840</b>
<b>Gains, or Losses</b>	<b>(22,943)</b>	<b>(8,814)</b>	<b>(2,120)</b>	<b>-</b>	<b>(33,877)</b>
Capital Grants and Gifts	33,361	8,899	-	-	42,260
Transfer of Assets to the University	5,499	(5,499)	-	-	-
Transfer of Assets (from) to the University	(763)	763	-	-	-
<b>Increase in Net Position</b>	<b>15,154</b>	<b>(4,651)</b>	<b>(2,120)</b>	<b>-</b>	<b>8,383</b>
<b>Net Position at Beginning of Year</b>	<b>947,978</b>	<b>48,177</b>	<b>(1,536)</b>	<b>-</b>	<b>994,619</b>
<b>Net Position at End of Year</b>	<b>\$ 963,132</b>	<b>\$ 43,526</b>	<b>\$ (3,656)</b>	<b>\$ -</b>	<b>\$ 1,003,002</b>

2017

Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	WVU Combined
<b>Cash Provided By (Used In):</b>				
Operating Activities	\$ (181,475)	\$ (6,438)	\$ (1,396)	\$ (189,309)
Noncapital Financing Activities	259,715	6,085	-	265,800
Capital Financing Activities	(139,431)	(378)	(290)	(140,099)
Investing Activities	50,454	122	-	50,576
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (10,737)</b>	<b>\$ (609)</b>	<b>\$ (1,686)</b>	<b>\$ (13,032)</b>
Cash and Cash Equivalents, Beginning of Year	\$ 120,566	\$ 23,934	\$ 2,265	\$ 146,765
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 109,829</b>	<b>\$ 23,325</b>	<b>\$ 579</b>	<b>\$ 133,733</b>

## 2016

## Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
<b>Assets</b>					
Current Assets	\$ 200,425	\$ 58,708	\$ 605	\$ -	\$ 259,738
Accounts Receivable - Corporation	9,086	-	-	(9,086)	-
Accounts Receivable - WVUIC, Current Portion	-	183	-	(183)	-
Total Noncurrent Assets	209,511	58,891	605	(9,269)	259,738
Capital Assets, net	1,708,458	50,609	1,049	-	1,760,116
Accounts Receivable - WVUIC	-	1,586	-	(1,586)	-
Other Noncurrent Assets	168,506	2,287	2,209	-	173,002
Total Noncurrent Assets	1,876,964	54,482	3,258	(1,586)	1,933,118
<b>Total Assets</b>	<b>2,086,475</b>	<b>113,373</b>	<b>3,863</b>	<b>(10,855)</b>	<b>2,192,856</b>
<b>Deferred Outflows of Resources</b>	14,645	-	-	-	14,645
<b>Total Assets and Deferred Outflows of Resources</b>	<b>\$ 2,101,120</b>	<b>\$ 113,373</b>	<b>\$ 3,863</b>	<b>\$ (10,855)</b>	<b>\$ 2,207,501</b>
<b>Liabilities and Deferred Inflows of Resources</b>					
Current Liabilities	\$ 174,153	\$ 36,810	\$ 977	\$ -	\$ 211,940
Accounts Payable - WVU	-	9,086	-	(9,086)	-
Accounts Payable - WVUIC, Current Portion	(439)	-	622	(183)	-
Total Current Liabilities	173,714	45,896	1,599	(9,269)	211,940
Noncurrent Liabilities	939,024	18,869	2,214	-	960,107
Accounts Payable - WVUIC	-	-	1,586	(1,586)	-
Total Noncurrent Liabilities	939,024	18,869	3,800	(1,586)	960,107
<b>Total Liabilities</b>	<b>1,112,738</b>	<b>64,765</b>	<b>5,399</b>	<b>(10,855)</b>	<b>1,172,047</b>
<b>Deferred Inflows of Resources</b>	-	-	-	-	-
<b>Total Liabilities and Deferred Inflows of Resources</b>	<b>\$ 1,112,738</b>	<b>\$ 64,765</b>	<b>\$ 5,399</b>	<b>\$ (10,855)</b>	<b>\$ 1,172,047</b>
<b>Net Position</b>					
Net Investment in Capital Assets	\$ 1,066,671	\$ 18,548	\$ -	\$ -	\$ 1,085,219
Restricted Nonexpendable	16,836	-	-	-	16,836
Restricted Expendable	7,743	-	-	-	7,743
Unrestricted Net Deficit	(143,272)	29,629	(1,536)	-	(115,179)
<b>Total Net Position</b>	<b>\$ 947,978</b>	<b>\$ 48,177</b>	<b>\$ (1,536)</b>	<b>\$ -</b>	<b>\$ 994,619</b>

2016

Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
<b>Operating Revenues</b>					
Student Tuition and Fees, net	\$ 385,121	\$ -	\$ -	\$ -	\$ 385,121
Federal Land Grants	8,055	-	-	-	8,055
Local Land Grants	1,147	-	-	-	1,147
Federal Grants and Contracts	9,570	67,522	550	-	77,642
State Grants and Contracts	10,626	28,024	-	-	38,650
Local Grants and Contracts	22	314	-	-	336
Nongovernmental Grants and Contracts	35,858	21,216	472	-	57,546
Sales and Services of Educational Departments	18,274	427	-	-	18,701
Auxiliary Enterprises, net	154,607	-	-	-	154,607
Interest on Student Loans Receivable	842	-	-	-	842
Net Operating Revenue from the Corporation	14,378	-	-	(14,378)	-
Net Operating Revenue from WVUIC	-	183	-	(183)	-
Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's	389	-	-	-	389
Other Operating Revenues	9,260	214	1	-	9,475
<b>Total Operating Revenues</b>	<b>648,149</b>	<b>117,900</b>	<b>1,023</b>	<b>(14,561)</b>	<b>752,511</b>
<b>Operating Expenses</b>					
Depreciation and Amortization	81,247	1,264	12	-	82,523
Net Operating Expenses to WVU	-	14,378	-	(14,378)	-
Net Operating Expenses to the Corporation	(1,012)	-	1,195	(183)	-
Other Operating Expenses	856,079	114,094	1,352	-	971,525
<b>Total Operating Expenses</b>	<b>936,314</b>	<b>129,736</b>	<b>2,559</b>	<b>(14,561)</b>	<b>1,054,048</b>
<b>Operating (Loss) Income</b>	<b>(288,165)</b>	<b>(11,836)</b>	<b>(1,536)</b>	<b>-</b>	<b>(301,537)</b>
<b>Nonoperating Revenues (Expenses)</b>					
State Appropriations	178,104	-	-	-	178,104
State Lottery Appropriations	3,488	-	-	-	3,488
Payments on Behalf of the University	2,803	2	-	-	2,805
Gifts	44,388	6,871	-	-	51,259
Federal Pell Grants	29,890	-	-	-	29,890
Investment Income	1,744	305	-	-	2,049
Interest on Capital Asset-Related Debt	(21,742)	(314)	-	-	(22,056)
Assessments by Commission for Debt Service	(6,169)	-	-	-	(6,169)
Debt Issuance Costs	(40)	-	-	-	(40)
Other Nonoperating Expenses - Net	1,720	-	-	-	1,720
<b>Net Nonoperating Revenues</b>	<b>234,186</b>	<b>6,864</b>	<b>-</b>	<b>-</b>	<b>241,050</b>
<b>(Loss) Income before Other Revenues, Expenses,</b>	<b>(53,979)</b>	<b>(4,972)</b>	<b>(1,536)</b>	<b>-</b>	<b>(60,487)</b>
Capital Grants and Gifts	162,711	561	-	-	163,272
Bond/Capital Projects Proceeds from the Higher Education Policy Commission	356	-	-	-	356
Transfer of Assets to the University	5,318	(5,318)	-	-	-
Transfer of Assets (from) to the University	(422)	422	-	-	-
<b>Transfer of Assets (from) to the University</b>	<b>113,984</b>	<b>(9,307)</b>	<b>(1,536)</b>	<b>-</b>	<b>103,141</b>
<b>Net Position at Beginning of Year</b>	<b>833,994</b>	<b>57,484</b>	<b>-</b>	<b>-</b>	<b>891,478</b>
<b>Net Position at End of Year</b>	<b>\$ 947,978</b>	<b>\$ 48,177</b>	<b>\$ (1,536)</b>	<b>\$ -</b>	<b>\$ 994,619</b>

2016

Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	WVU Combined
<b>Cash Provided By (Used In):</b>				
Operating Activities	\$ (190,412)	\$ (12,862)	\$ (1,259)	\$ (204,533)
Noncapital Financing Activities	254,903	6,552	-	261,455
Capital Financing Activities	(179,238)	4,968	2,089	(172,181)
Investing Activities	76,731	140	(774)	76,097
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	<b>\$ (38,016)</b>	<b>\$ (1,202)</b>	<b>\$ 56</b>	<b>\$ (39,162)</b>
Cash and Cash Equivalents, Beginning of Year	\$ 160,791	\$ 25,136	\$ -	\$ 185,927
<b>Cash and Cash Equivalents, End of Year</b>	<b>\$ 122,775</b>	<b>\$ 23,934</b>	<b>\$ 56</b>	<b>\$ 146,765</b>

## 27. SEGMENT INFORMATION

See Note 12 for descriptive information for the University's segment.

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

(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2017	AUXILIARIES As of/Year Ended 2016
<b>CONDENSED SCHEDULES OF NET POSITION</b>		
Assets and Deferred Outflows of Resources:		
Current Assets	\$ 72,028	\$ 59,391
Noncurrent and Capital Assets *	1,129,968	1,100,770
Total Assets	<u>1,201,996</u>	<u>1,160,161</u>
Deferred Outflows of Resources:		
Deferred Loss on Refunding	12,937	13,448
Deferred Outflows Related to Pensions	227	86
Total Assets and Deferred Outflows of Resources	<u>\$ 1,215,160</u>	<u>\$ 1,173,695</u>
Liabilities, Deferred Inflows, and Net Position:		
Current Liabilities	\$ 43,688	\$ 56,616
Long-Term Liabilities	657,308	666,872
Total Liabilities	<u>700,996</u>	<u>723,488</u>
Deferred Inflows of Resources:		
Deferred service concession arrangements	37,135	37,889
Deferred inflows related to pensions	66	179
Total Liabilities and Deferred Inflows of Resources	<u>\$ 738,197</u>	<u>\$ 761,556</u>
Net Position:		
Net investment in capital assets	\$ 511,599	\$ 486,844
Restricted	55,951	113,211
Unrestricted	(90,587)	(187,916)
Total Net Position	<u>\$ 476,963</u>	<u>\$ 412,139</u>
<b>CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION</b>		
Auxiliary and Capital Fees	\$ 30,781	\$ 30,699
Operating Revenues	141,478	137,320
Operating Expenses	(156,118)	(157,860)
Net Operating Income	16,141	10,159
Nonoperating Revenues/Expenses:		
Investment Income	334	799
Net Transfers (from) to Other Funds	43,405	(2,016)
Other Nonoperating Income	16,492	138,995
Gifts	16,498	16,394
Other Nonoperating Expenses	(5,732)	(4,113)
Interest Expense *	(22,314)	(21,692)
Increase in Net Position	64,824	138,526
Net Position - Beginning of Year	412,139	273,613
Net Position - End of Year	<u>\$ 476,963</u>	<u>\$ 412,139</u>

(continued)

**CONDENSED SCHEDULES OF CASH FLOWS**

Net Cash Provided by Operating Activities	\$	(10,171)	\$	27,008
Net Cash Flows Provided by				
Noncapital Financing Activities		16,498		16,394
Net Cash Flows Used in				
Capital and Related Financing Activities		(1,712)		(57,324)
Net Cash Flows Provided by				
Investing Activities		591		833
Decrease in Cash		5,206		(13,089)
Cash - Beginning of Year		96,855		109,944
Cash - End of Year	\$	102,061	\$	96,855

**Reconciliation of cash**

Cash classified as current assets	\$	64,585	\$	50,917
Cash classified as noncurrent assets		37,477		45,939
	\$	102,062	\$	96,856

\* Interest of \$1,622,543 and \$2,160,000 was capitalized for fiscal year 2017 and 2016, respectively.

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

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

Functional Classification	Year Ended June 30, 2017										
	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	\$ 222,254	\$ 67,860	\$ -	\$ 277	\$ 28,639	\$ -	\$ -	\$ -	\$ 1,700	\$ 320,730	
Research	66,385	29,574	-	63	37,144	-	-	-	206	133,572	
Public Service	35,961	8,746	-	165	14,950	-	-	-	30	59,852	
Academic Support	26,444	6,416	-	93	12,202	-	-	-	181	45,336	
Student Services	22,601	9,029	-	38	10,677	-	-	-	127	42,472	
Operation and Maintenance of Plant	22,962	9,220	-	22,638	24,189	-	-	-	84	79,093	
General Institutional Support	64,606	17,127	-	68	47,533	-	-	-	2,139	131,473	
Student Financial Aid	-	-	38,678	-	-	-	-	-	-	38,678	
Auxiliary Enterprises	49,021	10,117	-	8,399	59,560	-	-	-	406	127,503	
Depreciation and Amortization	-	-	-	-	-	80,354	-	-	-	80,354	
Assessments by Commission for Operations	-	-	-	-	-	-	293	-	2,780	2,780	
Loan Cancellations and Write Offs	-	-	-	-	-	-	293	-	-	2,780	
Total Expenses	\$ 510,234	\$ 158,089	\$ 38,678	\$ 31,741	\$ 234,894	\$ 80,354	\$ 293	\$ 2,780	\$ 4,873	\$ 1,061,936	

Functional Classification	Year Ended June 30, 2016										
	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	\$ 215,079	\$ 64,288	\$ -	\$ 306	\$ 30,514	\$ -	\$ -	\$ -	\$ 187	\$ 310,374	
Research	62,243	26,777	-	78	40,957	-	-	-	49	130,104	
Public Service	35,042	8,772	-	160	14,254	-	-	-	36	58,264	
Academic Support	26,478	6,528	-	98	13,648	-	-	-	13	46,765	
Student Services	21,601	9,217	-	32	13,302	-	-	-	45	44,197	
Operation and Maintenance of Plant	23,615	8,916	-	20,588	31,567	-	-	-	85	84,771	
General Institutional Support	60,188	15,937	-	52	48,055	-	-	-	721	124,953	
Student Financial Aid	-	-	42,572	-	-	-	-	-	-	42,572	
Auxiliary Enterprises	46,614	9,359	-	7,111	62,831	-	-	-	396	126,311	
Depreciation and Amortization	-	-	-	-	-	82,523	-	-	-	82,523	
Assessments by Commission for Operations	-	-	-	-	-	-	411	-	2,803	2,803	
Loan Cancellations and Write Offs	-	-	-	-	-	-	411	-	2,803	2,803	
Total Expenses	\$ 490,860	\$ 149,794	\$ 42,572	\$ 28,425	\$ 255,128	\$ 82,523	\$ 411	\$ 2,803	\$ 1,532	\$ 1,054,048	

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS**

Schedule of Proportionate Share of TRS Net Pension Liability (in thousands):

Measurement Date	University's Proportionate Share as a Percentage of Net Pension Liability		University's Proportionate Share		State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll		University's Proportionate Share as a Percentage of Covered Payroll	University's Plan Fiduciary Net Position as a Percentage of Total Pension
	Net Pension Liability	Share	Proportionate Share	Proportionate Share			Employee Payroll	Covered Payroll		
June 30, 2016	0.308824%	\$ 12,692	\$ 24,175	\$ 36,867	\$ 4,667	\$ 271,956	61.42%			
June 30, 2015	0.299518%	10,379	23,682	34,061	4,438	233,866	66.25%			
June 30, 2014	0.326562%	11,267	25,456	36,723	4,877	231%	65.95%			

Schedule of Employer Contributions (in thousands):

Measurement Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a percentage of Covered Payroll
June 30, 2016	\$ 1,307	\$ 1,197	\$ 110	\$ 4,667	25.65%
June 30, 2015	1,470	1,362	108	4,438	30.69%
June 30, 2014	1,486	1,504	(18)	4,877	30.84%

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information  
For the Years Ended June 30, 2017 and 2016**

There are no factors that affect trends in the amounts reported, such as change in benefit terms or assumptions. With only three years reported in the required supplementary information, there is no additional information to include in the notes. Information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report.



**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 & Divisions  
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, a campus of West Virginia Higher Education Policy Commission as of and for the year ended June 30, 2017, 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 October 18, 2017.

**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.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
October 18, 2017