# West Virginia State University

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

# WEST VIRGINIA STATE UNIVERSITY

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# INDEPENDENT AUDITORS' REPORT

Board of Governors
West Virginia State University
Institute, West Virginia

## Report on the Financial Statements

We have audited the accompanying financial statements of West Virginia State University and it's discretely presented component unit, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the entity's basic financial statements as listed in the table of contents.

### *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 did not audit the financial statements of the West Virginia State University Foundation, a discretely presented component unit of West Virginia State University, which represents 100 percent of the assets, net position, and revenues of the discretely presented component unit. Additionally, we did not audit the financial statements of the West Virginia State University Research and Development Corporation, a blended component unit of West Virginia State University, which represent 4 percent, 2 percent, and 22 percent, respectively, of the assets, net position, and revenues of the statements of West Virginia State University. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for West Virginia State University and the discretely presented component unit, are based solely on the reports of the other auditors. We and the auditors of the West Virginia State University Research and Development Corporation, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the West Virginia State University Foundation, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

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

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

***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the financial statements of West Virginia State University and it's discretely presented component unit as of June 30, 2014 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3-10 be presented to supplement the basic financial statements. 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 and other auditors 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.

*Prior Period Financial Statements*

The June 30, 2013 financial statements of West Virginia State University and the discretely present component unit of West Virginia State University were audited by other auditors whose report dated November 13, 2013, expressed an unmodified opinion on those statements.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2014, on our consideration of the West Virginia State University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Virginia State University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

Milwaukee, Wisconsin
November 26, 2014

**West Virginia State University**

**Management's Discussion and Analysis (Unaudited)**

**For the Year Ended June 30, 2014**

## HISTORY OF WEST VIRGINIA STATE UNIVERSITY

West Virginia State University was founded under the provisions of the Second Morrill Act of 1890 as the West Virginia Colored Institute, one of 17 land-grant institutions authorized by Congress and designated by the states to provide for the education of black citizens in agriculture and the mechanical arts. West Virginia was one of the states that maintained segregated educational systems at that time.

From 1891 to 1915, the original Institute offered the equivalent of a high school education, vocational training and teacher preparation. In 1915 the West Virginia Collegiate Institute began to offer college degrees. Under the leadership of President John W. Davis, the academic program was expanded and new buildings were constructed, and in 1927 the institution was accredited by the North Central Association. In 1929, it became West Virginia State College (WVSC). Over the next decades, WVSC became recognized as one of the leading public institutions of higher education for blacks in the country.

In 1954 the United States Supreme Court gave its historic decision in Brown vs. Board of Education outlawing school segregation. The consequence of this decision for West Virginia State College was a rapid transition to an integrated institution serving a multiracial, multi-generational commuting student population. This shift in student population and mission occurred in part due to demographics and in part due to efforts made by the college administration to reverse a decline in enrollment during the early 1950's. Enrollment quadrupled during the following decades.

Meanwhile, by a decision of the West Virginia Board of Education, WVSC was compelled to surrender its land-grant status, the only one of the 1890 institutions to do so. Only after a 12-year quest was the college's land-grant status fully restored, in 2001 by act of Congress signed by President Bill Clinton.

In 2004, WVSC was granted university status by the West Virginia Legislature along with three other public four-year colleges and renamed West Virginia State University. The same piece of legislation (SB 448) also called for re-organization of community and technical colleges throughout the state which eventually led to WVSC's community and technical college component becoming a separate institution, Kanawha Valley Community and Technical College.

The first half-century of the history of WVSU epitomizes the long struggle of African-Americans for educational opportunity and political, social and economic equality. While desegregation changed the racial proportions of the student body, faculty and staff, WVSU still emphasizes the diversity of its people and derives important values and elements of its mission from its tradition as a historically black college. The motto "A Living Laboratory of Human Relations" is still a relevant depiction of West Virginia State University.

## OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

West Virginia State University (the "University") is pleased to present the financial statements for the year ended June 30, 2014. The information also includes the West Virginia State University Research and Development Corporation (the "Corporation"). The West Virginia State University Foundation is included as a discretely presented component unit.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The required, supplementary information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2014.

The Governmental Accounting Standards Board (GASB) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously, the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University.

## STATEMENTS OF NET POSITION

The purpose of the University's Statements of Net Position is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net position of the University as of June 30, 2014.

The year-end data regarding assets (current and noncurrent) and deferred outflows, liabilities (current and noncurrent) and deferred inflows of resources and net position (assets and deferred outflows minus liabilities and deferred inflows) is also presented in the financial statements. The difference between current and noncurrent assets, deferred inflows, liabilities, and deferred inflows of resources are discussed in the note section of the financial statements.

By reviewing the Statement of Net Position, the reader is able to ascertain the assets available to continue the operations of the University. Also, readers can see data presented in a way to discern how much the institution owes vendors, employees and lending institutions. In addition, the Statement of Net Position offers an overview picture of the net position (assets minus liabilities and deferred inflow of resources) and the availability of the assets to utilize for future expenditure by the University.

Net position is divided into four major types:

- Net Investment in Capital Assets: net book value of the University's capital assets less any related debt.
- Restricted Net Position — The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. This includes amounts restricted for use in capital projects and for loans to students by various agreements, as well as amounts required to be held for use in debt service on outstanding bonds as outline in Bond Trust Indenture.
    a. Nonexpendable — The nonexpendable component of net position is permanently restricted, and only the income from such resources can be used. The University does not have such assets as of June 30, 2014 or 2013.
    b. Expendable — The expendable component of net position is available for expenditures as determined by donors and/or external entities in regard to time or purpose.
- Unrestricted: The unrestricted component of net position is the net amount of assets available to the institution to utilize for any lawful purpose.

Condensed Schedules of Net Position

| | FY 2014 | FY 2013 | Difference | FY 2012 |
|---|---|---|---|---|
| **Assets** | | | | |
| Total current assets | $4,395,412 | $9,128,481 | $(4,733,069) | $9,278,078 |
| Total non-current assets | 62,417,602 | 53,901,449 | 8,516,153 | 30,391,650 |
| **Total assets** | **$66,813,014** | **$63,029,930** | **$ 3,783,084** | **$39,669,728** |
| | | | | |
| **Liabilities** | | | | |
| Total current liabilities | $5,978,530 | $7,128,681 | $(1,150,151) | $ 5,047,877 |
| Total non-current liabilities | 26,945,967 | 24,274,053 | 2,671,914 | 17,940,641 |
| **Total liabilities** | **$32,924,497** | **$31,402,734** | **$ 1,521,763** | **$22,988,518** |
| | | | | |
| **Net Position** | | | | |
| Net investment in capital assets | $49,064,010 | $41,680,275 | $ 7,383735 | $23,905,020 |
| Restricted expendable-debt service | 451,022 | 288,079 | 162,943 | 607,253 |
| Restricted expendable-other | 330,295 | - | 330,295 | - |
| Unrestricted (deficit) | (15,956,810) | (10,341,158) | (5,615,652) | (7,831,063) |
| **Total net position** | **$33,888,517** | **$31,627,196** | **$ 2,261,321** | **$16,681,210** |
| | | | | |
| **Total liabilities and net position** | **$66,813,014** | **$63,029,930** | **$ 3,783,084** | **$39,669,728** |

Assets:

Total assets for fiscal year 2014 increased over fiscal year 2013 by $3.8 million. This was caused by the increase in noncurrent assets, specifically capital assets and was off-set in part by a decrease in current assets particularly cash and cash equivalents. Total current liabilities of resources of $6.0 million exceeded total current assets of $4.4 million, for a net working capital of $(1.6) million.

Total assets for fiscal year 2013 increased over fiscal year 2012 by $23,360,202. This was caused by the increase in noncurrent assets, specifically capital assets. Total current assets of $9.1 million exceeded total current liabilities of $7.1 million, for a net working capital of $2 million.

Liabilities:

Total liabilities for fiscal year 2014 increased by $1.2 million over fiscal year 2013. Most of the difference is an increase in noncurrent liabilities of $2.7 million, which is mainly due to an increase in notes payable of $2.7 million. This increase is partially offset by a $1.2 million decrease in current liabilities mainly related to a $1.5 million decrease in accounts payable, partially offset by a $0.3 million increase in unearned revenues.

Total liabilities for fiscal year 2013 increased by $8.4 million over fiscal year 2012. Most of the difference is an increase in noncurrent liabilities of $6.3 million, which is mainly due to an increase in bonds payable of $8.4 million and a decrease in notes payable of ($2.3) million.

Net Position:

Net position for fiscal year 2014 largest difference from fiscal year 2013 is the net investment in capital assets category as a result of expenditure of bond proceeds on capital projects and unrestricted assets categories, as a result of significant capital projects undertaken during the fiscal year 2014.

Net position for fiscal year 2013 largest difference from fiscal year 2013 is in the restricted category. These assets are proceeds from bond refinancing and are restricted for capital projects.

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The purpose of the Statements of Revenues, Expenses and Changes in Net Position is to present the operating and non-operating revenues earned and expenses incurred by the University and any other revenues, expenses, gains and losses of the University.

Operating revenues are earned by providing goods and services to the various customers and constituencies of the University. Operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the University.

Revenues for which goods and services are not provided are reported as non-operating revenues. For example, State of West Virginia (the "State") appropriations are non-operating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Condensed Schedules of Revenues, Expenses and Changes in Net Position

| | **FY 2014** | **FY 2013** | **Difference** | **FY 2012** |
|---|---|---|---|---|
| Operating Revenues | $29,569,290 | $27,041,054 | $ 285,534 | $34,399,425 |
| Operating Expenses | 48,268,054 | 48,581,755 | (2,556,4034) | 55,102,452 |
| Operating Loss | (18,698,764) | (21,540,701) | 2,841,937 | (20,703,027) |
| Nonoperating Revenues Net | 17,005,758 | 18,667,736 | (1,661,978) | 18,409,680 |
| **Income before other revenue, expenses, gains or losses** | **(1,693,006)** | **(2,872,965)** | **1,179,959** | **(2,293,347)** |
| Capital Projects proceeds from the commission | - | 932,210 | (932,210) | 95,578 |
| Capital gifts and Grants | 334,053 | 6,531,677 | (6,197,624) | 414,619 |
| Capital bond proceeds from the State | 3,620,274 | 10,355,064 | (6,734,790 | 794,261 |
| State Capital Grants | - | - | - | 23,128 |
| (Decrease) Increase in Net Position | 2,261,321 | 14,945,786 | (12,684,665) | (965,761) |
| Net Position, beginning of year | 31,627,196 | 16,681,210 | 14,945,986 | 17,646,971 |
| **Net position, end of year** | **$33,888,517** | **$31,627,196** | **$2,261,321** | **$16,681,210** |

Operating Revenues:

Student tuition and fees increased by $1.2 million for fiscal year 2014 as a result of increased tuition, state contracts and grants decreased by $1.2 million due to reductions in state funding, auxiliary revenue increased by $0.8 million as a result of increased outside aid to students and miscellaneous-net increased by $1.1 million as a result of increased activities..

Student tuition and fees decreased by $.7 million for fiscal year 2013, federal contracts and grants decreased by $2 million, charges to the Kanawha Valley Community & Technical College decreased by $1.6 million, and auxiliary revenue decreased by $2.3 million.

Operating Expenses:

The decrease in fiscal year 2014 supplies and other services of $0.8 million, due to budget controls, and student financial aid of $0.5 million, due to decreased funding from state sources and increases in salaries and wages of $0.5 million, as a result of wage increases, were the significant changes for operating expenses.

Operating revenues in fiscal year 2014 of $29.7 million compared to operating expenses of $48.3 million resulted in an operating loss of $18.7 million. Although State Appropriations of $12.4 million are counted as non-operating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

The decrease in fiscal year 2013 supplies and other services of $2.2 million, salaries and wages of $1.3 million, benefits of $2.5 million, student financial aid of $.5 million were the significant changes for operating expenses.

Operating revenues in fiscal year 2013 of $27.0 million compared to operating expenses of $48.6 million resulted in an operating loss of $21.5 million. Although State Appropriations of $13.9 million are counted as non-operating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

**STATEMENTS OF CASH FLOWS**

The final statement presented by the University is the Statements of Cash Flows. The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fourth section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating loss reflected on the Statement of Revenues, Expenses and Changes in Net Position.

Condensed Schedules of Cash Flows

| | FY 2014 | FY 2013 | Difference | FY 2012 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operating activities | $(16,001,845) | $(18,971,303) | $2,969,458 | $(16,099,535) |
| Noncapital financing activities | 17,840,639 | 19,031,166 | (1,190527) | 19,059,704 |
| Capital financing activities | (4,982,517) | (1,633,733) | (3,348,784) | (2,745,970) |
| Interest on investments | 18,087 | 22,996 | (4,909) | 20,946 |
| **Increase (decrease) in cash and cash equivalents** | **(3,125,636)** | **(1,550,874)** | **(1,574,762)** | **235,145** |
| Cash — beginning of year | 5,309,117 | 6,859,991 | (1,550,874) | 6,624,846 |
| **Cash — end of year** | **$2,183,481** | **$5,309,117** | **$(3,125,636)** | **$6,859,991** |

The major difference between fiscal year 2014 and fiscal year 2013 included in operating activities consists of student tuition and fees of $3.5 million, grants and contracts of $(1.1) million, payments to suppliers of ($0.9), payment for scholarships and fellowships of $2.7 million, and auxiliary enterprise charges of $(1.4) million.

The major difference between fiscal year 2013 and fiscal year 2012 included in operating activities consists of grants and contracts of $(2.5) million, payment to suppliers of $2.6 million, and payment for scholarships and fellowships of $.5 million, and auxiliary enterprise charges of $(2.3) million.

Major difference between fiscal year 2014 and fiscal year 2013 in funding included is noncapital financing is primarily decrease in state appropriations of $1.4 million compared to last year’s receipts.

Major differences between fiscal year 2013 and fiscal year 2012 in funding included in noncapital financing include state appropriations of $13.8 million compared to last year’s receipts of $12.8 million, for a difference of $1.0 million, and Federal Pell grants of $5.2 million compared to last year’s receipts of $5.9 million, for a difference of $(0.7) million.\

Major differences between fiscal year 2014 and fiscal year 2013 in capital finance activities included purchases and construction of capital assets of $(13.5) million compared to last year’s purchases of $(10.8) for a difference of $(2.7) million, proceeds from long-term debt of $2.7 million compared to last year proceeds of $11.7 million for a difference of $(9.0) million, capital project proceeds of $3.6 million compared to $8.2 million of proceeds last year for a difference of $(4.6) million, principal paid on notes and bonds of $.3 million compared to payments last year of $5.7 million for a difference $5.4 million and withdrawal from non-current cash of $2.6 million verses transfer to non-current cash of $(6.0) million last year for a difference of $8.6 million.

Major differences between fiscal year 2013 and fiscal year 2012 in capital finance activities included purchases and construction of capital assets of $(10.8) million compared to last year’s purchases of $(3.3) million for a difference of $(7.5) million, and proceeds from the sale of revenue bonds of $11.7 million.

## CAPITAL ASSETS

In FY 2014, West Virginia State University exercised frugal management in regard to capital improvements. The purchase, renovation and restoration of capital assets, such as land and/or buildings, educational and scientific equipment, renovation of classroom and research facilities remain essential for the forward movement of the University.

Some of the capital projects for FY 2014 include the following.

- The Fleming Hall Renovation & Convocation Center Project continued from FY 2012. This $15 million dollar project is funded by Education, Arts, Science and Tourism bonds issued by the WV Development Office and was completed in FY 2014.
- Energy management continues across campus with major buildings complete with energy efficient lighting and HVAC controls.
- The College of Arts & Humanities as well as the College of Business & Social Sciences were relocated to Cole Complex triggering renovations to the building to accommodate faculty offices and up-to-date classrooms.
- WVSU is making significant progress in implementing a campus-wide “Voice-over Internet” telephone system replacement of the antiquated phone system.
- A campus-wide wireless network upgrade began in late June and was completed in FY 2014.

On June 28, 2013, the University received a donation of assets (approximately 20 acres of land and buildings on the land) from the WV Department of Administration adjacent to the main campus. The University doesn’t have any immediate plans for the property because at the time of the donation the buildings on the property had been condemned.

During the year ended June 30, 2014, the County Commission of Kanawha, Charleston, West Virginia issued revenue bonds and loaned the proceeds to West Virginia State University Foundation. The Series 2013 AR-1, AR-2, and AR-3 housing revenue bonds were issued to finance the cost of construction of the Judge Damon J. Keith Scholars Hall, a 291 bed residence hall on the campus of West Virginia State University. The University will manage and operate the residence hall for the Foundation, and the bond payments will be paid from revenue generated from student housing fees.

## DEBT ADMINISTRATION

In FY 2013, the West Virginia State University Board of Governors adopted a resolution authorizing University administration to refund and redeem the outstanding Board of Governors of West Virginia State College Student Union Revenue Bonds 2002 Series A, and the outstanding note issued on behalf of West Virginia State College in the connection with the Education Direct Loan Corporation Funding Bonds Series A 1996-1, and finance the costs of such refunding and such projects through the issuance by the WVSU BOG refunding and improvement revenue bonds in an aggregate principal amount of not more than $12,000,000.

## ECONOMIC OUTLOOK

With a new administration under the lead of the President, Dr. Brian O. Hemphill, the University continues to seek external and internal resources for the conduct of its institutional mission: research, instruction and outreach programming. Furthermore, new academic offerings including additional graduate and undergraduate programs, along with their associated research and public service, have been established. The University is also positioning itself as an active participant in statewide initiatives, along with other state Universities, related to research infrastructure improvements which in turn translate into regional economic development. Efforts to increase recruitment and retention while maintaining an affordable education are the leading forces in establishing WVSU as the number one university in West Virginia. Legislatively mandated higher entry level scores of students are already showing some measurable improvement in retention, and this should continue to have a positive impact on tuition revenue and state funding. These efforts provide the basis for greater opportunities for external funding.

WVSU is continuing its $18 million capital campaign. Revenues from these efforts should help with projects and scholarships to attract and retain students, thus increasing the University's revenue base over time. Since taking office in July 2012, Dr. Hemphill has raised a record number of scholarship dollars and reconnected with the alumni to increase their contributions to the University.

Since the general economic climate of the Kanawha Valley continues to hold its own during the transitional stages of the national economy, it is believed WVSU will continue to be a dynamic higher education force in West Virginia.

With a massive loss of revenue from the state mandated separation of the Kanawha Valley Community and Technical College, WVSU appealed for support from the State legislature for $750,000 in FY 2013. The University received a permanent appropriation of $750,000 in FY 2014.

After over 120 years of service, the economic outlook should prove to offer slow, yet positive gains as WVSU continues into the future. Research efforts and program developments are being conducted and planned with Land-Grant funding sources. Being one of West Virginia's three research institutions helps with the attraction of faculty and students and serves as an attraction to help the University develop.

In conclusion, through its "Vision 2020" Strategic Plan, the University is committed to increasing efforts related to expanding external resources, which, in turn, generate positive impacts on the communities and citizenry served throughout the state, regional economic development, increased research capacity, and expansion of educational facilities and programming.

# WEST VIRGINIA STATE UNIVERSITY

## STATEMENTS OF NET POSITION
## AS OF JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | $ 2,183,481 | $ 5,309,117 |
| Accounts receivable — net | 1,577,949 | 3,222,854 |
| Loans to students — current portion | 96,828 | 104,922 |
| Inventories | 329,503 | 374,490 |
| Prepaid expenses | 207,651 | 117,098 |
| Total current assets | 4,395,412 | 9,128,481 |
| NONCURRENT ASSETS: | | |
| Restricted cash and cash equivalents | 3,900,704 | 6,546,209 |
| Loans to students — net of allowance of $339,591 and $324,865 in 2014 and 2013, respectively | 200,916 | 188,095 |
| Capital assets — net | 58,315,982 | 47,167,145 |
| Total noncurrent assets | 62,417,602 | 53,901,449 |
| TOTAL ASSETS | $ 66,813,014 | $ 63,029,930 |

(Continued)

# WEST VIRGINIA STATE UNIVERSITY

## STATEMENTS OF NET POSITION
## AS OF JUNE 30, 2014 AND 2013

| LIABILITIES, DEFERRED INFLOWS AND NET POSITION | 2014 | 2013 |
|---|---|---|
| CURRENT LIABILITIES: | | |
| Accounts payable | $ 1,765,912 | $ 3,289,142 |
| Due to Commission | - | 25,491 |
| Accrued liabilities | 2,121,910 | 2,143,974 |
| Unearned revenue | 842,442 | 496,028 |
| Compensated absences — current portion | 859,785 | 829,046 |
| Debt obligation to the commission - current portion | 2,481 | - |
| Bonds payable — current portion | 340,000 | 345,000 |
| Notes payable — current portion | 46,000 | - |
| Total current liabilities | 5,978,530 | 7,128,681 |
| NONCURRENT LIABILITIES: | | |
| Deposits | 171,848 | 160,548 |
| Compensated absences | 435,388 | 395,254 |
| Bonds payable | 11,060,000 | 11,400,000 |
| Notes Payable | 2,654,000 | - |
| Advances from federal sponsors | 579,122 | 579,122 |
| Other post employment benefits liability | 12,045,609 | 11,739,129 |
| Total noncurrent liabilities | 26,945,967 | 24,274,053 |
| TOTAL LIABILITIES | 32,924,497 | 31,402,734 |
| NET POSITION: | | |
| Net investment in capital assets | 49,064,010 | 41,680,275 |
| Restricted - Expendable Capital Projects | 293,987 | - |
| Restricted - Expendable Loans | 36,308 | - |
| Restricted - Expendable Debt service | 451,022 | 288,079 |
| Total restricted | 781,317 | 288,079 |
| Unrestricted (deficit) | (15,956,810) | (10,341,158) |
| TOTAL NET POSITION | $ 33,888,517 | $ 31,627,196 |

See notes to combined financial statements. (Concluded)

## WEST VIRGINIA STATE UNIVERSITY

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

| | 2014 | 2013 |
|---|---|---|
| OPERATING REVENUES: | | |
| Student tuition and fees — net of scholarship allowance of $6,008,269 and $4,138,408, in 2014 and 2013, respectively | $ 9,379,543 | $ 8,103,745 |
| Contracts and grants: | | |
| Federal | 10,738,355 | 10,721,679 |
| State | 2,424,963 | 3,591,286 |
| Private | 1,068,717 | 666,775 |
| Sales and services of educational activities | 65,790 | 86,035 |
| Auxiliary enterprise revenue — net of scholarship allowance of $2,242,702 and $1,636,088 in 2014 and 2013, respectively | 4,038,479 | 3,203,754 |
| Miscellaneous — net | 1,672,821 | 529,948 |
| Fees charged to the students of Kanawha Valley Community and Technical College | 180,622 | 137,832 |
| Total operating revenues | 29,569,290 | 27,041,054 |
| OPERATING EXPENSES: | | |
| Salaries and wages | 23,158,715 | 22,617,911 |
| Benefits | 6,008,997 | 6,007,392 |
| Supplies and other services | 11,663,943 | 12,519,283 |
| Utilities | 1,885,108 | 1,783,752 |
| Student financial aid — scholarships and fellowships | 3,460,453 | 3,939,977 |
| Depreciation and amortization | 1,989,317 | 1,597,497 |
| Loan cancellations and write-offs | 276 | 7,225 |
| Fees assessed by the Commission for operations | 101,245 | 108,718 |
| Total operating expenses | 48,268,054 | 48,581,755 |
| OPERATING LOSS | (18,698,764) | (21,540,701) |
| NONOPERATING REVENUES (EXPENSES): | | |
| State appropriations | 12,449,485 | 13,862,389 |
| Federal Pell Grants | 5,337,381 | 5,211,921 |
| Investment income | 18,087 | 22,996 |
| Trustee management fees | (63,500) | (146,200) |
| Interest on indebtedness | (336,621) | (264,310) |
| Loss on fixed asset disposal | (399,074) | - |
| Fees assessed by the Commission | - | (19,060) |
| Net nonoperating revenues | 17,005,758 | 18,667,736 |
| LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | (1,693,006) | (2,872,965) |
| CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION | - | 932,210 |
| CAPITAL BOND PROCEEDS FROM THE STATE | 3,620,274 | 10,355,064 |
| CAPITAL GRANTS AND GIFTS | 334,053 | 6,531,677 |
| CHANGE IN NET POSITION | 2,261,321 | 14,945,986 |
| NET POSITION — Beginning of year | 31,627,196 | 16,681,210 |
| NET POSITION — End of year | $ 33,888,517 | $ 31,627,196 |

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Student tuition and fees | $ 11,695,465 | $ 8,155,342 |
| Contracts and grants | 13,853,659 | 14,966,954 |
| Payments to and on behalf of employees | (28,812,423) | (28,320,744) |
| Payments to suppliers | (13,251,352) | (12,329,775) |
| Payments to utilities | (1,889,505) | (1,783,752) |
| Payments for scholarships and fellowships | (1,217,751) | (3,939,977) |
| Loans issued to students | (83,935) | (83,105) |
| Collection of loans to students | 78,932 | 89,278 |
| Sales and service of educational activities | 65,790 | 86,035 |
| Auxiliary enterprise charges | 1,807,077 | 3,217,358 |
| Fees retained by the Commission | (101,245) | (108,718) |
| Fees charged to Kanawha Valley Community and Technical College students | 180,622 | 137,832 |
| Other receipts — net | 1,672,821 | 941,969 |
| Net cash used in operating activities | (16,001,845) | (18,971,303) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| State appropriations | 12,449,485 | 13,862,389 |
| William D. Ford direct lending receipts | 11,437,967 | 11,378,211 |
| William D. Ford direct lending payments | (11,384,194) | (11,413,524) |
| ALT lending receipts | 116,778 | 126,666 |
| ALT lending payments | (116,778) | (115,437) |
| Federal Pell grants | 5,337,381 | 5,211,921 |
| Fees assessed by the Commission | - | (19,060) |
| Net cash provided by noncapital financing activities | 17,840,639 | 19,031,166 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Capital grants and gifts received | 334,053 | 331,677 |
| Proceeds from sale of revenue bonds | 2,700,000 | 11,745,000 |
| Debt issue costs | (63,500) | (146,200) |
| Capital projects proceeds from the State | 3,620,274 | 8,222,730 |
| Capital projects proceeds from the Commission | - | 932,210 |
| Purchases of capital assets | (13,537,228) | (10,839,633) |
| Credit issued by Huntington Bank for Union Bond | - | 62,981 |
| Principal paid on notes and bonds | (345,000) | (5,725,918) |
| Interest paid on notes, bonds, and leases | (336,621) | (264,310) |
| Withdrawals from non-current cash and cash equivalents | 2,645,505 | (5,952,270) |
| Net cash used in capital financing activities | (4,982,517) | (1,633,733) |
| CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments | 18,087 | 22,996 |
| INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | (3,125,636) | (1,550,874) |
| CASH AND CASH EQUIVALENTS — Beginning of year | 5,309,117 | 6,859,991 |
| CASH AND CASH EQUIVALENTS — End of year | $ 2,183,481 | $ 5,309,117 |

(Continued)

# WEST VIRGINIA STATE UNIVERSITY
## STATEMENTS OF CASH FLOWS
## FOR THE YEARS ENDED JUNE 30, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (18,698,764) | $ (21,540,701) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 1,989,317 | 1,597,497 |
| Effect of change operatin assets and liabilities: | | |
| Receivables — net | 1,591,132 | 679,536 |
| Loans to students — net | (4,727) | (14,301) |
| Prepaid expenses | (90,553) | (10,902) |
| Inventories | 44,987 | (13,265) |
| Accounts payable and accrued liabilities | (1,261,824) | 599,635 |
| Compensated absences | 70,873 | (53,702) |
| Unearned revenue | 346,414 | (228,704) |
| Deposits held in custody for others | 11,300 | 13,604 |
| NET CASH USED IN OPERATING ACTIVITIES | $ (16,001,845) | $ (18,971,303) |
| NONCASH TRANSACTIONS | | |
| Donated capital assets | $ - | $ 6,200,000 |
| Capital asset additions in accounts payable | $ - | $ 2,166,146 |

See notes to combined financial statements.

(Concluded)

# WEST VIRGINIA STATE UNIVERSITY

## THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
## STATEMENTS OF NET ASSETS
## AS OF JUNE 20, 2014 AND 2013

| | 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| ASSETS | | |
| Cash and cash equivalents (includes restricted funds of $12,311,286 and $1,459,269, respectively) | $ 12,505,704 | $ 1,706,517 |
| Unconditional promises to give | 3,154,685 | 1,325,370 |
| Other receivables | 14,346 | 9,824 |
| Investments | 5,607,146 | 4,712,606 |
| Beneficial interest in trusts | 192,282 | 218,181 |
| Other assets | 58,000 | 71,296 |
| Deferred bond issuance cost | 467,014 | - |
| Property and equipment, net | 14,723,457 | 831,589 |
| TOTAL ASSETS | $ 36,722,634 | $ 8,875,383 |
| **LIABILITIES AND NET ASSETS** | | |
| LIABILITIES | | |
| Accounts payable and accrued expenses | $ 61,487 | $ 9,086 |
| Bonds payable | 24,833,988 | - |
| | 24,895,475 | 9,086 |
| NET ASSETS | | |
| Unrestricted | 452,348 | 505,321 |
| Temporarily restricted | 6,976,278 | 4,219,400 |
| Permanently restricted | 4,398,533 | 4,141,576 |
| Total net assets | 11,827,159 | 8,866,297 |
| | $ 36,722,634 | $ 8,875,283 |

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

**THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2014**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUE | | | | |
| Contributions and gifts | $ 220,605 | $ 3,186,858 | $ 243,569 | $ 3,651,032 |
| Administrative fees (expenses) | 92,046 | (92,046) | - | - |
| Rental income | 2,301 | 250 | - | 2,551 |
| Investment income | 36 | 319,311 | - | 319,347 |
| Net assets released from restrictions | 1,033,958 | (1,033,958) | - | - |
| | 1,348,946 | 2,380,415 | 243,569 | 3,972,930 |
| EXPENSES | | | | |
| Salaries and wages | 145,174 | - | - | 145,174 |
| Taxes and licenses | 25,870 | - | - | 25,870 |
| Professional fees | 37,940 | - | - | 37,940 |
| Supplies | 8,603 | - | - | 8,603 |
| Maintenance | 14,133 | - | - | 14,133 |
| Travel | 12,867 | - | - | 12,867 |
| Telephone and utilities | 675 | - | - | 675 |
| Office expense | 4,400 | - | - | 4,400 |
| Printing | 10,838 | - | - | 10,838 |
| Meeting expense | 61,425 | - | - | 61,425 |
| Conference/seminar fees | 4,000 | - | - | 4,000 |
| Scholarships and grants | 500 | - | - | 500 |
| Depreciation | - | 35,033 | - | 35,033 |
| Miscellaneous | 13,028 | - | - | 13,028 |
| Retirement | 7,500 | - | - | 7,500 |
| Program expenses | 1,033,958 | - | - | 1,033,958 |
| | 1,380,911 | 35,033 | - | 1,415,944 |
| NET INCREASE (DECREASE) | (31,965) | 2,345,382 | 243,569 | 2,556,986 |
| CHANGE IN VALUE OF PERPETUAL TRUSTS | (21,008) | (10,199) | 13,388 | (17,819) |
| UNREALIZED LOSS ON INVESTMENTS | - | 421,695 | - | 421,695 |
| INCREASE (DECREASE) IN NET ASSETS | (52,973) | 2,756,878 | 256,957 | 2,960,862 |
| NET ASSETS AT BEGINNING OF YEAR | 505,321 | 4,219,400 | 4,141,576 | 8,866,297 |
| NET ASSETS AT END OF YEAR | $ 452,348 | $ 6,976,278 | $ 4,398,533 | $ 11,827,159 |

See notes to combined financial statements.

# WEST VIRGINIA STATE UNIVERSITY

**THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY**
**STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2013**

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| REVENUE | | | | |
| Contributions and gifts | $ 163,986 | $ 2,025,019 | $ 101,040 | $ 2,290,045 |
| Gifts in kind | - | - | - | - |
| Administrative fees (expenses) | 83,782 | (83,782) | | - |
| Rental income | 2,748 | - | - | 2,748 |
| Investment income | 33 | 266,075 | - | 266,108 |
| Net assets released from restrictions | 630,571 | (630,571) | - | - |
| | 881,120 | 1,576,741 | 101,040 | 2,558,901 |
| EXPENSES | | | | |
| Salaries and wages | 87,051 | - | - | 87,051 |
| Taxes and licenses | 28,074 | - | - | 28,074 |
| Professional fees | 26,961 | - | - | 26,961 |
| Supplies | 3,889 | - | - | 3,889 |
| Maintenance | 22,746 | - | - | 22,746 |
| Travel | 7,319 | - | - | 7,319 |
| Telephone and utilities | 2,177 | - | - | 2,177 |
| Office expense | 6,119 | - | - | 6,119 |
| Printing | 9,337 | - | - | 9,337 |
| Meeting expense | 38,373 | - | - | 38,373 |
| Conference/seminar fees | 2,545 | - | - | 2,545 |
| Scholarships and grants | - | - | - | - |
| Depreciation | | 35,034 | - | 35,034 |
| Miscellaneous | 7,278 | - | - | 7,278 |
| Retirement | 15,000 | | | 15,000 |
| Program expenses | 630,571 | - | - | 630,571 |
| | 887,440 | 35,034 | - | 922,474 |
| NET INCREASE (DECREASE) | (6,320) | 1,541,707 | 101,040 | 1,636,427 |
| CHANGE IN VALUE OF PERPETUAL TRUSTS | 976 | 1,053 | 7,651 | 9,680 |
| UNREALIZED GAIN ON INVESTMENTS | - | 272,694 | - | 272,694 |
| RECLASSIFICATIONS | - | - | - | - |
| INCREASE (DECREASE) IN NET ASSETS | (5,344) | 1,815,454 | 108,691 | 1,918,801 |
| NET ASSETS AT BEGINNING OF YEAR | 510,665 | 2,403,946 | 4,032,885 | 6,947,496 |
| NET ASSETS AT END OF YEAR | $ 505,321 | $ 4,219,400 | $ 4,141,576 | $ 8,866,297 |

See notes to combined financial statements.

### 1. ORGANIZATION

West Virginia State University (the "University") is governed by the West Virginia State 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 University under its jurisdiction, the duty to develop a master plan for the University, the power to prescribe the specific functions and the University's budget request, the duty to review, at least every five years, all academic programs offered at the University, and the power to fix tuition and other fees for the different classes or categories of students enrolled at the University.

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.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

**Reporting Entity** — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council of 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 the University, including its blended component unit, the West Virginia State University Research and Development Corporation (the "Research and Development Corporation"), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation.

The related organization, Alumni Association, is not part of the University reporting entity and is 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 the West Virginia State University Alumni Association under GASB.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB, the audited financial statements of the "Foundation" are discretely presented here with the University's financial statements. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information, as it is presented herein (see also Note 21).

**Financial Statement Presentation** — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a basis to focus on the University as a whole. The University's net position is classified into three categories according to external donor restrictions or availability of resources for satisfaction of University obligations. The components of the University's net position are classified as follows:

- *Net Investment in Capital Assets* — This represents the University's total investment in capital assets, net of 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.

- *Restricted Net Position*— This includes amounts restricted for use in capital projects and for loans to students by various agreements, as well as amounts required to be held for use in debt service on outstanding bonds as outline in Bond Trust Indenture. See Footnote 2 for details on debt service deposits.

    - *Restricted — Expendable* — This includes resources in 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 "State 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 State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries 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 State Legislature.

    - *Restricted — Nonexpendable* — This includes endowment and similar type funds in 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. The University does not have any nonexpendable funds or components of net position of this type as of June 30, 2014 and 2013.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

- *Unrestricted* — This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

**Basis of Accounting** — For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements 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 interinstitution accounts and transactions have been eliminated.

**Cash and Cash Equivalents** — For purposes of the statements of net position, the University considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. 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 State Legislature and is subject to oversight by the State 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 or on the first day of each month for the WV Short Term Bond Pool 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 Commission may invest in. These pools have been structured as multiparticipant 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 report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or http://www.wvbti.com.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

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

**Inventories** — Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method.

**Noncurrent Cash, Cash Equivalents, and Investments** — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, or (3) permanently restricted components of net position, are classified as a noncurrent assets in the statements of net position.

**Capital Assets** — Capital assets include property, plant, equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. The University's threshold for capitalizing capital assets is $5,000. The financial statements reflect all adjustments required by GASB.

**Unearned Revenue** — Revenues received for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue, including items such as tuition and fees, football ticket sales, and room and board. Financial aid and other deposits are separately classified as deposits.

**Compensated Absences and Other Post Employment Benefits** — GASB provides standards for the measurement, recognition, and display of other postemployment benefit (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 postemployment benefits for the State. Effective July 1, 2007, the University was 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 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

These statements require 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 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 leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, 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 July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire. This liability is now provided for under the multiple employer cost-sharing plans sponsored by the State.

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 five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

In July 2012, the PEIA Finance Board adopted a 3% cap on the amount that participating employers will pay in retiree premium subsidy annual increases. The Annual Required Contribution (ARC) is the employer's responsibility to set aside a fixed amount to pay for future costs associated with employee benefits. The remaining ARC that was accrued in FY2014 was $94 per policy/participant. This is an increase from $79 per policy/participant in FY2013.

**Risk Management** — The State's Board of Risk and Insurance Management (BRIM) provides general, property, and casualty liability coverage to the University and its employees. Such coverage may be provided to the University by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of 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 currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

In addition, through its participation in the West Virginia PEIA and third-party insurers, 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.

**Classification of Revenues** — The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

- *Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

- *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange 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). Nonoperating revenues also exclude student fees which were billed for capital improvements.

- *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

**Use of Restricted Component of Net Position** — The University has not 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 resources are available. Generally, the University attempts to utilize restricted resources first when practical.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

**Alternative Loans** — Students apply for Alternative Loans through lenders who participate in the Alternative Loan Program when they have exhausted their Federal Loan Eligibility or need extra money to fill the gap of their cost of attendance. The University will certify these loans and, if approved by the lender, will receive the funds to disburse to the student accounts. Under this program, banks and loan companies make loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the bank or loan company. For the years ended June 30, 2014 and 2013, the University received and disbursed approximately $117,000 and $127,000, respectively, which is not included as revenue and expense in the statement of revenues, expenses, and changes in net position.

**Direct Lending** — Effective in FY 2011, the University facilitates loans to students under Direct Lending (DL). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Direct Lending student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2014 and 2013, the University received and disbursed approximately $11.4 million and $11.4 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statement of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In the years ended June 30, 2014 and 2013, the University received and disbursed approximately $5.3 million and $5.2 million, respectively, under these federal student aid programs.

**Scholarship Allowances** — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net position. Scholarship 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 student's 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. Certain aid such as loans, funds provided to students as awarded by third parties and Federal Direct Lending are 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.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Government Grants and Contracts** — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to an 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 five years.

**Service Concession Arrangements** — The University has a service concession arrangement for the operation of food services.

**Income Taxes** — The University is exempt from income taxes as a governmental entity. The component units are exempt from income taxes, except for unrelated business income, as nonprofit organizations under federal income tax laws and regulations of the Internal Revenue Service.

**Cash Flows** — Any cash and cash equivalents escrowed, restricted, or in funded reserves have not been included as cash and cash equivalents for the purpose of the statement of cash flows.

**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.

**Risk and Uncertainties** — Investment securities are exposed to various 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 risk and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

**Newly Adopted Statements Issued by the Governmental Accounting Standards Board** — The University has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement did not have a material impact on the financial statements.

The University has adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement did not have a material impact on the financial statements.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (CONTINUED)

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

The University has adopted Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have a material impact on the financial statements.

**Recent Statements Issued by the Governmental Accounting Standards Board**

The GASB has issued Statement No. 68, *Accounting for Pensions Plans*, an amendment of GASB Statement No. 27, effective for years beginning after June 15, 2014. This Statement replaces the requirements of Statement No. 27, Accounting for Pensions by State and Local Governmental Employers, as well as the requirements of Statement No. 50, Pension Disclosures, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The University has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The GASB has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* effective for fiscal years beginning after December 31, 2014. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. The University has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

## 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2014 and 2013, was held as follows:

| | 2014 | | |
|---|---|---|---|
| | Current | Noncurrent | Total |
| State Treasurer | $ 1,773,116 | $ 801,755 | $ 2,574,871 |
| Trustee | - | 532,584 | 532,584 |
| In bank | 410,365 | 2,566,365 | 2,976,730 |
| | $ 2,183,481 | $ 3,900,704 | $ 6,084,185 |

| | 2013 | | |
|---|---|---|---|
| | Current | Noncurrent | Total |
| State Treasurer | $ 4,316,610 | $ - | $ 4,316,610 |
| Trustee | | 6,546,209 | 6,546,209 |
| In bank | 992,507 | - | 992,507 |
| | $ 5,309,117 | $ 6,546,209 | $ 11,855,326 |

Cash held by the State Treasurer includes $801,755 and $0 at June 30, 2014 and 2013, respectively, of restricted cash for sponsored projects, loans, and other purposes.

Cash on deposit with trustee escrow consists of two accounts. One is required by the Educational Direct Loan Mortgage Corporation to be held in escrow per agreement with other HBCU partners. See Note 8 for more details. The second is the new escrow account through Huntington National Bank for Bond Series 2012 and 2013 and it will hold funds for capital projects, principal, and interest payments as described in Note 7. The deposits with trustee escrows were covered by federal depository insurance as noted below. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. Non-interest-bearing accounts are 100% insured through December 31, 2014.

Custodial credit risk for deposits 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 deposits that are in the possession of an outside party. The combined carrying amount of cash in bank at June 30, 2014 and 2013 was $2,976,730 and $992,507 as compared with the combined bank balance of $3,159,120 and $1,442,261, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to $250,000. Non-interest-bearing accounts are 100% insured through December 31, 2014.

## 3. CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2014 and 2013, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool.

*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 Standard & Poor's rating of the investment pools as of June 30:

| External Pool | 2014 Carrying Value | 2014 S & P Rating | 2013 Carrying Value | 2013 S & P Rating |
|---|---|---|---|---|
| WV Money Market Pool | $ 2,501,042 | AAAm | $ 3,981,029 | AAAm |
| WV Government Money Market Pool | $ 20,772 | AAAm | $ 28,630 | AAAm |
| WV Short Term Bond Pool | $ 53,057 | Not Rated | $ 306,951 | Not Rated |

A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's.

*Interest Rate Risk* — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted-average maturities for the WV Money Market Pool and the WV Government Money Market Pool:

| External Pool | 2014 Carrying Value | 2014 WAM (Days) | 2013 Carrying Value | 2013 WAM (Days) |
|---|---|---|---|---|
| WV Money Market Pool | $ 2,501,042 | 36 | $ 3,981,029 | 52 |
| WV Government Money Market Pool | $ 20,772 | 37 | $ 28,630 | 50 |

The following table provides information on the effective duration for the WV Short Term Bond Pool:

| External Pool | 2014 Carrying Value (in Thousands) | 2014 Effective Duration (Days) | 2013 Carrying Value (in Thousands) | 2013 Effective Duration (Days) |
|---|---|---|---|---|
| WV Short Term Bond Pool | $ 53,057 | 407 | $ 306,951 | 358 |

## 3. CASH AND CASH EQUIVALENTS (CONTINUED)

*Other Investment Risks* — Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

**Cash in Bank and with Trustee**
Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement. The money markets were not rated.

| | Carrying Value | |
|---|---|---|
| | 2014 | 2013 |
| Investment Type | | |
| Money Market Fund | $ 2,066,466 | $ - |
| Trustee Money Market | $ - | $ 6,546,209 |

The objective of the money market fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high-quality, short-term money market instruments.

## 4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 and 2013, are as follows:

| | **2014** | **2013** |
|---|---|---|
| Student tuition and fees — net of allowance for doubtful accounts of $698,467 and $335,999, in 2014 and 2013, respectively | $ 386,782 | $ 338,007 |
| Grants and contracts receivable | 1,020,777 | 600,664 |
| Due from the Commission | 230 | 168 |
| Due from other State agencies | 161,502 | 2,269,968 |
| Other accounts receivable | 8,658 | 14,047 |
| | $ 1,577,949 | $ 3,222,854 |

### 5. CAPITAL ASSETS

Summary of capital asset transactions for the University for the years ended June 30, 2014 and 2013 are as follows:

| | 2014 | | | |
|---|---|---|---|---|
| | Beginning | Ending | | |
| | Balance | Additions | Reductions | Balance |
| Capital assets not being depreciated: | | | | |
| Land | $ 7,848,319 | $ - | $ - | $ 7,848,319 |
| Construction in progress | 11,892,198 | 10,764,345 | (21,037,882) | 1,618,661 |
| Infrastructure in progress | 135,335 | 861,473 | (683,693) | 313,115 |
| Land in progress | - | 418,993 | - | 418,993 |
| Total capital assets not being depreciated | $ 19,875,852 | $ 12,044,811 | $ (21,721,575) | $ 10,199,088 |
| Capital assets being depreciated: | | | | |
| Land improvements | $ 1,578,930 | $ 72,549 | $ - | $ 1,651,479 |
| Infrastructure | 4,149,923 | 773,963 | - | 4,923,886 |
| Buildings | 44,513,575 | 20,745,288 | (898,819) | 64,360,044 |
| Equipment | 7,543,611 | 1,539,130 | (696,336) | 8,386,405 |
| Motor vehicles | 566,205 | - | (100) | 566,105 |
| Software | 340,069 | - | - | 340,069 |
| License | 18,750 | - | - | 18,750 |
| Library books | 4,737,153 | 83,062 | (3,696) | 4,816,519 |
| Total other capital assets | 63,448,216 | 23,213,992 | (1,598,951) | 85,063,257 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 821,946 | 37,144 | - | 859,090 |
| Infrastructure | 3,311,013 | 103,184 | - | 3,414,197 |
| Buildings | 21,480,676 | 1,139,937 | (533,448) | 22,087,165 |
| Equipment | 5,666,560 | 495,871 | (662,653) | 5,499,778 |
| Motor vehicles | 390,594 | 76,474 | (80) | 466,988 |
| Software | 340,069 | - | - | 340,069 |
| License | 18,750 | - | - | 18,750 |
| Library books | 4,127,315 | 136,707 | (3,696) | 4,260,326 |
| Total accumulated depreciation | 36,156,923 | 1,989,317 | (1,199,877) | 36,946,363 |
| Capital assets being depreciated — net | $ 27,291,293 | $ 21,224,675 | $ (399,074) | $ 48,116,894 |
| Capital asset summary: | | | | |
| Capital assets not being depreciated | $ 19,875,852 | $ 12,044,811 | $ (21,721,575) | $ 10,199,088 |
| Capital assets being depreciated | 63,448,216 | 23,213,992 | (1,598,951) | 85,063,257 |
| Total cost of capital assets | 83,324,068 | 35,258,803 | (23,320,526) | 95,262,345 |
| Less accumulated depreciation | 36,156,923 | 1,989,317 | (1,199,877) | 36,946,363 |
| Capital assets — net | $ 47,167,145 | $ 33,269,486 | $ (22,120,649) | $ 58,315,982 |

## 5. CAPITAL ASSETS (CONTINUED)

| | 2013 | | | |
|---|---|---|---|---|
| | Beginning Balance | Ending Additions | Reductions | Balance |
| Capital assets not being depreciated: | | | | |
| Land | $ 1,648,319 | $ 6,200,000 | $ - | $ 7,848,319 |
| Construction in progress | 2,409,659 | 11,731,283 | (2,248,744) | 11,892,198 |
| Infrastructure in progress | | 135,335 | | 135,335 |
| Equipment in progress | 31,378 | 219,861 | (251,239) | - |
| Total capital assets not being depreciated | $ 4,089,356 | $ 18,286,479 | $ (2,499,983) | $ 19,875,852 |
| Capital assets being depreciated: | | | | |
| Land improvements | $ 1,578,930 | $ - | $ - | $ 1,578,930 |
| Infrastructure | 4,149,923 | | | 4,149,923 |
| Buildings | 42,193,797 | 2,346,778 | (27,000) | 44,513,575 |
| Equipment | 7,118,183 | 717,635 | (292,207) | 7,543,611 |
| Motor vehicles | 501,604 | 64,601 | | 566,205 |
| Software | 340,069 | | | 340,069 |
| License | 18,750 | | | 18,750 |
| Library books | 4,584,699 | 248,914 | (96,460) | 4,737,153 |
| Total capital assets being depreciated | 60,485,955 | 3,377,928 | (415,667) | 63,448,216 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 783,316 | 38,630 | | 821,946 |
| Infrastructure | 3,254,309 | 56,704 | | 3,311,013 |
| Buildings | 20,566,091 | 941,585 | (27,000) | 21,480,676 |
| Equipment | 5,589,227 | 369,540 | (292,207) | 5,666,560 |
| Motor vehicles | 314,100 | 76,494 | | 390,594 |
| Software | 358,819 | | | 358,819 |
| Library books | 4,109,231 | 114,544 | (96,460) | 4,127,315 |
| Total accumulated depreciation | 34,975,093 | 1,597,497 | (415,667) | 36,156,923 |
| Capital assets being depreciated — net | $ 25,510,862 | $ 1,780,431 | $ - | $ 27,291,293 |
| Capital asset summary: | | | | |
| Capital assets not being depreciated | $ 4,089,356 | $ 18,286,479 | $ (2,499,983) | $ 19,875,852 |
| Capital assets being depreciated | 60,485,955 | 3,377,928 | (415,667) | 63,448,216 |
| Total cost of capital assets | 64,575,311 | 21,664,407 | (2,915,650) | 83,324,068 |
| Less accumulated depreciation | 34,975,093 | 1,597,497 | (415,667) | 36,156,923 |
| Capital assets — net | $ 29,600,218 | $ 20,066,910 | $ (2,499,983) | $ 47,167,145 |

The University maintains various collections of inexhaustible assets to which no value can be 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 or recognized for financial statement purposes.

## 6. NONCURRENT LIABILITIES

Summaries of noncurrent obligation transactions for the University for the years ended June 30, 2014 and 2013 are as follows:

| 2014 | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Note payable | $ - | $ 2,700,000 | $ - | $ 2,700,000 | $ 46,000 |
| Bonds payable | 11,745,000 | - | 345,000 | 11,400,000 | 340,000 |
| Other noncurrent liabilities: | | | | | |
| Deposits held in custody for others | 160,548 | 15,250 | 3,950 | 171,848 | - |
| Accrued compensated absences | 1,224,300 | 302,727 | 231,854 | 1,295,173 | 859,785 |
| Advances from Federal Sponsors | 579,122 | - | - | 579,122 | - |
| Other post employment benefits liability | 11,739,129 | 306,480 | - | 12,045,609 | - |
| Total noncurrent liabilities | $ 25,448,099 | $ 3,324,457 | $ 580,804 | $ 28,191,752 | $ 1,245,785 |

| 2013 | Beginning Balance | Additions | Reductions | Ending Balance | Current Portion |
|---|---|---|---|---|---|
| Note payable | $ 2,418,612 | $ - | $ 2,418,612 | $ - | $ - |
| Bonds payable | 3,307,306 | 11,745,000 | 3,307,306 | 11,745,000 | 345,000 |
| Other noncurrent liabilities: | | | | | |
| Deposits held in custody for others | 146,944 | 16,304 | 2,700 | 160,548 | - |
| Accrued compensated absences | 1,278,002 | 32,872 | 86,574 | 1,224,300 | 829,046 |
| Advances from Federal Sponsors | 579,122 | | | 579,122 | - |
| Other post employment benefits liability | 11,449,379 | 289,750 | - | 11,739,129 | - |
| Total noncurrent liabilities | $ 19,179,365 | $ 12,083,926 | $ 5,815,192 | $ 25,448,099 | $ 1,174,046 |

Additional information regarding noncurrent debt is included in Notes 7 and 8.

## 7. BONDS PAYABLE

In December 2012, the West Virginia State University Board of Governors (the "Board") sold $8,930,000 of University Refunding and Improvement Revenue Bonds, Series 2012 (the "2012 Bonds"), with interest rates from 2.5% to 4.50% and maturing October 2037. The 2012 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to an Indenture dated as of December 1, 2012, by and between the University and Huntington National Bank, as the Trustee. The 2012 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2012 Bonds were used to (1) refund the Eddie Mac Note, (2) fund the design, acquisition, construction and equipping of various capital projects and (3) pay the costs of issuance of the 2012 Bonds.

In March 2013, the Board sold $2,815,000 of University Refunding Revenue Bonds, Series 2013 (the "2013 Bonds"), with interest rates of 1.50% to 3.00%, maturing October 2021. The 2013 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to an Indenture dated as of March 1, 2013, by and between the University and Huntington National Bank, as the Trustee. The 2013 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2013 Bonds were used to (1) refund the 2002 Series A Bonds and (2) pay the costs of issuance of the 2013 Bonds.

It is estimated that the refunding of the 2002 Bonds will result in a reduction in the University's total debt service payments over the next 10 years of approximately $500,000. The refunding resulted in an economic gain (the difference between the present values of the debt service payments on the old debt and new debt) of approximately $450,000.

Principal maturities for the year ending after June 30, 2014, are as follows:

| Years Ending June 30 | Bond HNB 2012 Principal | Bond HNB 2012 Interest | Bond HNB 2013 Principal | Bond HNB 2013 Interest | Bonds Combined Principal | Bonds Combined Interest |
|---|---|---|---|---|---|---|
| 2015 | $ 50,000 | $ 303,948 | $ 290,000 | $ 54,360 | $ 340,000 | $ 358,308 |
| 2016 | 50,000 | 302,448 | 300,000 | 48,460 | 350,000 | 350,908 |
| 2017 | 55,000 | 300,873 | 300,000 | 43,210 | 355,000 | 344,083 |
| 2018 | 55,000 | 299,223 | 305,000 | 38,215 | 360,000 | 337,438 |
| 2019 | 50,000 | 297,648 | 320,000 | 30,670 | 370,000 | 328,318 |
| 2020-2024 | 995,000 | 1,447,326 | 1,000,000 | 40,325 | 1,995,000 | 1,487,651 |
| 2025-2029 | 2,280,000 | 1,167,921 | - | - | 2,280,000 | 1,167,921 |
| 2030-2034 | 2,775,000 | 669,231 | - | - | 2,775,000 | 669,231 |
| 2035-2039 | 2,575,000 | 177,441 | - | - | 2,575,000 | 177,441 |
| Future payments | $ 8,885,000 | $ 4,966,057 | $ 2,515,000 | $ 255,240 | $ 11,400,000 | $ 5,221,297 |

## 8. NOTE PAYABLE NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3,500,000 to be used to renovate dormitories.

In December 2012, a portion of the proceeds from Huntington National Bank Revenue Bond Series 2012 were used to refund 1996-1Eddie Mac note, thus the note is paid in full. See footnote #7 for more details. The remaining funds in escrow are being held by Bank of New York Mellon Trust Company per agreement for potential default of notes by other Historically Black Colleges and Universities. Barber-Scotia College is part of this HBCU partnership and defaulted in 2005. $64,404 in funds were taken from WVSU's escrow account, with $1,469 in 2014 and $2,331 in 2013. No steps have been taken to recover these funds at this time.

During February 2014, the University signed a promissory note with Capital One Equipment Finance Corp borrowing $2,700,000 at an interest rate of 6.65% to be used to partially finance the construction of a new athletic complex. The note matures in 2033, with principal payments due annually on October 1 starting in 2014. Interest payments are due annually on April 1 and October 1 starting April 2014.

Principal and interest maturities for the year ending after June 30, 2014, are as follows:

| **Years Ending June 30** | **Principal** | **Interest** | **Total** |
|---|---|---|---|
| 2015 | $ 46,000 | $ 178,021 | $ 224,021 |
| 2016 | 74,000 | 174,031 | 248,031 |
| 2017 | 79,000 | 168,943 | 247,943 |
| 2018 | 84,000 | 163,524 | 247,524 |
| 2019 | 89,000 | 157,771 | 246,771 |
| 2020-2024 | 544,000 | 688,275 | 1,232,275 |
| 2025-2029 | 750,000 | 474,943 | 1,224,943 |
| 2030-2034 | 1,034,000 | 180,747 | 1,214,747 |
| Future payments | $ 2,700,000 | $ 2,186,255 | $ 4,886,255 |

## 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, 2014, 2013 and 2012, the noncurrent liability related to OPEB costs was $12,045,609, $11,739,129 and $11,449,379, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,222,134 and $783,429, respectively, during 2014 and $1,002,994 and $713,244 respectively, during 2013 and $4,027,917 and $698,069, respectively, during 2012. At June 30, 2014, 2013 and 2012, there were 45, 39 and 23 retirees receiving these benefits, respectively.

## 10. OPERATING LEASES

Future scheduled annual lease payments for years subsequent to June 30, 2014, are as follows:

| **Years Ending June 30** | |
|---|---|
| 2015 | $ 83,373 |
| 2016 | 12,035 |
| 2017 | 12,035 |
| 2018 | 6,019 |
| Total | $ 113,462 |

Total rental expense for the years ended June 30, 2014 and 2013, was $172,221 and $214,215, respectively. The University does not have any non-cancelable leases.

## 11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education, and the University receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of the 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 the former Board of Regents or the former Boards of the University and College Systems (the "Boards").

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees, which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

## 11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration 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. Although the bonds remain as capital obligations of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2014, the University paid $0, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2014 and 2013 is $0 and $0, respectively.

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $1,350,000 of these funds. The University had drawn the entire allotment by June 30, 2010. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

During December 2010, the West Virginia Higher Education Policy Commission (HEPC) issued $76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue Series 2010 Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive $1,135,000 of these proceeds to be specifically used for upgrades to Wallace Hall roof, windows and HVAC system. As of June 30, 2014, $892,887 of such proceeds have been received. The University began drawing the bond proceeds for this project in FY 2012; eighty-five percent of these bond proceeds must be spent by December 2013. The West Virginia Higher Education Policy Commission is responsible for repayment of this debt.

## 12. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2014 and 2013, the University has no designated components of net position.

| | 2014 | 2013 |
|---|---|---|
| Total unrestricted net assets before OPEB liability | $ (6,059,229) | $ (4,860,159) |
| Less: OPEB liability | 12,045,609 | 11,739,129 |
| Total unrestricted net position | $ (18,104,838) | $ (16,599,288) |

## 13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2014 and 2013, respectively, three and four employees were enrolled in the Educator's Money 401(a) basic retirement plan.

Total contributions to the Educators Money 401(a) for the years ended June 30, 2014, 2013 and 2012, were $25,536, $25,311 and $28,430, respectively, which consisted of $12,768, $12,656 and $14,215, respectively from the University, and $12,768, $12,655 and $14,215, respectively from the covered employees for 2014, 2013 and 2012.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2014 and 2013. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2014 and 2013. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2014, 2013 and 2012, were $233,950, $233,981 and $281,431, respectively, which consisted of $159,964, $167,129 and $201,022, respectively, from the University and $63,986, $66,852 and $80,409, respectively, from the covered employees. The contributions were equal to the required contributions.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Combined Public Retirement Board. A copy of the report may be obtained by writing to the Combined Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

## 13. RETIREMENT PLANS (CONTINUED)

The TIAA-CREF is a defined-contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The University matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF, which are not matched by the University.

Total contributions to the TIAA-CREF for the years ended June 30, 2014, 2013 and 2012, were \$2,364,387, \$2,276,300 and \$2,302,795, respectively which consisted of contributions of \$ 1,182,193, \$1,138,150 and \$1,151,397, respectively, from the University and \$1,182,193, \$1,138,149 and \$1,151,397, respectively from the covered employees in 2014, 2013 and 2012.

The University's total payroll for the years ended June 30, 2014, 2013 and 2012, was \$22,889,797, \$22,730,627 and \$23,333,910, respectively; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were \$1,066,433, \$106,407, and \$19,703,229; \$1,114,194, \$210,925, and \$18,969,166; \$1,340,144, \$236,981, and \$19,189,956, respectively, in 2014, 2013 and 2012.

## 14. COOPERATIVE AGREEMENT

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal year 2014 were \$15,644 and \$15,644 and during fiscal year 2013 were \$26,775 and \$26,775, respectively.

## 15. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "…to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations…" Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employs management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2014 and 2013, the Foundation's net position (including unrealized gains) totaled \$11,827,159 and \$8,866,297, respectively on the accrual basis of accounting.

## 15. FOUNDATION (CONTINUED)

During the years ended June 30, 2014 and 2013, the Foundation contributed $500 and $0, respectively to the University for scholarships. Program expenses of the Foundation are used to provide support to students of the University, for projects that benefit the University and for other activities that support the Foundations mission.

## 16. AFFILIATED ORGANIZATION

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University's accompanying financial statements under the blended component unit requirements. They are not included in the University's accompanying financial statements under the discretely presented component unit requirements as they are not significant to the University.

## 17. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against the University 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 seriously affect 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's management believes disallowances, if any, will not have a significant financial impact on the University's financial position.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2014 and 2013.

The University owns various buildings, which 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.

## 18. SEGMENT INFORMATION

In fiscal year 2013 the University issued two revenue bond series (2012A and 2013) to refinance old bonds, to payoff a note, and to improve various capital projects. See footnote 7 on Bond Payables for details. As part of issuing these new bonds, the University has pledged student fees collected in three funds: University Student Union (formerly Wilson Student Union), Residence Life (Dawson Hall), and the Capital Improvement Fund. Investors in these bonds rely solely on the revenues generated by the activities of the auxiliaries and capital fund for repayment.

**State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2012 Series** — On December 20, 2012, the University issued $8,930,000 of Revenue Bonds, 2012 Series (the "2012 Bonds"). The 2012 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to the Bond Trust Indenture (the "Indenture") dated as of December 1, 2012, by and between the Board and Huntington National Bank (the "Trustee"). The 2012 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2012 Bonds are being used to (1) refund 1996-1 note from Educational Direct Loan Mortgage Corporation ("Eddie Mac") of $2,515,267 for renovation of Dawson Hall, (2) fund various capital projects of $6,260,033, and (3) pay the costs of issuance of the 2012 Bonds and related costs. Final payment date is October 1, 2037.

**State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2013 Series A** — On February 20, 2013, the University issued $2,815,000 of Revenue Bonds, 2013 Series A (the "2013 Bonds"). The 2013 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to the First Supplemental Bond Trust Indenture (the "Indenture") dated as of March 1, 2013, by and between the Board and Huntington National Bank (the "Trustee"). The 2013 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2013 Bonds are being used to (1) to refund 2002 Series A Call (3-25-2013) for $3,468,655, which were used to renovate the Student Union, acquire equipment, and pay costs of issuance of 2013 Bonds and its related costs. The difference in the amounts between the 2002 Bonds and the 2013 Bonds was refunded using the balance of the 2002 Bond's escrow of $685,471. A new escrow account was established and funded from operations in accordance with the Bond Trust Indenture for the 2013 Bonds. The final payment of 2013 Bonds will be on October 1, 2021.

18. **SEGMENT INFORMATION** (CONTINUED)

The condensed schedules net position, condensed schedules of revenues, expenses and changes in net position and condenses statement cash flows of the segments pledged to support the debt service payments as of and for the years June 30, 2014 and 2013, are as follows:

| **Condensed Schedules of Net Position** | **Capital, Housing, Student Union 2014** | **Capital, Housing, Student Union 2013** |
|---|---|---|
| Assets: | | |
| Current assets | $ 929,453 | $ 857,977 |
| Noncurrent assets | 14,391,977 | 14,572,113 |
| Total | $ 15,321,430 | $ 15,430,090 |
| Liabilities: | | |
| Current | $ 724,764 | $ 1,848,241 |
| Noncurrent liabilities | 11,060,000 | 11,400,000 |
| Total liabilities | 11,784,764 | 13,248,241 |
| Net position: | | |
| Net investment in capital assets | 10,552,083 | 1,691,324 |
| Restricted — expendable capital projects | - | 6,258,130 |
| Restricted — expendable debt service | 532,585 | 288,079 |
| Unrestricted | (7,548,002) | (6,055,684) |
| Total net position | 3,536,666 | 2,181,849 |
| Total | $ 15,321,430 | $ 15,430,090 |

## 18. SEGMENT INFORMATION (CONTINUED)

| **Condensed Schedules of Revenues, Expenses, and Changes in Net Position** | **Capital, Housing, Student Union 2014** | **Capital, Housing, Student Union 2013** |
|---|---|---|
| Operating: | | |
| Operating revenues | $ 2,113,964 | $ 1,870,473 |
| Operating expenses | (1,406,892) | (1,480,656) |
| Net operating income | 707,072 | 389,817 |
| Nonoperating: | | |
| Nonoperating revenues | 3,789 | 5,349 |
| Nonoperating expenses | (717,146) | (410,510) |
| Decrease in net position | (6,285) | (15,344) |
| Net position — beginning of year | 2,181,849 | 2,197,193 |
| Net position — end of year | $ 2,175,564 | $ 2,181,849 |
| **Condensed Schedules of Cash Flows** | | |
| Net cash provided by operating activities | $ 707,072 | $ 1,201,675 |
| Net cash used in capital and related financing activities | (713,357) | (343,698) |
| Increase (decrease) in cash and cash equivalents | (6,285) | 857,977 |
| Cash and cash equivalents — beginning of year | 857,977 | - |
| Cash and cash equivalents — end of year | $ 851,692 | $ 857,977 |

## 19. EAST BONDS

The University has been approved to receive $15,000,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2014, $15,000,000 of such proceeds has been received. The West Virginia Development Office is responsible for repayment of the debt.

## 20. COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the Foundation's financial statements as follows:
*Summary of Significant Accounting Policies:*

Organization and Nature of Activities — West Virginia State University Foundation, Inc. and Subsidiary (the "Foundation") was established to provide support for the private fundraising efforts of the West Virginia State University (the "University") and to manage privately donated funds on behalf of the University. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of West Virginia and managed by a volunteer Board of Directors.

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

Basis of Accounting — The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Consolidation Policy — The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, West Virginia State University Foundation Properties, Inc. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation — The Foundation presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted Net Assets — Net assets not subject to donor-imposed stipulations.

- Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

- Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Cash Equivalents — For purposes of the reporting on the Consolidated Statement of Cash Flows, the Foundation considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents.

## 21. COMPONENT UNIT DISCLOSURES (CONTINUED)

Investments — Investments are reported at fair value based on quoted prices in active markets. Investment income consists of interest and dividend income earned and realized gains or losses less any related fees, and is included in the Consolidated Statement of Activities.

Property and Equipment — The Foundation capitalizes all expenditures in excess of $500 for property and equipment at cost. All donated assets are stated at the fair market value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

| | |
|---|---|
| Buildings and improvements | 31.5–39 years |
| Furniture and equipment | 3–7 years |

Contributions — Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Outstanding Legacies — The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Beneficial Interest in Trusts — The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities or property, and the Foundation records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the value of split-interest trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

In-Kind Contributions — The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the Consolidated Statement of Activities.

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

Spending Policy — Effective July 2004, the Foundation's Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for current Foundation activities.

The revised spending policy provides that the amount which the Foundation makes available for scholarships, operating expenses and fees will be calculated by multiplying a Percentage by a Base. This computation will be made at the beginning of each fiscal year.

The Base for scholarship distributions will be an average of the market value of the Foundation's investments. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for scholarship distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Foundation's management, such differences would not be significant.

Advertising and Promotional Expenses — Advertising and promotional costs are charged to expense as they are incurred.

Accounting for Uncertain Tax Positions — The Foundation has adopted the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Foundation is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Foundation believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2014 and 2013.

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

*Concentrations of Credit Risk* — The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, certificates of deposit, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Certain receivables also subject the Foundation to concentrations of credit risk. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

The Foundation maintains cash balances at a local financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. Cash and cash equivalents exceeding federally insured limits totaled $0 at June 30, 2014.

*Unconditional Promises to Give* — Unconditional promises to give at June 30, 2014 and 2013 consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Pledge receivable - unrestricted | | |
| Receivable in less than one year | $ 21,184 | $ 12,595 |
| Receivable in one to five years | 32,092 | 6,268 |
| Receivable in six to ten years | 3,000 | 4,780 |
| Pledge receivable - temporarily restricted | | |
| Receivable in less than one year | 697,175 | 347,948 |
| Receivable in one to five years | 2,179,845 | 748,895 |
| Receivable in six to ten years | 574,087 | 320,000 |
| Pledge receivable - permanently restricted | | |
| Receivable in less than one year | 15,100 | 10,210 |
| Receivable in one to five years | 14,509 | - |
| Total unconditional promises to give | 3,536,992 | 1,450,696 |
| Less discounts to net present value | (382,307) | (125,326) |
| Net unconditional promises to give | $ 3,154,685 | $ 1,325,370 |

**20. COMPONENT UNIT DISCLOSURES** (CONTINUED)

*Investments* — Investments are carried at market value at June 30, 2014 as follows:

| | Cost | Fair Value | Unrealized Gain |
|---|---|---|---|
| U.S. Government obligations and agencies | $ - | $ - | $ - |
| Common Stock | 1,342,332 | 1,682,766 | 340,434 |
| Mutual funds | 1,296,427 | 1,753,597 | 457,170 |
| Corporate obligations | 1,769,910 | 1,776,998 | 7,088 |
| Cash equivalents | 437,984 | 437,984 | - |
| Less administraitve fees in transit | (44,199) | (44,199) | - |
| | $ 4,802,454 | $ 5,607,146 | $ 804,692 |

Investments are carried at market value at June 30, 2013 as follows:

| | Cost | Fair Value | Unrealized Gain |
|---|---|---|---|
| U.S. Government obligations and agencies | $ 78,598 | $ 85,809 | $ 7,211 |
| Common Stock | 123,882 | 159,219 | 35,337 |
| Mutual funds | 3,298,757 | 3,625,601 | 326,844 |
| Corporate obligations | 651,755 | 665,360 | 13,605 |
| Cash equivalents | 229,261 | 229,261 | - |
| Less administraitve fees in transit | (52,644) | (52,644) | - |
| | $ 4,329,609 | $ 4,712,606 | $ 382,997 |

Investment return and fees for the year ended June 30, 2014 and 2013 is summarized as follows:

| | 2014 | 2013 |
|---|---|---|
| Interest and dividends | $ 98,852 | $ 93,809 |
| Ralized gains | 220,495 | 172,299 |
| Total investment income | $ 319,347 | $ 266,108 |
| Unrealized gain | $ 421,695 | $ 272,694 |
| Investment mangement fees | $ (34,031) | $ (31,073) |

**20. COMPONENT UNIT DISCLOSURES** (CONTINUED)

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors determined that the Foundation's permanently restricted net assets met the definition of endowment funds under UPMIFA and adopted FSP FAS 117-1.

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

## 21. COMPONENT UNIT DISCLOSURES (CONTINUED)

*Investment Return Objectives, Risk Parameters and Strategies.* The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

*Spending Policy.* The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund’s fair value. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate, which is consistent with the Foundation’s objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

*Fair Value Measurements* — Fair values of assets measured on a recurring basis at June 30, 2014 and 2013 are as follows:

| | | Fair Value Measurements at Reporting Date Using: | | |
|---|---|---|---|---|
| **June 30, 2014** | **Fair Value** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** |
| U.S. government obligations and agencies | $ - | $ - | $ - | $ - |
| Common stock | 1,682,766 | 1,682,766 | - | - |
| Mutual funds | 1,753,597 | 1,753,597 | - | - |
| Corporate obligations | 1,776,998 | 1,776,998 | - | - |
| Cash equivalents | 437,984 | 437,984 | - | - |
| Less administrative fees in transit | (44,199) | (44,199) | - | - |
| Contribution receivable — beneficial interest in charitable trusts | 192,282 | 192,282 | - | - |
| Total | $ 5,799,428 | $ 5,799,428 | $ - | $ - |
| **June 30, 2013** | | | | |
| U.S. government obligations and agencies | $ 85,809 | $ 85,809 | $ - | $ - |
| Common stock | 159,219 | 159,219 | - | - |
| Mutual funds | 3,625,601 | 3,625,601 | - | - |
| Corporate obligations | 665,360 | 665,360 | - | - |
| Cash equivalents | 229,261 | 229,261 | - | - |
| Less administrative fees in transit | (52,644) | (52,644) | - | - |
| Contribution receivable — beneficial interest in charitable trusts | 218,181 | 181,538 | - | 36,643 |
| Total | $ 4,930,787 | $ 4,894,144 | $ - | $ 36,643 |

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |
|---|---|
| | **Beneficial Interest in Charitable Remainder Trust** |
| July 1, 2013 | $ 36,643 |
| Beneficial interest in Charitable trust Remainder Trust | - |
| Total gains or losses (realized/unrealized) | (36,643) |
| June 30, 2014 | $ - |

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust (Level 3) is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and discount rates.

*Beneficial Interest in Trusts* — The Foundation was the beneficiary of certain charitable trusts. The value of such trusts at June 30, 2014 and 2013 are as follows:

| | **2014** | **2013** |
|---|---|---|
| Charitable remainder trust | $ - | $ 36,643 |
| Charitable trust | 192,282 | 181,538 |
| | $ 192,282 | $ 218,181 |

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

*Property and Equipment, Net* — A summary of property and equipment as of June 30, 2014 and 2013 is as follows:

| | 2014 | 2013 |
|---|---|---|
| Land | $ 166,000 | $ 166,000 |
| Buildings and improvements | 1,282,353 | 1,282,353 |
| Furniture and equipment | 46,448 | 46,448 |
| Construction in progress (Residence Hall) | 13,926,901 | - |
| | 15,421,702 | 1,494,801 |
| Less accumulated depreciation | 698,245 | 663,212 |
| | $ 14,273,457 | $ 831,589 |

*Bonds Payable* — A summary of long term debt as of June 30, 2014 and 2013 is as follows

| | 2014 | 2013 |
|---|---|---|
| The County Commission of Kanawha County, West Virginia | | |
| Stuent Housing Revenue Bonds Series 2013 | | |
| Series 2013 AR-1 (5.75%, matures 2023) | $ 2,220,000 | $ - |
| Series 2013 AR-2 (6.50%, matures 2033) | 6,655,000 | - |
| Series 2013 AR-3 (6.75%, matures 2045) | 16,300,000 | - |
| | 25,175,000 | - |
| Less unamoritzed bond discount | (341,012) | - |
| | 24,833,988 | - |
| Less current portion | - | - |
| Lont-term debt | $ 24,833,988 | $ - |

During the year ended June 30, 2014, the County Commission of Kanawha, Charleston, West Virginia issued revenue bonds and loaned the proceeds to West Virginia State University Foundation. The Series 2013 AR-1, AR-1, and AR-3 housing revenue bonds were issued to finance the cost of construction of the Judge Damon J. Keith Scholars Hall, a 291 bed residence hall on the campus of West Virginia State University. The University will manage and operate the residence hall for the Foundation, and the bond payments will be paid from the revenue generated from student housing fees.

**20. COMPONENT UNIT DISCLOSURES** (CONTINUED)

The bonds were issued in the aggregate principal amount of $25,175,000. The bonds consist of "Student Housing Revenue Bonds 2013 AR-1" in the amount of $2,220,000, "Student Housing Revenue Bonds 2013 AR-2" in the amount of $6,655,000, and "Student Housing Revenue Bonds 2013 AR-3" in the amount of $16,300,000. The Series 2013 AR-1 bonds will mature on July 1, 2023, the Series 2013 AR-2 bonds will mature on July 1, 2033, and the Series 2013 AR-3 bonds will mature on July 1, 2045.

The bonds were sold at a discount of $356,062 and this discount will be amortized over the life of the bonds. For the year ended June 30, 2014, the Foundation recorded discount amortization in the amount of $15,050.

Bond issue cost amounted to $487,625 and will amortize over the life of the bonds. For the year ended June 30, 2014, the Foundation recorded issuance cost amortization in the amount of $20,611.

For the year ended June 30, 2014, the Foundation recorded capitalized interest of $462,456.

Minimum maturities on the bonds payable of the Foundation for the next five fiscal years are as follows:

| | |
|---|---|
| 2015 | $ - |
| 2016 | - |
| 2017 | 65,000 |
| 2018 | 120,000 |
| 2019 | 180,000 |
| Thereafter | 24,810,000 |
| Total | $ 25,175,000 |

*Restrictions and Limitations on Net Asset Balances:*

Temporarily Restricted:

Temporarily restricted net assets at June 30, 2014 and 2013 consisted of the following:

| | **2014** | **2013** |
|---|---|---|
| Athletic participation | $ 1,738,150 | $ 785,774 |
| Students' special projects | 17,281 | 11,713 |
| Academic programs | 900,938 | 241,215 |
| General scholarships | 1,638,479 | 1,522,195 |
| WVSU Foundation programs | 749,610 | 353,015 |
| Investment income and net appreciation | 1,487,027 | 825,661 |
| Properties | 444,793 | 479,827 |
| | $ 6,976,278 | $ 4,219,400 |

## 20. COMPONENT UNIT DISCLOSURES (CONTINUED)

Permanently Restricted:

Permanently restricted net assets at June 30, 2014 and 2013 consisted of the following:

| | 2014 | 2013 |
|---|---|---|
| Endowment principal | $ 4,398,533 | $ 4,141,576 |

*Compensated Absences* — Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Foundation's policy is to recognize these costs when actually paid.

*Federal Income Taxes* — The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, West Virginia State University Foundation Properties, Inc., is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

### 21. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2014 and 2013, the following table represents operating expenses within both natural and functional classifications:

**2014**

| | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation and Amortization | Loan Cancellations and Write-Off | Fees Assessed by the Commission | Total |
|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 8,895,871 | $ 2,052,629 | $ 1,003,410 | $ 12,775 | $ - | $ - | $ - | $ - | $ 11,964,685 |
| Research | 2,511,679 | 602,216 | 2,326,229 | 18,065 | - | - | - | - | 5,458,189 |
| Public service | 1,826,204 | 416,058 | 581,537 | 33,204 | - | - | - | - | 2,857,003 |
| Academic support | 1,016,385 | 248,237 | 289,755 | 15,288 | - | - | - | - | 1,569,665 |
| Student services | 1,463,490 | 413,729 | 561,890 | 31,550 | - | - | - | - | 2,470,659 |
| General institutional support | 4,716,486 | 1,309,795 | 2,017,909 | 20,760 | - | - | - | - | 8,064,950 |
| Operations maintenance of plant | 1,063,174 | 635,054 | 654,785 | 1,229,005 | - | - | - | - | 3,582,018 |
| Scholarship and fellowship | - | - | - | - | 3,460,453 | - | - | - | 3,460,453 |
| Auxiliary enterprises | 1,665,426 | 331,279 | 4,228,428 | 524,461 | - | - | - | - | 6,749,594 |
| Loan cancellations and write-off | - | - | - | - | - | - | 276 | - | 276 |
| Depreciation and amortization expense | - | - | - | - | - | 1,989,317 | - | - | 1,989,317 |
| Fees assessed by the Commission | - | - | - | - | - | - | - | 101,245 | 101,245 |
| Total | $ 23,158,715 | $ 6,008,997 | $ 11,663,943 | $ 1,885,108 | $ 3,460,453 | $ 1,989,317 | $ 276 | $ 101,245 | $ 48,268,054 |

**2013**

| | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation and Amortization | Loan Cancellations and Write-Off | Fees Assessed by the Commission | Total |
|---|---|---|---|---|---|---|---|---|---|
| Instruction | $ 8,329,824 | $ 2,123,335 | $ 1,148,775 | $ 8,889 | $ - | $ - | $ - | $ - | $ 11,610,823 |
| Research | 1,991,129 | 441,587 | 1,879,571 | 16,200 | - | - | - | - | 4,328,487 |
| Public service | 1,487,671 | 353,090 | 1,181,323 | 41,692 | - | - | - | - | 3,063,776 |
| Academic support | 977,741 | 257,186 | 505,195 | (1,248) | - | - | - | - | 1,738,874 |
| Student services | 1,480,139 | 444,320 | 708,817 | 18,542 | - | - | - | - | 2,651,818 |
| General institutional support | 5,206,307 | 1,340,937 | 3,247,873 | 19,178 | - | - | - | - | 9,814,295 |
| Operations maintenance of plant | 1,498,132 | 725,997 | 296,637 | 1,051,578 | - | - | - | - | 3,572,344 |
| Scholarship and fellowship | - | - | - | - | 3,939,977 | - | - | - | 3,939,977 |
| Auxiliary enterprises | 1,646,968 | 320,940 | 3,551,092 | 628,921 | - | - | - | - | 6,147,921 |
| Loan cancellations and write-off | - | - | - | - | - | - | 7,225 | - | 7,225 |
| Depreciation and amortization | | | | | | | | | - |
| expense | - | - | - | - | - | 1,597,497 | - | - | 1,597,497 |
| Fees assessed by the Commission | - | - | - | - | - | - | - | 108,718 | 108,718 |
| Total | $ 22,617,911 | $ 6,007,392 | $ 12,519,283 | $ 1,783,752 | $ 3,939,977 | $ 1,597,497 | $ 7,225 | $ 108,718 | $ 48,581,755 |

## 22. SERVICE CONCESSION ARRANGEMENTS

The University has adopted GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The University has identified two contracts for services that meet the four criteria of a service concession arrangement (SCA). SCAs are defined as a contract between a government and an operator, another government or 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.

During the entire year ended June 30, 2013 and for the period ending July 31, 2013 of the fiscal year ended June 30, 2014, the University had a contract with AVI Foodsystems, Inc. (AVI) who managed its dining services. The contract began on August 1, 2003 and allowed for nine annual renewals. AVI provided meal plans to students through the University as well as offering cash sales to the University community. The University received annual commission payments from AVI calculated as a contractually agreed percentage of cash sales and the University Paid AVI for the meal plans from fees collected by the University from students. In FY 2014 and 2013, the University received $40,079 respectively, in commissions.

For the period starting August 1, 2014 of the fiscal year ended June 30, 2014, the University has a contract with Thompson Hospitality who manages its dining services. The contract stared August 1, 2013 and allows for six (6) one-year renewals. Thompson Hospitality provides meal plans to student through the University as well as offering cash sales to the University community. The University receives annual commission payments from Thompson calculated as a contractually agreed percentage of cash and credit sales and the University pays Thompson Hospitality for the meal plans based on contractually agree rates from fees collected by the University from students. In FY 2014, the University received $23,646, in commissions. Initial capital investment and contributions totaling $1,043,204 were made by Thompson Hospitality and will be billed to the University over the contract periods.

## 23. DONATION OF ASSETS

The University received a donation of assets (land and buildings) from the WV Department of Administration on June 28, 2013. The net book value of the assets totaled $52,000 – the historical cost of the land. The buildings donated to the University were condemned by the WV Department of Rehabilitation Services before being turned over to the Department of Administration in FY 2012.

There were no donated assets during the year ended June 30, 2014.

## 24. RECLASSIFICATIONS

Certain amounts appearing in the 2013 financial statements have been reclassified to conform to the 2014 presentation. The reclassifications have no effect on reported amounts of total net position or change in total assets.

## 25. OIL & GAS LEASE

The University entered into a lease agreement with Reserve Oil and Gas Company in August 2013. The lease allows for the company to drill up to three wells on campus with 15% royalty to be paid to the University. No revenues have been received by the University to date.

## 26. SUBSEQUENT EVENTS

### RESIDENCE HALL BOND FINANCING

The Foundation is entering into an unconcluded bond transaction with the Kanawha County Commission to build a new residence hall for the University with a total cost not to exceed $30,000,000. The University will manage and operate the residence hall for the Foundation, and the bond payments will be paid from revenue generated from student housing fees based on agreements established with the Foundation.

# 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 State University
Institute, 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 West Virginia State University and its discretely presented component unit , as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise West Virginia State University's basic financial statements, and have issued our report thereon dated November 26, 2014. The financial statements of the West Virginia State University Foundation, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

## Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Virginia State 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 State University's internal control. Accordingly, we do not express an opinion on the effectiveness of West Virginia State 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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 note been identified. We did identify a deficiency in internal control, described in the accompanying schedule of findings and responses as 2014-001, that we consider to be a significant deficiency.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether West Virginia State 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*.

**West Virginia State University's Response to Findings**

West Virginia State University's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. West Virginia State University's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

**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

Milwaukee, Wisconsin
November 26, 2014

**WEST VIRGINIA STATE UNIVERSITY**
**SCHEDULE OF FINDINGS AND RESPONSES**
**Year Ended June 30, 2014**

## Finding 2014-001

### Preparation of Financial Statements

Criteria
Management is responsible for the preparation of financial statements in accordance with generally accepted accounting principles.

Condition
The University relied on its auditor to prepare its financial statements in the current year. During the preparation of the financial statements, the auditor proposed audit adjustments that were approved by management to report the financial statements in accordance with generally accepted accounting principles.

Cause
The University maintains the financial records throughout the year on a basis of accounting other than the full accrual basis required by generally accepted accounting principles. The University's year-end financial statement preparation process is expected to capture all adjustments required to present the financial information in accordance with generally accepted accounting principles. In the current year, the University experienced turnover of key financial personnel during the year-end financial statement preparation process. The University determined that the most efficient way to complete the process was to contract with the auditor to identify remaining audit adjustments needed as well as prepare the financial statements.

Effect
The internal financial statements prepared throughout the year are not presented in accordance with generally accepted accounting principles. The University relied upon the auditors to prepare the year-end financial statements in accordance with generally accepted accounting principles.

Recommendation
The University should maintain records throughout the year in accordance with generally accepted accounting principles. At a minimum, the University should implement a year-end reporting process that ensures that all information is reported in accordance with generally accepted accounting principles.

Management's Response
Management agrees with the recommendation, and is implementing changes within the current processes of the organization to move toward the recommendation noted above.