

**WEST VIRGINIA HIGHER EDUCATION
POLICY COMMISSION**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEARS ENDED JUNE 30, 2016 AND 2015

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)	4
FINANCIAL STATEMENTS	
Statements of Net Position.....	15
Statements of Revenues, Expenses, and Changes in Net Position	17
Statements of Cash Flows	18
Notes to Financial Statements	20
REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)	
Schedule of Proportionate Share of TRS Net Pension Liability	53
Schedule of Employer Contributions.....	53
Note to Required Supplementary Information.....	53
SUPPLEMENTARY INFORMATION	
Combining Schedule of Net Position.....	54
Combining Schedule of Revenues, Expenses, and Changes in Net Position.....	56
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	57

INDEPENDENT AUDITORS' REPORT

West Virginia Higher Education Policy Commission
Charleston, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of the West Virginia Higher Education Policy Commission (the "Commission") (a component unit of the West Virginia Higher Education Fund) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Commission'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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the financial statements of West Virginia Regional Technology Park Corporation (the "Corporation") for the years ended June 30, 2016 and 2015, which represent 28%, 0%, (36)%, and 7%, respectively, of total assets, total deferred outflows of resources, total net position, and total revenues of the Commission in 2016 and 31%, 0%, (33)%, and 7%, respectively, of total assets, total deferred outflows of resources, total net position, and total revenues of the Commission in 2015. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Corporation, is based solely on the report of such other auditors. We, and the auditors for the 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of 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 obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of June 30, 2016 and 2015, and the respective changes in financial position and cash flows thereof for the years then ended in conformity 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, the Schedule of Proportionate Share of TRS Net Pension Liability and Schedule of Employer Contributions, as listed in the table of contents, 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 have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

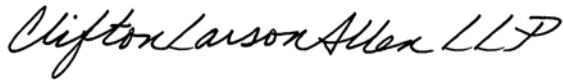
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the West Virginia Higher Education Policy Commission's financial statements. The Combining Schedule of Net Position and Combining Schedule of Revenues, Expenses, and Changes in Net Position ("Supplementary Information") are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Supplementary Information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2016 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



Plymouth Meeting, Pennsylvania
December 22, 2016

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Overview of the Financial Statements and Financial Analysis

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board ("GASB") Standards.

The following discussion and analysis of the West Virginia Higher Education Policy Commission's (the "Commission") financial statements provides an overview of its financial activities for the years ended June 30, 2016 and 2015 with a primary focus on the current year. Three years of comparative data are provided for discussion and analysis purposes. 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.

Statement of Net Position

The Statement of Net Position presents the assets, liabilities, deferred outflows and deferred inflows of resources and net position of the Commission as of June 30, 2016 and 2015. The Statement of Net Position is a point of time financial statement. The purpose of the Statement of Net Position is to present to the readers of the financial statements a fiscal snapshot of the Commission. The Statement of Net Position presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows, and Net Position (assets and deferred outflows minus liabilities and deferred inflows).

From the data presented, readers of the Statement of Net Position are able to determine the resources available to continue the operations of the Commission. They are also able to determine how much the Commission owes vendors, employees and lending institutions as well as the amount of deferred inflows and outflows. Finally, the Statement of Net Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows).

Net position is divided into three major categories. The first category, net investment in capital assets provides the Commission's equity in land, buildings, furniture and equipment owned by the Commission. The next net position category is restricted, which is divided into two categories, nonexpendable and expendable. The nonexpendable restricted category is used for an endowment program where funds are invested and the earnings are available for expenditure but the original principal is not. The Commission does not use the nonexpendable category because it does not have an endowment program. The expendable restricted category reflects amounts that are available for expenditure by the Commission but have a specific purpose. The final category is unrestricted. The unrestricted category is used to record amounts that are available to be used for any lawful purpose of the Commission. The deficit is primarily attributable to the 2004, 2007, 2009, 2010 and 2012 bond proceeds which were transferred to the Institutions for their capital projects without any assets being received by the Commission in return.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Condensed Statements of Net Position

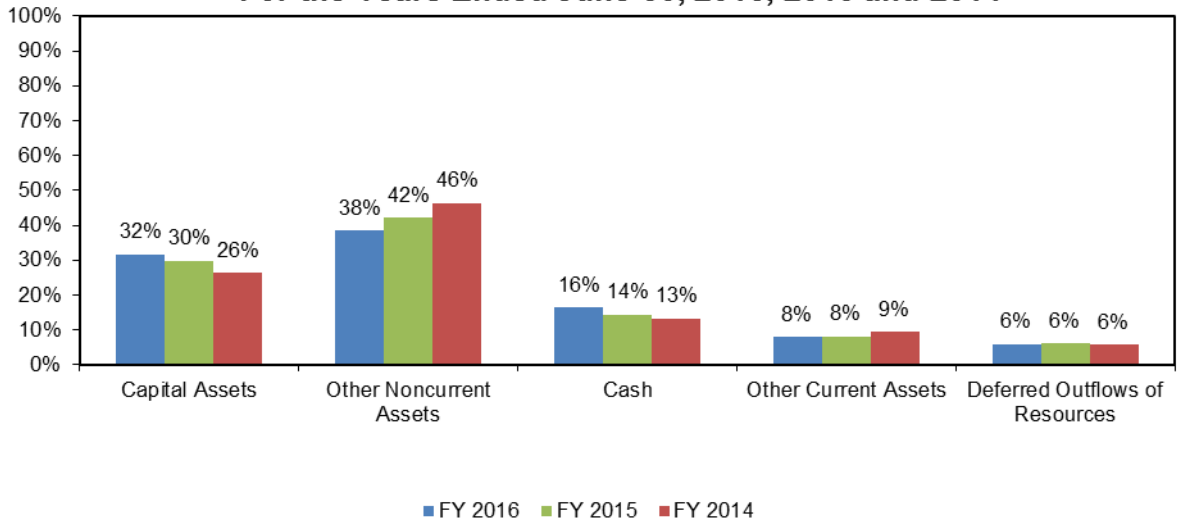
(In thousands of dollars)

	June 30, 2016	June 30, 2015	June 30, 2014
Assets and Deferred Outflows			
Assets			
Current Assets	\$ 58,344	\$ 55,173	\$ 61,195
Other Noncurrent Assets	92,595	103,175	123,207
Capital Assets, net	<u>76,225</u>	<u>73,626</u>	<u>71,272</u>
Total Assets	<u>227,164</u>	<u>231,974</u>	<u>255,674</u>
Deferred Outflows of Resources	<u>14,240</u>	<u>15,020</u>	<u>15,650</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 241,404</u>	<u>\$ 246,994</u>	<u>\$ 271,324</u>
Liabilities, Deferred Inflows and Net Position			
Current Liabilities	\$ 34,400	\$ 35,578	\$ 32,323
Noncurrent Liabilities	<u>376,296</u>	<u>390,671</u>	<u>405,808</u>
Total Liabilities	<u>410,696</u>	<u>426,249</u>	<u>438,131</u>
Deferred Inflows of Resources	<u>40</u>	<u>68</u>	<u>-</u>
Net Position			
Net investment in capital assets	75,076	72,343	69,860
Restricted-expendable	20,596	24,832	58,980
Unrestricted	<u>(265,004)</u>	<u>(276,498)</u>	<u>(295,647)</u>
Total Net Position	<u>(169,332)</u>	<u>(179,323)</u>	<u>(166,807)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 241,404</u>	<u>\$ 246,994</u>	<u>\$ 271,324</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

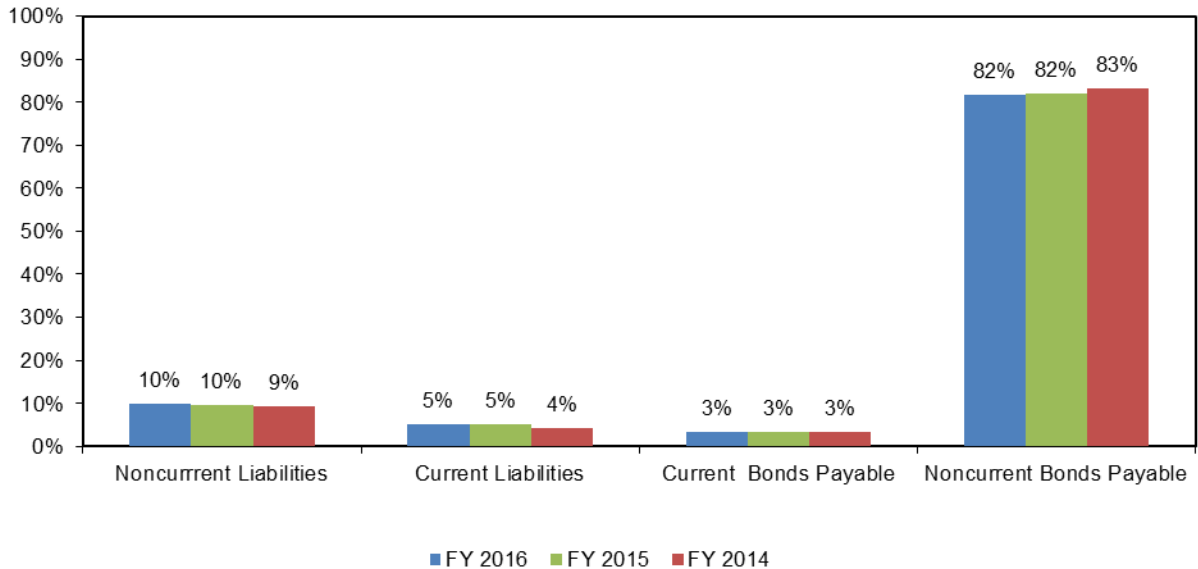
Assets and Deferred Outflows Composition

For the Years Ended June 30, 2016, 2015 and 2014



Liabilities Composition

For the Years Ended June 30, 2016, 2015 and 2014



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Major items of note in the Statements of Net Position include:

- As of June 30, 2016, the Commission's financial statements reflect a receivable from the higher education institutions (an internal obligation) related to principal payments owed by the Commission on system-wide debt obligations that were issued on behalf of the University and College Systems before the 2004 issuance. Prior to fiscal year 2002, the system debt had been reflected solely as an obligation of the Commission and the requirement of the institutions to contribute funds to repay this debt was disclosed in a footnote. The internal assignment of this liability was shown as a transfer in the Statement of Revenue, Expenses and Changes in Net Position during fiscal year 2002. On the Statement of Net Position as of June 30, 2016 a receivable has been recorded for Institutional obligations totaling \$75.2 million out of the total amount due from Institutions of \$77.0 million as compared to \$98.2 million in debt including outstanding University System Bonds of \$58.0 million plus future interest payable of \$40.2 million, but not including bond premiums. As discussed later, the Commission debt for bonds issued in fiscal year 2005 (2004 Series B Bonds), fiscal year 2009 (2009 Series A Bonds), and fiscal year 2011 (2010 Series A, B, and C Bonds) and fiscal year 2012 (Series A and B Bonds) is not allocated to the Institutions as the funding will be forthcoming from excess Lottery Commission proceeds.
- As of June 30, 2016, total current assets of \$58.3 million exceeded total current liabilities of \$34.4 million. As of June 30, 2015, total current assets of \$55.2 million exceeded total current liabilities of \$35.6 million. As of June 30, 2014, total current assets of \$61.2 million exceeded total current liabilities of \$32.3 million. By the nature of the Commission, significant funds flow through the operations reported in these financial statements with further distribution to the West Virginia public institutions in subsequent years based on the decisions of the Commission.
 - Current cash balances at June 30, 2016 were \$39.4 million compared to cash balances as of June 30, 2015 and 2014 of \$35.3 million and \$35.7 million, respectively.
 - Current receivables from the Institutions totaled approximately \$6.4 million as of June 30, 2016, and \$7.7 million as of June 30, 2015 and 2014, respectively. These receivables primarily represent the Institutions' current obligations for principal payments to be paid on the University and College system-wide bond obligations.
 - Current liabilities total \$34.4 million, \$35.6 million, and \$32.3 million as of June 30, 2016, 2015, and 2014, respectively. Accounts payable decreased from \$3.2 million to \$2.5 million and the amounts due to institutions declined from \$2.4 million to \$1.7 million primarily because the total due for construction payments decreased over the previous year.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

- As of June 30, 2016 and June 30, 2015, noncurrent assets totaled \$168.8 million and \$176.8 million, respectively. Noncurrent liabilities totaled \$376.3 million and \$390.7 million, respectively.
 - The most significant portion of noncurrent assets is the receivables from the Institutions which are primarily related to the University and College system-wide bonds. These obligations totaled \$70.6 million as of June 30, 2016 compared to \$76.9 million at June 30, 2015 and \$84.9 million at June 30, 2014. The noncurrent portion of the amount owed by institutions on the principal of outstanding bonds declined \$1.3 million during FY 2016 and was consistent during FY 2015. The other amounts due from Institutions reflect the advances made to certain Institutions.
 - Noncurrent cash totaled \$19.4 million as of June 30, 2016, compared to \$24.4 million as of June 30, 2015 and \$37.2 million as of June 30, 2014. In FY 2008, the Legislature appropriated \$37.0 million which included \$30.0 million for two advanced technology centers for the Community and Technical College System and \$7.0 million for an energy savings loan program. \$3.8 million had been expended for the advanced technology centers in FY 2016 compared to \$6.0 million that had been expended in FY 2015 and \$6.9 million that had been expended in FY 2014. The amount of loan repayments exceeded loans by \$1.3 million for Fiscal Year 2016. As of June 30, 2015 loans exceeded repayments by \$960,000. As of June 30, 2016, the remainder of the restricted cash consists of bond proceeds that are being held in money market funds by the trustees.
- The primary noncurrent liability represents the actual system-wide bonds outstanding, as further described in Note 8 to the financial statements. At June 30, 2016, 2015, and 2014 noncurrent bonds payable totaled \$335.6 million, \$349.9 million, and \$364.9 million, respectively, plus future interest payable on bonds of \$35.9 million as of June 30, 2016, \$36.0 million as of June 30, 2015, and \$36.4 million as of June 30, 2014. The future interest includes payments which commenced in FY 2014 and are classified as a current liability. In FY 2016, FY 2015 and FY 2014, the related current liability is \$4.3 million, \$4.1 million and \$3.9 million, respectively.
- Total net position of the Commission was a deficit of \$169.3 million, \$179.3 million, and \$166.8 million as of June 30, 2016, 2015, and 2014, respectively.
 - Net investment in capital assets of \$75.1 million is primarily the capital assets of the West Virginia Regional Technology Park.
 - The major components of restricted net position as of June 30, 2016 are as follows:
 - ✓ Funds restricted for scholarship programs total \$7.2 million
 - ✓ Funds restricted for sponsored projects total \$11.8 million
 - ✓ Funds restricted for capital projects total \$.7 million
 - ✓ Funds restricted for debt service total \$.9 million
 - The unrestricted net deficit of \$265.0 million is primarily because of bonds outstanding where the funds were provided to the institutions for capital additions but the repayments will be made from excess Lottery funds, if available.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Statement of Revenues, Expenses and Changes in Net Position

Changes in total net position as presented on the Statement of Net Position are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues of the Commission, both operating and nonoperating, and the expenses of the Commission, operating and nonoperating, and any other revenues, expenses, gains and losses of the Commission.

Operating revenues are fees from the Institutions that the Commission by statute can assess them to support the Commission's operations and various initiatives. Additional operating revenue comes from the sale of various services to public and private higher education institutions, public and private K-12, and other state government agencies. Revenue is also received in the form of federal and State grants. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Commission. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the Legislature to the Commission without the Legislature directly receiving commensurate goods and services for those revenues.

Condensed Statements of Revenues, Expenses and Changes in Net Position

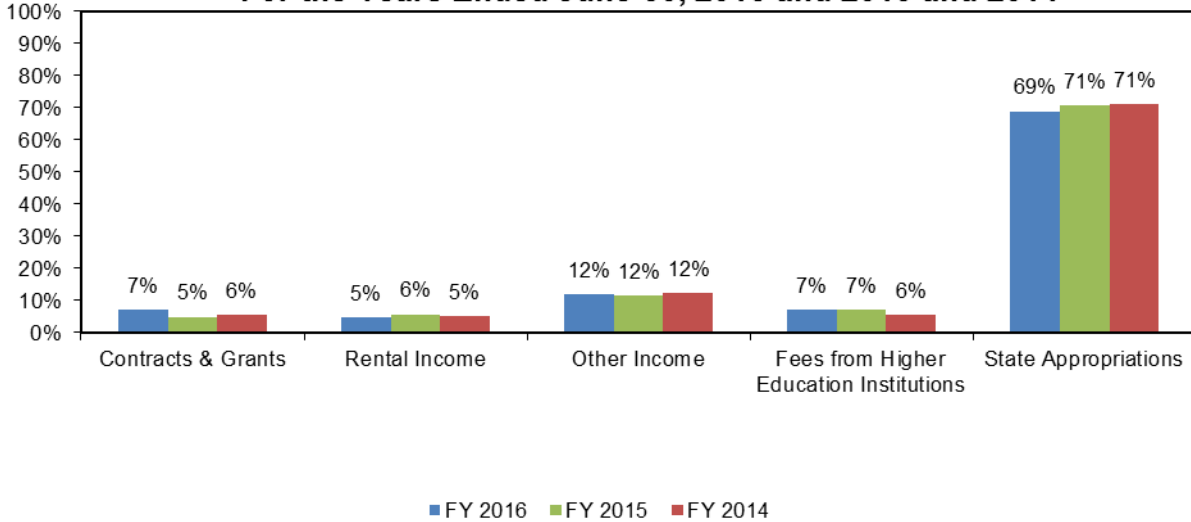
(In thousands of dollars)

	FY 2016	FY 2015	FY 2014
Operating Revenues	\$ 26,869	\$ 26,020	\$ 24,505
Operating Expenses	<u>31,046</u>	<u>30,726</u>	<u>27,446</u>
Operating loss	(4,177)	(4,706)	(2,941)
Net Nonoperating Revenues (Expenses)	<u>13,311</u>	<u>9,728</u>	<u>19,223</u>
Income Before Other Revenues, Expenses, Gains, Losses or Transfers	9,134	5,022	16,282
State Capital Grants (Federal)	1,352	5,691	1,927
Capital Payments and Transfers to Institutions and Outside Entities	<u>(495)</u>	<u>(22,807)</u>	<u>(34,506)</u>
Increase (Decrease) in Net Position	9,991	(12,094)	(16,297)
Net Deficit-Beginning of Year	<u>(179,323)</u>	<u>(167,229)</u>	<u>(150,510)</u>
Net Deficit-End of Year	<u>\$ (169,332)</u>	<u>\$ (179,323)</u>	<u>\$ (166,807)</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
 MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
 FISCAL YEARS 2016 AND 2015**

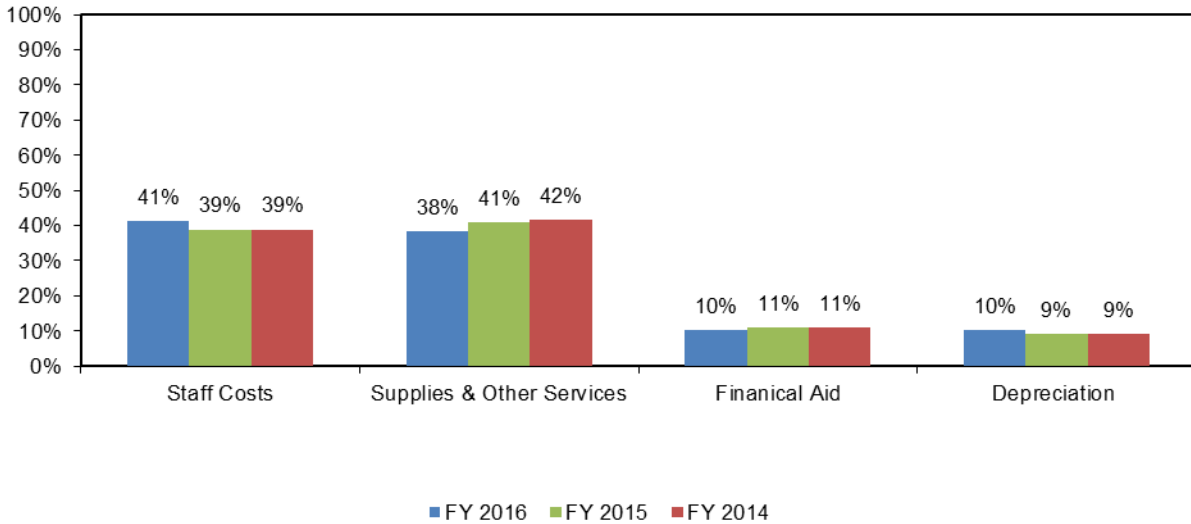
Total Revenues

For the Years Ended June 30, 2016 and 2015 and 2014



Total Operating Expenses

For the Years Ended June 30, 2016, 2015 and 2014



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Major items of note in the Statements of Revenue, Expenses and Change in Net Position include:

- Operating revenues of the Commission totaled \$26.9 million in FY 2016 compared to \$26.0 million in FY 2015 and \$24.5 million in FY 2014.
 - The amount of fees collected from higher education institutions for the operations of the Commission totaled about \$4.7 million for FY 2016, FY 2015, and FY 2014, respectively.
 - Federal, State, and local grants totaled \$7.7 million in FY 2016 compared to \$5.7 million in FY 2015 and \$6.5 million in FY 2014. In FY 2016, the Commission received an increase in grants from the National Science Foundation. During FY 2014 the Commission received a one-time \$1 million grant for asbestos abatement.
 - Rental income was \$5.4 million in FY 2016 compared to \$6.6 million in FY 2015 and \$5.8 million in FY 2014 and is from tenants occupying space within the West Virginia Regional Technology Park. Lease and service revenues are from four major tenants. The decrease in rental income is due to reductions which were a direct result of a decrease in utility usage.
- Operating expenses totaled \$31.0 million in FY 2016, \$30.7 million in FY 2015, and \$27.4 million in FY 2014. Personal services expenses increased \$0.8 million over the previous year. Salaries increased \$480,000 at the West Virginia Network and \$288,000 at the Tech Park. Supplies and other Expenses increases in FY 2015 were a result of facility analysis, internal audit and software administration services procurements.
- Net nonoperating revenue of \$13.3 million in FY2016 compared to \$9.7 million in FY2015 and \$19.2 million in FY 2014.
 - State general revenue and lottery appropriations were \$74.7 million in FY 2016 compared to \$75.1 million in FY 2015 and \$80.6 million in FY 2014.
 - Expenditures for student financial aid and other payments to institutions totaled \$49.9 million in FY 2016 compared to \$53.3 million in FY2015 and \$48.8 million in FY 2014.
- During FY 2016, the Commission received \$1.4 million for the construction of the Allied Health Facility.
- During FY 2016, FY 2015, and FY 2014 there were \$495,000, \$22.8 million, and \$34.5 million, respectively, of construction draws and payments made on behalf of or transferred to the institutions related to high priority capital projects, energy savings projects, the 2010 A, B, and C, 2009A, and 2004 B bond projects. Substantial progress was made on the projects funded by the 2009 and 2010 bonds.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

Statement of Cash Flows

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

Condensed Statements of Cash Flows

(In thousands of dollars)

	FY 2016	FY 2015	FY 2014
Cash Provided (Used) By:			
Operating Activities	\$ 207	\$ (3,239)	\$ (2,084)
Noncapital Financing Activities	27,283	32,025	19,578
Capital Financing Activities	(23,470)	(29,316)	(17,293)
Investing Activities	<u>114</u>	<u>71</u>	<u>26</u>
Increase (Decrease) in Cash and Cash Equivalents	4,134	(459)	227
Cash and Cash Equivalents, beginning of year	<u>35,257</u>	<u>35,716</u>	<u>35,489</u>
Cash and Cash Equivalents, end of year	<u>\$ 39,391</u>	<u>\$ 35,257</u>	<u>\$ 35,716</u>

Major items of note in the Cash Flow Statement include:

- Net cash provided (used) by operating activities in FY 2016, FY 2015, and FY 2014 was \$.2 million, (\$3.2) million, and \$(2.1) million, respectively. Major reconciling items in all fiscal years from the operating loss reported on the Statements of Revenue, Expenses and Changes in Net Position include depreciation expense and fluctuations in accounts receivable, accounts payable, and accrued liabilities.
- Net cash provided by noncapital financing activities in FY 2016, FY 2015, and FY 2014 was \$27.3 million, \$32.0 million, and \$19.6 million, respectively. Noncapital financing sources and uses of funds include State appropriations, receipts for fiduciary governmental entities and disbursements to fiduciary governmental entities and payments to institutions.
- Net cash used in capital financing activities totaled \$23.5 million, \$29.3 million, and \$17.3 million in FY 2016, FY 2015, and FY 2014, respectively. Capital payments to institutions, purchases of capital assets, disbursements of bond principal and interest payments were offset by the receipt of bond proceeds and capital grants.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

- Net cash provided by Investing Activities totaled \$114,000 in FY 2016, \$71,000 in FY 2015 and \$26,000 in FY 2014.
- Total cash increased by \$4.1 million in FY 2016, decreased \$459,000 in FY 2015, and increased \$227,000 in FY 2014, ending the years at \$39.4 million at June 30, 2016, \$35.3 million at June 30, 2015, and \$35.7 million at June 30, 2014.
- Noncash transactions for FY 2016, FY 2015 and FY 2014 primarily consist of \$119,000, \$1.6 million and \$3.7 million, respectively for current construction projects with amounts included in accounts payable at year end associated with the Advanced Technology Centers, Allied Health Facility, the Community and Technical College 2009 Series A bond projects and the 2010 Series A, B and C bond projects.

Long-Term Debt Activity

On June 26, 2012, the Commission issued \$132,165,000 of Series A Bonds and \$11,130,550 of Series B Bonds to refund \$124,585,000 of Series 2004B Revenue Bonds. The savings in annual payment and transfers from the Series 2004B Revenue Bonds construction fund netted approximately \$8 million for additional capital projects. The annual debt service for the 2012 bonds and the remaining 2004B Bonds is equal to that of the 2004B bonds before the refunding. On December 17, 2010, the Commission issued \$16,520,000 of Series A Bonds, \$50,265,000 of Series B Bonds, and \$10,080,000 of Series C Bonds. State Lottery proceeds of a maximum of \$20,000,000 per year are used to pay bond debt service. In addition to the Lottery revenues, registration and tuition fees and educational and general capital fees collected at the institutions (Universities and Colleges) from students are used for the Commission's bond indebtedness.

The Commission made all required debt service payments and repaid principal of \$14.4 million and \$14.0 million in FY 2016 and FY2015, respectively. See Notes 7 and 8 to the financial statements for further detail of long-term debt.

Other Factors Impacting the Financial Position and Results of Operations of the Commission

The mission of the Commission is to align the West Virginia Higher Education System in accord with the master plan for 2015-2018. The master plan entitled Leading the Way: Access. Success.Impact. sets forth the overarching goals for West Virginia public higher education and provides the conceptual framework plan. Three areas that are central to meeting current challenges in West Virginia higher education are identified in the plan:

1. Access
2. Success
3. Impact

For each area, a definition of the area, current Commission efforts, strategies for success and goals are provided for West Virginia's public colleges and universities to address in each of the three areas of the public agenda. These plan components for addressing needs in higher education in West Virginia from 20013 to 2018 are the basis for the development of new institutional compacts for the State's four-year public colleges and universities and the West Virginia School for Osteopathic Medicine.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)
FISCAL YEARS 2016 AND 2015**

The achievement of the goals for the higher education system as described in the Master Plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Commission itself maintains a strong financial condition. Although the net position of the Commission is reported as a deficit of \$169.3 million, \$40.2 million of future interest payable on the 2000 Series A Bonds (repayment on these bonds began during fiscal year). The \$122.1 million of debt on the 2012 Series A and B Bonds (net of unexpended bond proceeds of approximately \$1.9 million) will be paid by Lottery Commission excess proceeds, if available. In addition, \$69.7 million of debt on the 2009 Series A Facilities Bonds will be paid by the Lottery Commission excess proceeds, if available, and \$69.8 million of debt on the 2010 Series A, B, and C Facilities Bonds will also be paid by the Lottery Commission excess proceeds, if available. In the event that excess Lottery Commission proceeds are not available, the Institutions will be responsible for providing the moneys for repayment of the debt except on the 2009 Series A Bonds. The vast majority of the funding which is reported in the financial statements of the Commission is ultimately assigned to the public higher education Institutions in the State for capital projects, grants, scholarships and special projects. This funding is critical to the success of the higher education system in meeting the compact goals.

The Commission entered into an agreement on February 25, 2011 with the Union Carbide Corporation (UCC) a wholly-owned subsidiary of The Dow Chemical Company (Dow) for the donation of property known as Union Carbide Corporation's Technology Park in the City of South Charleston, County of Kanawha, and State of West Virginia. This property consists of 258 acres, several major buildings and infrastructure. On December 15, 2011, the deed for the property transferred to the Commission. The Commission has opened the Tech Park to other business to enhance economic development opportunities. Kanawha Valley Community and Technical College has relocated their campus to the site with the renovation of one of the existing buildings and there and an Advanced Technology Center for community college technical training and education is being built. The net value of the capital gifts of equipment and buildings was \$21.0 million which was recognized in FY 2012. During FY 2016, the West Virginia Regional Technology Park's operating revenues totaled \$7.3 million, including \$5.4 million in rental income. The operating revenues totaled \$8.5 million in FY 2015, including \$6.6 million in rental income. Total operating expenses for FY 2016 were \$ 7.1 million, including \$2.9 million for utilities. For FY 2015, total operating expenses were \$7.6 million including \$3.3 million for utilities.

Economic Outlook

For FY2018 the Governor has asked state agencies, including public higher education, to submit appropriation requests equal to the Fiscal Year 2017 amounts. Although this is an improvement over the reductions that were required in previous years, continued shortfalls in tax collections may result in changes for Fiscal Year 2018. The impact of the continued coal industry decline on the State's budget could be significant.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
STATEMENTS OF NET POSITION
JUNE 30, 2016 AND 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 39,391,818	\$ 35,257,588
Appropriations due from primary government	7,440,138	7,939,205
Accounts receivable - net	4,440,716	3,860,197
Interest receivable	124,884	37,085
Prepaid expense	547,638	375,325
Receivable from institutions - current portion	6,398,627	7,704,024
Total current assets	<u>58,343,821</u>	<u>55,173,424</u>
NONCURRENT ASSETS		
Cash and cash equivalents	19,355,733	24,400,380
Accounts receivable	2,666,819	1,841,963
Receivable from institutions	70,572,598	76,932,794
Capital assets - net	76,224,988	73,625,647
Total noncurrent assets	<u>168,820,138</u>	<u>176,800,784</u>
Total assets	227,163,959	231,974,208
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	14,041,815	14,845,839
Deferred outflows related to pensions	198,767	174,020
Total deferred outflows of resources	<u>14,240,582</u>	<u>15,019,859</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 241,404,541</u>	<u>\$ 246,994,067</u>

**LIABILITIES, DEFERRED INFLOWS OF RESOURCES
AND NET POSITION**

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts payable	\$ 2,460,289	\$ 3,133,979
Amounts due to institutions and affiliates	1,744,222	2,381,504
Accrued liabilities	818,202	442,072
Deposits	3,593,917	3,132,524
Unearned revenue - services	135,771	65,987
Compensated absences - current portion	745,900	740,778
Unearned revenue leases - current portion	350,094	320,981
Interest payable	10,894,967	10,919,488
Note payable - current portion	138,508	133,797
Bonds payable - current portion	13,518,148	14,307,024
Total current liabilities	<u>34,400,018</u>	<u>35,578,134</u>
NONCURRENT LIABILITIES		
Compensated absences	268,195	259,307
Future interest payable	35,891,423	36,003,122
Unearned revenue leases	-	161,094
Other post employment benefit liability	2,941,694	2,744,349
Net pension liability	550,594	503,133
Notes payable	1,010,038	1,148,448
Bonds payable	335,634,308	349,851,731
Total noncurrent liabilities	<u>376,296,252</u>	<u>390,671,184</u>
TOTAL LIABILITIES	<u>410,696,270</u>	<u>426,249,318</u>
DEFERRED INFLOWS OF RESOURCES		
Deferred inflows related to pensions	<u>39,703</u>	<u>67,520</u>
Total liabilities and deferred inflows of resources	410,735,973	426,316,838
NET POSITION		
Net investment in capital assets	<u>75,076,442</u>	<u>72,343,402</u>
Restricted for - expendable		
Scholarships	7,175,825	5,274,176
Sponsored projects	11,764,965	10,349,095
Capital projects	746,205	1,536,430
Debt service	909,310	7,672,061
Total restricted expendable	<u>20,596,305</u>	<u>24,831,762</u>
Unrestricted	<u>(265,004,179)</u>	<u>(276,497,935)</u>
Total net position	<u>(169,331,432)</u>	<u>(179,322,771)</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	<u>\$ 241,404,541</u>	<u>\$ 246,994,067</u>

The accompanying notes are an integral part of the financial statements.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2016 AND 2015

	<u>2016</u>	<u>2015</u>
OPERATING REVENUES		
Fees from higher education institutions	\$ 4,651,760	\$ 4,725,469
Institutional collections	3,294,362	3,416,869
Contracts and grants		
Federal	6,188,594	4,469,422
State	950,242	989,694
Private	576,468	232,100
Rental income	5,431,817	6,579,708
Sales and services of educational activities	5,746,821	5,590,905
Miscellaneous - net	28,804	15,678
Total operating revenues	<u>26,868,868</u>	<u>26,019,845</u>
OPERATING EXPENSES		
Salaries and wages	10,194,429	9,438,719
Benefits	2,614,962	2,516,467
Supplies and other services	11,902,049	12,518,452
Utilities	3,136,890	3,413,388
Depreciation	3,197,541	2,839,152
Total operating expenses	<u>31,045,871</u>	<u>30,726,178</u>
Operating loss	<u>(4,177,003)</u>	<u>(4,706,333)</u>
NONOPERATING REVENUES (EXPENSES)		
State appropriations	51,516,974	51,877,378
State lottery appropriations	23,145,027	23,175,327
Investment gain	102,913	60,526
Payments made on behalf of the Commission	94,858	67,161
Institutional debt service payments from institutions		
Interest	6,855,116	6,877,264
Other	421,082	421,084
Interest on indebtedness	(19,551,534)	(19,839,117)
Student financial aid and other payments to institutions	(49,899,462)	(53,299,755)
Other nonoperating revenues - net	626,115	388,658
Net nonoperating revenue (expenses)	<u>13,311,089</u>	<u>9,728,526</u>
Income before other revenues, expenses, gains, losses, or transfers	9,134,086	5,022,193
STATE CAPITAL GRANTS (FEDERAL)	1,352,391	5,691,115
CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	<u>(495,138)</u>	<u>(22,807,829)</u>
INCREASE (DECREASE) IN NET POSITION	9,991,339	(12,094,521)
NET POSITION - BEGINNING OF YEAR	<u>(179,322,771)</u>	<u>(167,228,250)</u>
NET POSITION - END OF YEAR	<u>\$ (169,331,432)</u>	<u>\$ (179,322,771)</u>

The accompanying notes are an integral part of the financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Fees and reimbursements from higher education institutions	\$ 4,651,760	\$ 4,725,469
Institutional collections	2,812,367	2,543,897
Contracts and grants	8,001,821	5,052,884
Payments to and on behalf of employees	(12,209,307)	(11,586,608)
Payments to suppliers	(11,211,365)	(11,603,999)
Payments to utilities	(3,132,326)	(3,422,728)
Rental income receipts	5,518,665	5,448,361
Sales and service of educational activities	5,746,821	5,587,546
Other	<u>28,804</u>	<u>15,679</u>
Net cash provided (used) by operating activities	<u>207,240</u>	<u>(3,239,499)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	75,161,068	80,675,099
Receipts for fiduciary governmental entities	47,509,457	47,498,484
Disbursements to fiduciary governmental entities	(47,119,324)	(46,324,039)
Payments to institutions	<u>(48,267,995)</u>	<u>(49,824,040)</u>
Net cash provided by noncapital financing activities	<u>27,283,206</u>	<u>32,025,504</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Institutional receipts for debt service	14,333,312	14,333,540
Purchases of capital assets	(7,758,345)	(22,041,929)
Principal paid on bonds	(14,307,024)	(13,990,284)
Interest paid on bonds	(19,646,161)	(19,987,588)
Principal paid on notes	(133,699)	(129,320)
Interest paid on notes	(41,885)	(46,265)
Federal capital grants received	1,352,391	5,691,115
Capital payments and transfers to institutions and outside entities	(2,921,515)	(6,936,507)
Capital loans to institutions	-	(348,000)
Capital loan repayments from institutions	608,479	1,308,280
Deposits to noncurrent cash and cash equivalents	(24,527,900)	(63,916,209)
Withdrawals from noncurrent cash and cash equivalents	<u>29,572,547</u>	<u>76,746,755</u>
Net cash used by capital financing activities	<u>(23,469,800)</u>	<u>(29,316,412)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipts from investment income	<u>113,584</u>	<u>71,365</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	4,134,230	(459,042)
CURRENT CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	<u>35,257,588</u>	<u>35,716,630</u>
CURRENT CASH AND CASH EQUIVALENTS - END OF YEAR	<u>\$ 39,391,818</u>	<u>\$ 35,257,588</u>

	<u>2016</u>	<u>2015</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES		
Operating loss	\$ (4,177,003)	\$ (4,706,333)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation and amortization expense	3,197,541	2,839,152
Changes in assets and liabilities		
Accounts receivables - net	218,407	(1,891,323)
Prepaid expenses	(172,313)	(103,216)
Accounts payable	548,870	765,253
Accrued liabilities	376,422	127,534
Other post employment benefit liability	197,345	169,826
Defined benefit pension	(5,102)	42,561
Compensated absences	14,010	137,060
Deposits held in custody for others	71,260	(52,029)
Deferred revenue	<u>(62,197)</u>	<u>(567,984)</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 207,240</u>	<u>\$ (3,239,499)</u>
SIGNIFICANT NONCASH TRANSACTIONS		
Capital transfers to institutions included in accounts payable	<u>\$ 118,812</u>	<u>\$ 1,574,717</u>
Capital asset additions included in accounts payable	<u>\$ 384,878</u>	<u>\$ 604,426</u>
Loss on disposal of capital assets	<u>\$ 12,899</u>	<u>\$ 35,974</u>
Expenses paid on behalf of the Commission	<u>\$ 94,858</u>	<u>\$ 67,161</u>

The accompanying notes are an integral part of the financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 1 - ORGANIZATION

On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 (S.B. 653), which restructured public higher education in West Virginia.

S.B. 653 also created the West Virginia Higher Education Policy Commission (governing board) which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda except for those institutions covered by Senate Bill No. 448. The West Virginia Higher Education Policy Commission (entity) (the "Commission") consists of two divisions. The first division encompasses the administrative functions; and the second division accounts for the West Virginia Network for Educational Telecommuting ("WVNET"). Oversight of WVNET lies with the administrative division. WVNET was originally created in 1975 to provide central computing facilities and wide-area network communications services as a resource for the public colleges and universities in the State of West Virginia (the "State").

On March 12, 2011, the West Virginia Legislature enacted Senate Bill 484, which allowed for the creation of a management organization for the oversight of day-to-day operations at the WV Regional Technology Park ("Tech Park") which was created by the gift of the former Union Carbide Corporation Tech Center to the Commission. WV Regional Technology Park Corp. (the "Corporation" or "WVRTC") was incorporated under the laws of the State as a nonprofit, nonstock corporation on April 13, 2011. The Commission transferred the Tech Park property to the Corporation on July 1, 2011. The Commission maintains title and is the owner to the land, buildings and improvements that comprise the Tech Park. The Corporation is included in the financial statements as a blended component unit.

Each Institutional Governing Board (all institutions, the Commission, and the West Virginia Council for Community and Technical College Education (the "Council") comprise the West Virginia Higher Education Fund, (the "Fund") has certain powers and duties, including, but not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the institution(s) under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and institution's budget request; the duty to review, at least every five years, all academic programs offered at the institution; and the power to fix tuition and other fees for the different classes or categories of students enrolled at the institution(s).

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

The Commission is a statutory entity and component unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The Commission is a separate entity, which along with all State institutions of higher education and the Council, forms the West Virginia Higher Education Fund of the State. The West Virginia 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.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Reporting Entity (Continued)

The accompanying financial statements present all funds under the authority of the Commission, including the Corporation, which is a statutory entity and a blended component unit of the Commission. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the Commission's ability to significantly influence operations and accountability for fiscal matters of the Corporation.

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 Commission as a whole. Net position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of Commission obligations. The Commission's net position is classified as follows:

Net Investment in Capital Assets - This represents the Commission's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to capital assets, including those on individual institutions' financial statements. 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 – Expendable - This includes resources in which the Commission is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia 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 (the "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 related institutions. These restrictions are subject to change by future actions of the West Virginia Legislature. The Commission does not have any such Code-restricted net position at June 30, 2016 and 2015.

Restricted Net Position – 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. There was no nonexpendable net position as of June 30, 2016 and 2015.

Unrestricted Net Position (Deficit) - Unrestricted net position (deficit) represents liabilities in excess of resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. The deficit will be funded by future amounts to be received from the Lottery Commission if such excess funds are available, or are to be billed to institutions in future years.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of Accounting

For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities. Accordingly, the Commission'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 when materials or services are received. All interdivision accounts and transactions have been eliminated.

Cash and Cash Equivalents

For purposes of the statements of net position, the Commission considers all highly liquid investments with an original maturity of three months or less 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 the 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 combined 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 multi-participant variable net position funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual audited financial report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd East, Room E-122, Charleston, WV 25305 or <http://www.wvbt.com>.

Appropriations Due from Primary Government

For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer, but are obligations of the State.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Doubtful Accounts

It is the Commission'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 Commission on such balances; and such other factors which, in the Commission's judgment, require consideration in estimating doubtful accounts.

Noncurrent Cash and Cash Equivalents

Cash and cash equivalents that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities for the Commission or any of its institutions, and (3) permanently restricted net position, are classified as noncurrent assets in the accompanying statements of net position.

Capital Assets

Capital assets include buildings, software, intangibles, and furniture and equipment. 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 or amortization is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years for software and intangibles; 3 to 10 years for furniture and equipment; 15 years for land improvements, and 30 years for buildings. The Commission uses a capitalization policy of \$5,000.

In allocating the fair value of the donated assets of the buildings, below-market, in-place lease values were recorded based on the difference between the current in-place lease rent and a management estimate of current market rents. Below-market lease intangibles are recorded as unearned revenue leases and are amortized into rental revenue over the noncancelable periods of the respective leases. The aggregate value of in-place leases was measured by the excess of (i) the fair value of the building over (ii) the estimated fair value of the building as if vacant.

Unearned Revenue

Cash received for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue.

Compensated Absences and Other Post Employment Benefits

GASB provides standards for the measurement, recognition, and display of other post employment benefits (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 OPEB for the State of West Virginia. Effective July 1, 2007, the Commission 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 the 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>.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences and Other Post Employment Benefits (Continued)

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The Commission'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 1-½ 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 extends health insurance for one month of single coverage and three days extends health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer cost-sharing plan approved by the State.

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

Net Pension Liability

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Teachers' Retirement System ("TRS"), administered by the West Virginia Consolidated Public Retirement Board ("CPRB"), and additions to/reductions from the TRS fiduciary net position have been determined on the same basis as they are reported in the TRS financial statements, which can be found at <https://www.wvretirement.com/Publications.html#CAFR>. The plan schedules of TRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the TRS financial statements. Management of TRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ (Note 10).

Future Interest Payable

Interest on capital accretion bonds is recognized over the life of the related bonds on the interest method.

Bonds

Bond premiums or discounts are amortized over the life of the related bonds.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Deferred Outflows of Resources

Consumption of net position by the Commission that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2016 and 2015, the Commission had a deferred loss on refunding of \$14,041,815 and \$14,845,839 respectively, and deferred outflows of resources related to pensions of \$198,767 and \$174,020, respectively, as of June 30, 2016 and 2015 (Note 10).

Deferred Inflows of Resources

Acquisition of net position by the Commission that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2016 and 2015, the deferred inflows related to pensions were \$39,703 and \$67,250, respectively. (Note 10).

Risk Management

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

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

In addition, through its participation in the PEIA and third-party insurers, the Commission 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 Commission has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues

The Commission has classified its revenues according to the following criteria:

Operating Revenues - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) fees from higher education institutions; (2) most federal, state, local, and nongovernmental grants and contracts; (3) federal appropriations for land grant institutions, and (4) revenue from leasing.

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 and federal appropriations, investment income/loss, and sale of capital assets (including natural resources).

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of Revenues (Continued)

Other Revenues - Other revenues consist primarily of capital appropriations, grants, and gifts.

Use of Restricted Net Position

The Commission 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 net position are available. Generally, the Commission attempts to utilize restricted funds first when practical.

Institutional Collections

Institutional collections represent revenues earned from colleges and universities throughout the State for the use of central site (WVNET) computing services.

Government Grants and Contracts

Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Commission 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.

Interest on Indebtedness

The Commission accounts for interest on debt as an expense of the period in which it is incurred.

Student Financial Aid and Other Payments to Institutions

The Commission records financial aid and other payments to institutions as an expense of the period in which it is disbursed to the institutions.

Income Taxes

The Commission is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

Cash Flows

Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves have not been included as cash and cash equivalents for the purpose of the statements of cash flows.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, deferred outflows of resources, liabilities and deferred inflows of resources 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.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board (GASB)

The Commission has implemented GASB Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The adoption of this statement did not have a material impact on the financial statements.

The Commission has implemented GASB Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015. This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68. The adoption of this statement did not have a material impact on the financial statements.

The Commission has implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for fiscal years beginning after June 15, 2015. This statement establishes the hierarchy of GAAP for state and local governments. The adoption of this statement did not have a material impact on the financial statements.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Statements Issued by the Governmental Accounting Standards Board (GASB)
(Continued)

The Commission has implemented GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes accounting and financial reporting standards for defined benefit pensions provided to the employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meets certain criteria in GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, and that is not a state or local governmental pension plan; is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers; and has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). The adoption of this statement did not have a material impact on the financial statements.

The Commission has implemented GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure for financial reporting purposes all of their investments at amortized cost. This statement also establishes accounting and financial reporting standards for state and local governments that participate in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost. The requirements of this statement are effective for fiscal years beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing. Those provisions are effective for reporting periods beginning after December 15, 2015. The adoption of this statement did not have a material impact on the financial statements.

The Commission has implemented GASB Statement No. 82, *Pension Issues*, which is effective for fiscal years beginning after June 15, 2016, except for the requirements of this statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. This statement establishes accounting and financial reporting requirements for pensions provided to employees of state or local governmental employers. This statement also establishes financial reporting requirements for pension plans administered through trusts that meet the criteria in Statement No. 67. The adoption of this statement did not have a material impact on the financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Statements Issued by the Governmental Accounting Standards Board (GASB)

The GASB has also issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, which is effective for fiscal years beginning after June 15, 2016. This statement establishes financial reporting standards for state and local governmental other postemployment benefit plans – defined benefit plans and defined contribution plans – that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes financial reporting standards for governments that hold assets accumulated for purposes of providing other postemployment benefits through defined benefit plans that are not administered through trusts or equivalent arrangements that meet certain criteria. The Commission has not yet determined the effect that the adoption of GASB Statement No. 74 may have on its financial statements.

The GASB has also issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which is effective for fiscal years beginning after June 15, 2017. This statement establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes standards of accounting and financial reporting for defined benefit other postemployment benefits and defined contribution other postemployment benefits that are provided to the employees of state and local governmental employers through other postemployment benefit plans that are not administered through trusts that meet certain criteria. The Commission has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The GASB has also issued Statement No. 77, *Tax Abatement Disclosures*, which is effective for fiscal years beginning after December 15, 2015. This statement establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The Commission has not yet determined the effect that the adoption of GASB Statement No. 77 may have on its financial statements.

The GASB has also issued Statement No. 80, *Blending Requirements for Certain Component Units*, which is effective for fiscal years beginning after June 15, 2016. This statement amends the blending requirements for the financial presentation of component units of all state and local governments established in Statement No. 14, *The Financial Reporting Entity*, as amended. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The Commission has not yet determined the effect that the adoption of GASB Statement No. 80 may have on its financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recent Statements Issued by the Governmental Accounting Standards Board (GASB)

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

The GASB has also issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement. The Commission has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2016 was held as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 31,523,076	\$ 11,050,497	\$ 45,573,573
Municipal Bond Commission	1,960,102	-	1,960,102
Bank	5,908,640	-	5,908,640
Trustee	<u>-</u>	<u>8,305,236</u>	<u>8,305,236</u>
Total	<u>\$ 39,391,818</u>	<u>\$ 19,355,733</u>	<u>\$ 58,747,551</u>

The composition of cash and cash equivalents at June 30, 2015 was held as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 28,271,212	\$ 10,241,725	\$ 38,512,937
Municipal Bond Commission	2,060,278	-	2,060,278
Bank	4,926,098	-	4,926,098
Trustee	<u>-</u>	<u>14,158,655</u>	<u>14,158,655</u>
Total	<u>\$ 35,257,588</u>	<u>\$ 24,400,380</u>	<u>\$ 59,657,968</u>

Cash held by the State Treasurer includes \$11,050,497 and \$10,241,725 at June 30, 2016 and 2015, respectively, of restricted cash for sponsored projects, loans, and other purposes.

Cash on deposit with Trustee represents funds reserved for debt payments on the University Refunding Revenue Bonds, Series 2010 (the "2010 Bonds") and project expenditures, and debt payments on the University Revenue Bonds, Series 2012 (the "2012 Bonds") (Note 8).

The combined carrying amount of cash in bank at June 30, 2016 and 2015 was \$5,908,640 and \$5,585,406 as compared with the combined bank balance of \$5,908,640 and \$4,926,098, 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.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2016 and 2015 are comprised of \$8,474,092 and \$4,367,620, respectively, held by the State Treasury Fund and not invested, and 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	2016		2015	
	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	\$ 34,194,654	AAAm	\$ 33,826,016	AAAm
WV Government Money Market Pool	\$ 2,050,120	AAAm	\$ 311,730	AAAm
WV Short Term Bond Pool	\$ 854,707	Not Rated	\$ 7,571	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	2016		2015	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	\$ 34,194,654	49	\$ 33,826,016	47
WV Government Money Market Pool	\$ 2,050,120	50	\$ 311,730	51

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

External Pool	2016		2015	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	\$ 854,707	462	\$ 7,571	410

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 3 - CASH AND CASH EQUIVALENTS (CONTINUED)

Cash in Bank 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.

<u>Investment Type</u>	Carrying Value	
	2016	2015
Money Market Fund	\$ 8,305,236	\$ 14,158,655

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commission does not have a formal custodial credit risk policy.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies. The Commission does not have a formal interest rate risk policy.

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Student loan receivables - net of allowance for doubtful accounts of \$1,979,394 and \$2,714,075	\$ 2,560,663	\$ 2,069,575
Grants and contracts receivable	670,015	620,390
Due from higher education institutions	1,805,993	427,992
Rent receivable - net of allowance for doubtful accounts of rent receivable of \$14,411 and \$14,411	1,016,747	1,353,316
Employee conversion pay receivable	100,245	-
Due from State and State agencies	953,872	1,230,887
Total	\$ 7,107,535	\$ 5,702,160

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 - CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2016 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 15,130,000	\$ -	\$ -	\$ 15,130,000
Construction in progress	<u>25,487,859</u>	<u>5,125,187</u>	<u>(4,031,247)</u>	<u>26,581,799</u>
Total capital assets not being depreciated	<u>\$ 40,617,859</u>	<u>\$ 5,125,187</u>	<u>\$ (4,031,247)</u>	<u>\$ 41,711,799</u>
Other capital assets:				
Buildings and building improvements	\$ 26,904,873	\$ 3,620,762	\$ -	\$ 30,525,635
Leasehold improvements	24,725	-	-	24,725
Land improvements and infrastructure	3,735,727	68,454	-	3,804,181
Software	109,000	-	(109,000)	-
Intangible	1,316,695	126,656	-	1,443,351
Equipment	<u>13,232,475</u>	<u>802,251</u>	<u>(332,300)</u>	<u>13,702,426</u>
Total other capital assets	<u>45,323,495</u>	<u>4,618,123</u>	<u>(441,300)</u>	<u>49,500,318</u>
Less accumulated depreciation and amortization for:				
Buildings and building improvements	1,717,663	1,053,533	-	2,771,196
Land improvements and infrastructure	881,583	263,417	-	1,145,000
Software	109,000	-	(109,000)	-
Intangible	957,817	126,656	-	1,084,473
Equipment	<u>8,649,644</u>	<u>1,656,217</u>	<u>(319,401)</u>	<u>9,986,460</u>
Total accumulated depreciation and amortization	<u>12,315,707</u>	<u>3,099,823</u>	<u>(428,401)</u>	<u>14,987,129</u>
Other capital assets - net	<u>\$ 33,007,788</u>	<u>\$ 1,518,300</u>	<u>\$ (12,899)</u>	<u>\$ 34,513,189</u>
Capital asset summary:				
Capital assets not being depreciated or amortized	\$ 40,617,859	\$ 5,125,187	\$ (4,031,247)	\$ 41,711,799
Other capital assets	<u>45,323,495</u>	<u>4,618,123</u>	<u>(441,300)</u>	<u>49,500,318</u>
Total cost of capital assets	85,941,354	9,743,310	(4,472,547)	91,212,117
Less accumulated depreciation and amortization	<u>12,315,707</u>	<u>3,099,823</u>	<u>(428,401)</u>	<u>14,987,129</u>
Capital assets - net	<u>\$ 73,625,647</u>	<u>\$ 6,643,487</u>	<u>\$ (4,044,146)</u>	<u>\$ 76,244,988</u>

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

A summary of capital asset activity for the year ended June 30, 2015 is as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 15,130,000	\$ -	\$ -	\$ 15,130,000
Construction in progress	<u>23,201,812</u>	<u>(17,276,480)</u>	<u>(14,990,433)</u>	<u>25,487,859</u>
Total capital assets not being depreciated	<u>\$ 38,331,812</u>	<u>\$ 17,276,480</u>	<u>\$(14,990,433)</u>	<u>\$ 40,617,859</u>
Other capital assets:				
Buildings and building improvements	\$ 25,879,985	\$ 1,024,888	\$ -	\$ 26,904,873
Leasehold improvements	24,725	-	-	24,725
Land improvements and infrastructure	3,392,535	343,192	-	3,735,727
Software	109,000	-	-	109,000
Intangible	1,316,695	-	-	1,316,695
Equipment	<u>12,008,956</u>	<u>1,574,898</u>	<u>(351,379)</u>	<u>13,232,475</u>
Total other capital assets	<u>42,731,896</u>	<u>2,942,978</u>	<u>(351,379)</u>	<u>45,323,495</u>
Less accumulated depreciation and amortization for:				
Buildings and building improvements	783,696	933,967	-	1,717,663
Land improvements and infrastructure	632,287	249,296	-	881,583
Software	109,000	-	-	109,000
Intangible	769,718	188,099	-	957,817
Equipment	<u>7,497,259</u>	<u>1,467,790</u>	<u>(315,045)</u>	<u>8,649,644</u>
Total accumulated depreciation and amortization	<u>9,791,960</u>	<u>2,839,152</u>	<u>(315,045)</u>	<u>12,315,707</u>
Other capital assets - net	<u>\$ 32,939,936</u>	<u>\$ 103,826</u>	<u>\$ (35,974)</u>	<u>\$ 33,007,788</u>
Capital asset summary:				
Capital assets not being depreciated or amortized	\$ 38,331,812	\$ 17,276,480	\$(14,990,433)	\$ 40,617,859
Other capital assets	<u>42,731,896</u>	<u>2,942,978</u>	<u>(351,379)</u>	<u>45,323,495</u>
Total cost of capital assets	81,063,708	20,219,458	(15,341,812)	85,941,354
Less accumulated depreciation and amortization	<u>9,791,960</u>	<u>2,839,152</u>	<u>(315,405)</u>	<u>12,315,707</u>
Capital assets - net	<u>\$ 71,271,748</u>	<u>\$ 17,380,306</u>	<u>\$(15,026,407)</u>	<u>\$ 73,625,647</u>

Title to certain real property at the institutions is held by the Commission by virtue of legislative assignment from prior system-wide governing boards. Title can be transferred from the Commission to the Institutional Governing Boards upon mutual agreement. Regardless of title, all real property at the institution is recorded in the institution's financial statements.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 5 - CAPITAL ASSETS (CONTINUED)

The Commission maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. Such collections include contributed works of art that are held for exhibition. These collections are neither disposed of for financial gain nor encumbered in any means.

At June 30, 2016 and 2015, the Commission had outstanding contractual commitments of approximately \$1.1 million and \$1.6 million for property, plant, and equipment expenditures, respectively.

NOTE 6 - LONG-TERM LIABILITIES

A summary of long-term obligation activity for the years ended June 30, 2016 and 2015 is as follows:

2016	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 364,158,755	\$ -	\$(15,006,299)	\$ 349,152,456	\$ 13,518,148
Notes payable	1,282,245		(133,699)	1,148,546	138,508
Other long-term liabilities:					
Accrued compensated absences	1,000,085	14,010	-	1,014,095	745,900
Future interest payable	40,126,098	-	(62,178)	40,188,275	4,296,852 *
Other post employment benefit liability	2,744,349	105,969	-	2,941,694	-
Net pension liability	503,133	47,461	(12,285)	550,594	-
Unearned revenue leases	<u>482,075</u>	<u>189,000</u>	<u>(320,981)</u>	<u>350,094</u>	350,094
Total long-term liabilities	<u>\$ 410,296,740</u>	<u>\$ 524,955</u>	<u>\$ (15,475,941)</u>	<u>\$ 395,345,754</u>	
2015	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	\$ 378,848,314	\$ -	\$ (14,689,559)	\$ 364,158,755	\$ 14,307,024
Notes payable	1,411,565		(129,320)	1,282,245	133,797
Other long-term liabilities:					
Accrued compensated absences	863,025	137,059	-	1,000,085	740,778
Future interest payable	40,310,661	-	(184,563)	40,126,098	4,122,976 *
Other post employment benefit liability	2,574,523	169,826	-	2,744,349	-
Net pension liability	488,194	14,939	-	503,133	-
Unearned revenue leases	<u>1,046,700</u>	<u>-</u>	<u>(564,625)</u>	<u>482,075</u>	320,981
Total long-term liabilities	<u>\$ 425,542,982</u>	<u>\$ 321,824</u>	<u>\$ (15,668,067)</u>	<u>\$ 410,296,740</u>	

* The current portion of deferred interest payable is included in interest payable on the statement of net position.

NOTE 7 - NOTE PAYABLE

On November 7, 2013, the Commission executed a note payable to the West Virginia Economic Development Authority to finance a new boiler system for the property in the amount of \$1,485,253. The note payable bears interest at 3.42% per annum and is collateralized by lease and rental revenues. Payments are due monthly in installments of \$14,632. The note matures in November 2023.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 8 - BONDS PAYABLE

The State chartered the former University System of West Virginia and the former State College System of West Virginia with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's higher education institutions. Financing for these facilities was provided through revenue bonds issued by the former State Board of Regents, the former College and University System Boards, the Interim Governing Board, or the Commission. All bonds payable are administered by the Commission, as successor to the various former governing boards.

The Commission has the authority to assess each institution of the West Virginia Higher Education Fund for payment of debt service on these system bonds. The tuition and registration fees of the institutions are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain an obligation of the Commission.

Bonds payable at June 30, 2016 and 2015 consisted of the following:

	<u>Maximum Interest Rate</u>	<u>Original Range of Annual Principal Installment Due</u>	<u>Principal Amount Outstanding</u>	
			<u>2016</u>	<u>2015</u>
2012 Series A Revenue Refunding Bonds, due through 2034	5.00%	\$1,425,000 to 42,100,000	\$ 115,100,000	\$ 119,025,000
2012 Series B Revenue Bonds, due through 2034	5.00	\$200,000 to 2,400,000	6,985,000	7,265,000
2010 Series A Revenue Bonds, due through 2026	5.00	\$235,000 to 12,750,000	16,520,000	16,520,000
2010 Series B Revenue Bonds, due through 2040	7.65	\$10,800,000 to 39,465,000	50,265,000	50,265,000
2010 Series C Revenue Bonds, due through 2018	5.28	\$1,340,000 to 1,580,000	3,000,000	4,510,000
2009 Series A Community and Technical College Improvement Revenue Bonds, due through 2039	5.25	\$1,425,000 to 4,760,000	69,650,000	71,185,000
2007 Series A Revenue Refunding Bonds, due through 2027	5.00	\$185,000 to 1,880,000	17,130,000	18,435,000
2004 Series B Higher Education Facilities Bonds, due through 2034	6.00	\$2,680,000 to 9,520,000	-	1,135,000
Series 2000A University System Bonds, due through 2031	6.26	\$0 to 3,263,864	24,732,484	27,409,508
Series 1998 University System Bonds, due through 2028	5.25	\$1,065,000 to 3,625,000	<u>33,305,000</u>	<u>35,245,000</u>
			336,687,484	350,994,508
Add Bond premium			12,833,991	13,548,740
Less Bond discount			<u>(369,019)</u>	<u>(384,493)</u>
Total			<u>\$ 349,152,456</u>	<u>\$ 364,158,755</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 8 - BONDS PAYABLE (CONTINUED)

A summary of the annual aggregate payments for years subsequent to June 30, 2016 is as follows:

<u>Years Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 13,518,148	\$ 20,538,920	\$ 34,057,068
2018	13,888,248	20,164,723	34,052,971
2019	14,301,064	19,748,306	34,049,370
2020	14,736,188	19,310,544	34,046,732
2021	15,199,064	18,851,317	34,050,381
2022–2026	83,999,880	85,594,072	169,593,952
2027–2031	81,304,892	67,715,321	149,020,213
2032–2036	63,185,000	20,760,643	83,945,643
2037–2040	<u>36,555,000</u>	<u>6,106,107</u>	<u>42,661,107</u>
Total	<u>\$336,687,484</u>	<u>\$ 278,789,953</u>	<u>\$ 615,477,437</u>

The higher education institutions' tuition, registration, and other specified fees generally are pledged as collateral for the Commission's bond indebtedness, as well as any monies held by the trustees.

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2016 and 2015, the noncurrent liability related to OPEB costs was \$2,941,694 and \$2,744,349, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$383,830 and \$38,065, respectively, during 2016, or 10%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$267,879 and \$30,874, respectively, during 2015, or 12%. As of and for the years ended June 30, 2016 and 2015, there were 18 and 17 retirees receiving these benefits.

NOTE 10 - RETIREMENT PLANS

Substantially all full-time employees of the Commission, other than those employed by the Corporation as no plan has yet been established for them, participate in either the TRS or the Teachers' Insurance and Annuities Association – College Retirement Equities Fund ("TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the TRS and TIAA-CREF. Effective July 1, 1991, the TRS was closed to new participants. Current participants in the TRS 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 the Commission's employees have not been significant to date.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

Defined Contribution Benefit Plans

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

Total contributions to the TIAA-CREF for the years ended June 30, 2016 and 2015 and 2014 were \$1,101,880, \$888,516 and \$803,400, respectively, which consisted of \$550,940, \$444,258 and \$401,700 from the Commission in 2016, 2015 and 2014 respectively, and \$550,940, \$444,258 and \$401,700 from covered employees in 2016, 2015 and 2014 respectively.

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 new Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

Total contributions to Educators Money for the years ended June 30, 2016 and 2015 and 2014 were \$9,824 \$5,354 and \$6,900, respectively, which consisted of \$4,912, \$2,677 and \$3,450 from the Commission in 2016, 2015 and 2014, respectively, and \$ 4,912, \$2,677 and \$3,450 from covered employees in 2016 and 2015 and 2014, respectively.

The Commission's total payroll for the years ended June 30, 2016 and 2015 was \$9,773,799 and \$9,438,719, respectively. Total covered employees' salaries in the TIAA-CREF and Educators Money were \$9,213,572 and \$81,869, respectively, for the year ended June 30, 2016 and \$7,450,607, and \$44,619, respectively, for the year ended June 30, 2015.

Defined Benefit Plan

Some employees of the Commission are enrolled in a defined benefit pension plan, the TRS, which is administered by the CPRB.

Following is the Commission's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30, 2016 and 2015:

	2016		2015
Net Pension Liability	\$ 550,594	\$	503,133
Deferred Outflows of Resources	198,767		174,020
Deferred Inflows of Resources	39,703		67,520
Revenues	94,858		67,161
Pension Expense	153,622		115,032
Contributions Made by Commission	60,246		72,252

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS

Plan Description

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

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

Benefits Provided

TRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five, but less than 20, years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the 5 highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

Contributions

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

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Contributions (Continued)

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents, and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2015 and 2014, the Commission's proportionate share attributable to this special funding subsidy was \$89,151 and \$67,161, respectively.

The Commission's contributions to TRS for the years ended June 30, 2016, 2015, and 2014 were approximately \$60,246, \$72,252, and \$56,489, respectively.

Assumptions

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

- Actuarial cost method: Entry age normal cost with level percentage of payroll
- Asset valuation method: Investments are reported at fair (market) value
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses
- Projected salary increases: Teachers 3.75 - 5.25% and non-teachers 3.40 - 6.50%, based on age
- Inflation rate of 2.2%
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables
- Withdrawal rates: Teachers 1.2 - 30% and non-teachers 1.4 - 22.5%
- Disability rates: 0-0.8%
- Retirement age: An age-related assumption is used for participants not yet receiving payments
- Retirement rates: 15 - 100%

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Assumptions (Continued)

- *Ad hoc* cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2015 are summarized below.

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>	<u>Target Allocation</u>
Domestic Equity	7.0%	27.5%
International Equity	7.7%	27.5%
Core Fixed Income	2.7%	7.5%
High-yield Fixed Income	5.5%	7.5%
Real Estate	5.6%	10.0%
Private Equity	9.4%	10.0%
Hedge Funds	4.7%	10.0%
Cash	1.5%	0.0%

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.66% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Assumptions (Continued)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the Commission's proportionate share of the TRS net pension liability as of June 30, 2016 and 2015 calculated using the discount rate of 7.50%, as well as what the Commission's TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

	<u>1% Decrease (6.50%)</u>	<u>Current Discount Rate (7.50%)</u>	<u>1% Increase (8.50%)</u>
Net Pension Liability 2016	\$ 713,800	\$ 550,594	\$ 410,457
Net Pension Liability 2015	652,497	503,133	374,889

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

The TRS net pension liability was measured as of June 30, 2015 and 2014, respectively. The total pension liability was determined by an actuarial valuation as of July 1, 2013 and 2014, respectively, and rolled forward to the measurement dates.

At June 30, 2016, and 2015 the Commission's proportionate share of the TRS net pension liability was \$1,806,928 and \$1,639,913, respectively. Of this amount, the Commission recognized approximately \$550,594 and \$503,133, respectively, as its proportionate share on the Statement of Net Position. The remainder of \$1,256,334 and \$1,136,780, respectively, denotes the Commission's proportionate share of net pension liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2015 and 2014. Employer contributions are recognized when due. At June 30, 2015, the Commission's proportion was 0.015889%, an increase of 0.001306% from its proportion of 0.014583% calculated as of June 30, 2014.

For the years ended June 30, 2016 and 2015, the Commission recognized TRS pension expense of \$153,622 and \$115,032, respectively. Of this amount, \$64,471 and \$47,871, respectively, was recognized as the Commission's proportionate share of the TRS expense, \$89,151 and \$67,161, respectively, as the amount of pension expense attributable to special funding from a non-employer contributing entity and \$5,707 and \$0, respectively, as the amount of pension expense from a non-employer contributing entity not attributable to a special funding situation. The Commission also recognized revenue of \$94,858 and \$67,161, respectively, for support provided by the State.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

At June 30, 2016, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ 138,521	\$ 11,698
Net Difference between Projected and Actual Investment Earnings	-	23,238
Contributions After the Measurement Date	60,246	-
Net Difference between Actual and Expected Experience	-	4,767
	<u>\$ 198,767</u>	<u>\$ 39,703</u>

At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ 101,768	\$ 1,016
Net Difference between Projected and Actual Investment Earnings	-	66,504
Contributions After the Measurement Date	72,252	-
	<u>\$ 174,020</u>	<u>\$ 67,520</u>

The Commission will recognize the \$60,246 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 10 - RETIREMENT PLANS (CONTINUED)

TRS (Continued)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Fiscal Year Ended	Amortization
June 30, 2017	\$ 20,405
June 30, 2018	20,405
June 30, 2019	20,405
June 30, 2020	34,765
June 30, 2021	2,838
	\$ 98,818

Payables to the pension plan

The Commission did not report any amounts payable for normal contributions to the TRS as of June 30, 2016 and 2015.

NOTE 11 - OPERATING LEASES

During the fiscal years ended June 30, 2016 and 2015, the Corporation as lessor, leased its facilities under 22 and 25 separate lease and facilities services agreements, respectively. These agreements contain lease terms with termination dates ranging from the fiscal years 2016 through 2020. Rent and utilities fees income for the fiscal years ended June 30, 2016 and 2015 were \$5,431,817 and \$6,579,708, respectively.

The following is a schedule by years of minimum future rentals of the Tech Park, excluding renewal options, under the aforementioned lease agreements as of June 30, 2016:

Year Ending June 30,	
2017	\$ 3,033,219
2018	1,996,766
2019	1,983,278
2020	1,983,435
Total	\$ 8,996,698

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 11 - OPERATING LEASES (CONTINUED)

Future annual minimum scheduled lease payments on operating leases of the Commission for years subsequent to June 30, 2016 are as follows:

Year Ending June 30,	
2017	\$ 24,868
2018	24,868
2019	<u>18,651</u>
Total	<u>\$ 68,387</u>

Total rent expense for the years ended June 30, 2016 and 2015 was \$437,589 and \$461,198, respectively. The Commission has no noncancelable leases.

The primary operations of WVNET are conducted at property located on Chestnut Ridge Road in Morgantown. This property is owned by other units of the West Virginia Higher Education Fund and WVNET is not charged any rent for the use of the property. WVNET is responsible for all physical plant services, utilities, renovations, insurance, and other operating costs for this property. These operating costs are recorded in the Commission's statements of revenues, expenses, and changes in net position.

NOTE 12 - CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against the Commission 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 Commission would not impact seriously on the financial status of the Commission.

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 Commission's management believes disallowances, if any, will not have a significant impact on the Commission'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 combined financial statements as of June 30, 2016 and 2015.

WVNET and the Corporation occupy buildings that are known to contain asbestos. Neither WVNET nor the Corporation are required by federal, state, or local law to remove the asbestos from the building. WVNET and the Corporation are required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in the building in a safe condition. WVNET and the Corporation address their responsibility to manage the presence of asbestos in the building on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. WVNET and the Corporation also address the presence of asbestos as building renovation or

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operation with the asbestos in a safe condition.

NOTE 13 - REIMBURSED EXPENDITURES

The Commission, through WVNET, acts as a purchasing agent for the public higher education institutions of the State and other state agencies to obtain bulk-pricing discounts for maintenance and equipment purchases. In addition, the Commission, through WVNET, provides purchasing services regarding computer equipment purchases. In fiscal years 2016 and 2015, approximately \$4,340,000 and \$4,530,000 was reimbursed by the schools and other state agencies to WVNET, respectively. The Commission treats these items as reimbursed expenditures so as not to distort total revenues and expenditures.

NOTE 14 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2016, the following table represents operating expenses within both natural and functional classifications:

	<u>Salaries and Wages</u>	<u>Benefits</u>	<u>Supplies and Other Services</u>	<u>Utilities</u>	<u>Depreciation and Amortization</u>	<u>Total</u>
General institutional support	\$ 9,084,869	\$ 2,265,218	\$ 10,486,575	\$ -	\$ -	\$ 21,836,662
Administration, operations, and maintenance of plant	-	-	-	203,591	-	203,591
Administration of leasing activity	1,109,560	349,744	1,415,474	2,933,299	-	5,808,077
Depreciation and amortization	-	-	-	-	3,197,541	3,197,541
Total	<u>\$ 10,194,429</u>	<u>\$ 2,614,962</u>	<u>\$ 11,902,049</u>	<u>\$ 3,340,146</u>	<u>\$ 3,197,541</u>	<u>\$ 31,045,871</u>

For the year ended June 30, 2015, the following table represents operating expenses within both natural and functional classifications:

	<u>Salaries and Wages</u>	<u>Benefits</u>	<u>Supplies and Other Services</u>	<u>Utilities</u>	<u>Depreciation and Amortization</u>	<u>Total</u>
General institutional support	\$ 8,317,596	\$ 2,177,747	\$ 10,851,220	\$ 187	\$ -	\$ 21,358,871
Administration, operations, and maintenance of plant	-	-	-	153,201	-	153,388
Administration of leasing activity	1,121,123	338,720	1,667,232	3,260,000	-	6,374,763
Depreciation and amortization	-	-	-	-	2,839,152	2,839,152
Total	<u>\$ 9,438,719</u>	<u>\$ 2,516,467</u>	<u>\$ 12,518,452</u>	<u>\$ 3,413,388</u>	<u>\$ 2,839,152</u>	<u>\$ 30,726,178</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 - CONDENSED COMPONENT UNIT INFORMATION

Condensed combining information for the Commission and WVRTP, the Commission's blended component unit, for the years ended June 30, 2016 and 2015 is as follows:

**Condensed Combining Statements of Net Position
June 30, 2016**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets	\$ 51,370,322	\$ 6,973,499	\$ -	\$ 58,343,821
Noncurrent assets	92,595,150	-	-	92,595,150
Capital assets, net	<u>20,608,116</u>	<u>55,616,872</u>	-	<u>76,224,988</u>
Total assets	164,573,588	62,590,371	-	227,163,959
 Deferred Outflows of Resources	 14,240,502	 -	 -	 14,240,502
Liabilities				
Current liabilities	33,338,653	1,061,365	-	34,400,018
Long-term liabilities	<u>375,286,214</u>	<u>1,010,038</u>	-	<u>376,296,252</u>
Total liabilities	408,624,867	2,071,403	-	410,696,270
 Deferred Inflows of Resources	 39,203	 -	 -	 39,203
Net position				
Net investment in capital assets	20,608,116	54,468,326	-	75,076,442
Restricted - expendable	20,596,305	-	-	20,596,305
Unrestricted	<u>(271,054,821)</u>	<u>6,050,642</u>	-	<u>(265,004,179)</u>
Total net position	<u>\$ (229,850,400)</u>	<u>\$ 60,518,968</u>	<u>\$ -</u>	<u>\$ (169,331,432)</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 - CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

**Condensed Combining Statements of Net Position
June 30, 2015**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Assets				
Current assets	\$ 48,836,901	\$ 6,336,523	\$ -	\$ 55,173,424
Noncurrent assets	103,175,137	-	-	103,175,137
Capital assets, net	18,067,486	55,558,161	-	73,625,647
Total assets	<u>170,079,524</u>	<u>61,195,464</u>	-	<u>231,974,208</u>
Deferred Outflows of Resources	15,019,859	-	-	15,019,859
Liabilities				
Current liabilities	34,571,860	1,006,274	-	35,578,134
Long-term liabilities	389,361,642	1,309,542	-	390,671,184
Total liabilities	<u>423,933,502</u>	<u>2,315,816</u>	-	<u>426,249,318</u>
Deferred Inflows of Resources	67,520	-	-	67,520
Net position				
Net investment in capital assets	18,067,486	54,275,916	-	72,343,402
Restricted - expendable	24,831,762	-	-	24,831,762
Unrestricted	(281,800,887)	5,302,952	-	(276,497,935)
Total net position	<u>\$ (238,901,639)</u>	<u>\$ 59,578,868</u>	<u>\$ -</u>	<u>\$ (179,322,771)</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 - CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

**Condensed Combining Statements of Revenues,
Expenses, and Changes in Net Position
Year Ended June 30, 2016**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Fees from higher education institutions	\$ 4,651,760	\$ -	\$ -	\$ 4,651,760
Contracts and grants	7,694,304	1,842,849	(1,821,849)	7,715,304
Rental income	-	5,431,817	-	5,431,817
Sales and services of educational activities	5,746,821	-	-	5,746,821
Other operating revenues	3,786,486	28,304	(491,624)	3,323,166
Total operating revenues	<u>21,879,371</u>	<u>7,302,970</u>	<u>(2,313,473)</u>	<u>26,868,868</u>
Operating expenses				
Operations	22,381,877	5,808,077	(341,624)	27,848,330
Depreciation	1,910,851	1,286,690	-	3,197,541
Total operating expense	<u>24,292,728</u>	<u>7,094,767</u>	<u>(341,624)</u>	<u>31,045,871</u>
Operating income (loss)	(2,413,357)	208,203	(1,971,849)	(4,177,003)
Nonoperating revenues (expenses)				
Other nonoperating revenues (expenses)	13,352,682	(41,593)	-	13,311,089
Capital payments and transfers	<u>(1,888,086)</u>	<u>773,490</u>	<u>1,971,849</u>	<u>857,253</u>
Increase in net position	9,051,239	940,100	-	9,991,339
Net position - beginning of year	<u>(238,901,639)</u>	<u>59,578,868</u>	<u>-</u>	<u>(179,322,771)</u>
Net position - end of year	<u>\$ (229,850,400)</u>	<u>\$ 60,518,968</u>	<u>\$ -</u>	<u>\$ (169,331,432)</u>

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015

NOTE 15 - CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

**Condensed Combining Statements of Revenues,
Expenses, and Changes in Net Position
Year Ended June 30, 2015**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Operating revenues				
Fees from higher education institutions	\$ 4,725,469	\$ -	\$ -	\$ 4,725,469
Contracts and grants	5,691,216	1,925,000	(1,925,000)	5,691,216
Rental income	-	6,579,708	-	6,579,708
Sales and services of educational activities	5,590,905	-	-	5,590,905
Other operating revenues	3,416,869	27,988	(12,310)	3,432,547
Total operating revenues	<u>19,424,459</u>	<u>8,532,696</u>	<u>(1,937,310)</u>	<u>\$ 26,019,845</u>
Operating expenses				
Operations	21,512,261	6,387,075	(12,310)	27,887,026
Depreciation	1,585,596	1,253,556	-	2,839,152
Total operating expense	<u>23,097,857</u>	<u>7,640,631</u>	<u>(12,310)</u>	<u>30,726,178</u>
Operating income (loss)	(3,673,398)	892,065	(1,925,000)	(4,706,333)
Nonoperating revenues (expenses)				
Other nonoperating revenues (expenses)	9,810,483	9,240,265	(9,322,222)	9,728,526
Capital payments and transfers	<u>(28,363,936)</u>	<u>-</u>	<u>11,247,222</u>	<u>(17,116,714)</u>
Increase (decrease) in net position	(22,226,851)	10,132,330	-	(12,094,521)
Net position - beginning of year	<u>(216,674,788)</u>	<u>49,446,538</u>	<u>-</u>	<u>(167,228,250)</u>
Net position - end of year	<u><u>\$ (238,901,639)</u></u>	<u><u>\$ 59,578,868</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (179,322,771)</u></u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016 AND 2015**

NOTE 15 - CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)

**Condensed Combining Statement of Cash Flows
Year Ended June 30, 2016**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by:				
Operating activities	\$ 437,164	\$ 1,741,925	(1,971,849)	\$ 207,240
Noncapital financing activities	25,311,357	-	1,971,849	27,283,206
Capital financing activities	(22,710,418)	(759,382)	-	(23,469,800)
Investing activities	113,584	-	-	113,584
	<hr/>	<hr/>	<hr/>	<hr/>
Increase in current cash and cash equivalents	3,151,687	982,543	-	4,134,230
Current cash and cash equivalents - Beginning of year	<hr/> 30,326,975	<hr/> 4,930,613	<hr/> -	<hr/> 35,257,588
Current cash and cash equivalents - End of year	<u>\$ 33,478,662</u>	<u>\$ 5,913,156</u>	<u>\$ -</u>	<u>\$ 39,391,818</u>

**Condensed Combining Statement of Cash Flows
Year Ended June 30, 2015**

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
Net cash provided (used) by:				
Operating activities	\$ (2,358,735)	\$ 1,044,236	(1,925,000)	\$ (3,239,499)
Noncapital financing activities	30,100,504	-	1,925,000	32,025,504
Capital financing activities	(28,181,995)	(1,134,417)	-	(29,316,412)
Investing activities	66,849	4,516	-	71,365
	<hr/>	<hr/>	<hr/>	<hr/>
Decrease in current cash and cash equivalents	(373,377)	(85,665)	-	(459,042)
Current cash and cash equivalents - Beginning of year	<hr/> 30,700,352	<hr/> 5,016,278	<hr/> -	<hr/> 35,716,630
Current cash and cash equivalents - End of year	<u>\$ 30,326,975</u>	<u>\$ 4,930,613</u>	<u>\$ -</u>	<u>\$ 35,257,588</u>

This information is an integral part of the accompanying financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION (RSI) (UNAUDITED)
JUNE 30, 2016 AND 2015**

Schedule of Proportionate Share of TRS Net Pension Liability

Measurement Date	Commission's Proportionate Share as a Percentage of Net Pension Liability	Commission's Proportionate Share	State's Proportionate Share	Total Proportionate Share	Commission's Covered Employee Payroll	Commission's Proportionate Share as a Percentage of Covered Payroll	Commission's Plan Fiduciary Net Position as a Percentage of Total Pension Liability
June 30, 2014	0.014583%	\$ 503,133	\$ 1,136,780	\$ 1,639,913	\$ 481,678	104%	65.95%
June 30, 2015	0.015889%	550,594	1,256,334	1,806,928	401,803	137%	66.25%

Schedule of Employer Contributions

Measurement Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actuarial Contribution as a Percentage of Covered Payroll
June 30, 2014	\$ 67,161	\$ 72,252	\$ (5,091)	\$ 481,678	15.00%
June 30, 2015	72,251	60,246	12,005	401,803	17.98%

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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

SUPPLEMENTARY INFORMATION

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2016

<u>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</u>	<u>Administrative Division</u>	<u>WVNET Division</u>	<u>Corporation</u>	<u>Eliminations</u>	<u>Combined</u>
CURRENT ASSETS					
Cash and cash equivalents	\$ 28,100,975	\$ 5,382,203	\$ 5,908,640	\$ -	\$ 39,391,818
Appropriations due from primary government	7,440,138	-	-	-	7,440,138
Accounts receivable - net	1,524,544	1,899,425	1,016,747	-	4,440,716
Interest receivable	124,884	-	-	-	124,884
Prepaid expense	-	499,526	48,112	-	547,638
Receivable from institutions - current portion	<u>6,398,627</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,398,627</u>
Total current assets	<u>43,589,168</u>	<u>7,781,154</u>	<u>6,973,499</u>	<u>-</u>	<u>58,343,821</u>
NONCURRENT ASSETS					
Cash and cash equivalents	19,355,733	-	-	-	19,355,733
Accounts receivable	2,666,819	-	-	-	2,666,819
Receivable from institutions	70,572,598	-	-	-	70,572,598
Capital assets - net	<u>17,905,139</u>	<u>2,702,977</u>	<u>55,616,872</u>	<u>-</u>	<u>76,224,988</u>
Total noncurrent assets	<u>110,500,289</u>	<u>2,702,977</u>	<u>55,616,872</u>	<u>-</u>	<u>168,820,138</u>
Total assets	154,089,457	10,484,131	62,590,371	-	227,163,959
DEFERRED OUTFLOWS OF RESOURCES					
Deferred loss on refunding	14,041,815	-	-	-	14,041,815
Deferred outflows related to pensions	<u>176,561</u>	<u>22,206</u>	<u>-</u>	<u>-</u>	<u>198,767</u>
Total deferred outflows of resources	<u>14,218,376</u>	<u>22,206</u>	<u>-</u>	<u>-</u>	<u>14,240,582</u>
TOTAL	<u>\$ 168,307,833</u>	<u>\$ 10,506,337</u>	<u>\$ 62,590,371</u>	<u>\$ -</u>	<u>\$ 241,404,541</u>

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
COMBINING SCHEDULE OF NET POSITION
JUNE 30, 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION	Administrative Division	WVNET Division	Corporation	Eliminations	Combined
CURRENT LIABILITIES					
Accounts payable	\$ 1,300,209	\$ 815,234	\$ 344,846	\$ -	\$ 2,460,289
Amounts due to institutions and affiliates	1,744,222	-	-	-	1,744,222
Accrued liabilities	422,432	287,523	108,247	-	818,202
Deposits	3,474,247	-	119,670	-	3,593,917
Deferred revenue - services	-	135,771	-	-	135,771
Compensated absences - current portion	412,972	332,928	-	-	745,900
Deferred revenue leases - current portion	-	-	350,094	-	350,094
Interest payable	10,894,967	-	-	-	10,894,967
Notes payable - current portion	-	-	138,508	-	138,508
Bonds payable - current portion	13,518,148	-	-	-	13,518,148
Total current liabilities	<u>31,767,197</u>	<u>1,571,456</u>	<u>1,061,365</u>	<u>-</u>	<u>34,400,018</u>
NONCURRENT LIABILITIES					
Compensated absences	172,811	95,384	-	-	268,195
Deferred interest payable	35,891,423	-	-	-	35,891,423
Net Pension Liability	401,242	149,352	-	-	550,594
OPEB liabilities	1,794,452	1,147,242	-	-	2,941,694
Notes Payable	-	-	1,010,038	-	1,010,038
Bonds payable	335,634,308	-	-	-	335,634,308
Total noncurrent liabilities	<u>373,894,236</u>	<u>1,391,978</u>	<u>1,010,038</u>	<u>-</u>	<u>376,296,252</u>
Total liabilities	<u>405,661,433</u>	<u>2,963,434</u>	<u>2,071,403</u>	<u>-</u>	<u>410,696,270</u>
DEFERRED INFLOWS OF RESOURCES					
Deferred inflows related to pensions	11,971	27,732	-	-	39,703
Total liabilities and deferred inflows of resources	405,673,404	2,991,166	2,071,403	-	410,735,973
NET POSITION					
Net investment in capital assets	(223,680,337)	2,702,977	54,468,326	241,585,476 (A)	75,076,442
Restricted for - expendable:					
Scholarships	7,175,825	-	-	-	7,175,825
Sponsored projects	11,764,965	-	-	-	11,764,965
Capital projects	746,205	-	-	-	746,205
Debt service	909,310	-	-	-	909,310
Total restricted expendable	<u>20,596,305</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,596,305</u>
Unrestricted	(34,281,539)	4,812,194	6,050,642	(241,585,476) (A)	(265,004,179)
Total net position	<u>(237,365,571)</u>	<u>7,515,171</u>	<u>60,518,968</u>	<u>-</u>	<u>(169,331,432)</u>
TOTAL	<u>\$ 168,307,833</u>	<u>\$ 10,506,337</u>	<u>\$ 62,590,371</u>	<u>\$ -</u>	<u>\$ 241,404,541</u>

(A) To reclass negative net assets invested in capital assets net of related debt to unrestricted net position.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
COMBINING SCHEDULE OF REVENUES, EXPENSES, AND
CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

	<u>Administrative Division</u>	<u>WVNET Division</u>	<u>Corporation</u>	<u>Eliminations</u>	<u>Combined</u>
OPERATING REVENUES					
Fees from higher education institutions	\$ 4,651,760	\$ -	\$ -		\$ 4,651,760
Institutional collections	-	3,785,986	-	(491,624) (B)	3,294,362
Contracts and grants:					
Federal	5,753,447	435,147	-	-	6,188,594
State	929,242	-	1,842,849	(1,821,849) (B)	950,242
Private	576,468	-	-	-	576,468
Rental income	-	-	5,431,817	-	5,431,817
Sales and services of educational activities	-	5,746,821	-	-	5,746,821
Miscellaneous - net	500	-	28,304	-	28,804
Total operating revenues	<u>11,911,417</u>	<u>9,967,954</u>	<u>7,302,970</u>	<u>(2,313,473)</u>	<u>26,868,868</u>
OPERATING EXPENSES					
Salaries and wages	5,142,128	3,942,741	1,109,560	-	10,194,429
Benefits	1,341,417	923,801	349,744	-	2,614,962
Supplies and other services	5,993,528	4,834,671	1,415,474	(341,624) (B)	11,902,049
Utilities	335	203,256	2,933,299	-	3,136,890
Depreciation	286,685	1,624,166	1,286,690	-	3,197,541
Total operating expenses	<u>12,764,093</u>	<u>11,528,635</u>	<u>7,094,767</u>	<u>(341,624)</u>	<u>31,045,871</u>
Operating income (loss)	<u>(852,676)</u>	<u>(1,560,681)</u>	<u>208,203</u>	<u>(1,971,849)</u>	<u>(4,177,003)</u>
NONOPERATING REVENUES (EXPENSES)					
State appropriations	49,888,275	1,628,699	-	-	51,516,974
State lottery appropriations	23,145,027	-	-	-	23,145,027
Investment income	90,762	12,151	-	-	102,913
Payments made on behalf of the Commission	69,127	25,731	-	-	94,858
Institutional debt service					
Payments from institutions:					
Interest	6,855,116	-	-	-	6,855,116
Other	421,082	-	-	-	421,082
Interest on indebtedness	(19,509,941)	-	(41,593)	-	(19,551,534)
Student financial aid and other payments to institutions	(49,899,462)	-	-	-	(49,899,462)
Other nonoperating (expenses) revenues - net	626,115	-	-	-	626,115
Net nonoperating (expenses) revenues	<u>11,686,101</u>	<u>1,666,581</u>	<u>(41,593)</u>	<u>-</u>	<u>13,311,089</u>
Income before other revenues, expenses, gains, losses, or transfers	10,833,425	105,900	166,610	(1,971,849) (B)	9,134,086
STATE CAPITAL GRANTS (FEDERAL)	1,352,391	-	-	-	1,352,391
CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	<u>(3,240,477)</u>	<u>-</u>	<u>773,490</u>	<u>1,971,849</u> (B)	<u>(495,138)</u>
(DECREASE) INCREASE IN NET POSITION	8,945,339	105,900	940,100	-	9,991,339
NET POSITION - BEGINNING OF YEAR	<u>(246,310,910)</u>	<u>7,409,271</u>	<u>59,578,868</u>	<u>-</u>	<u>(179,322,771)</u>
NET POSITION - END OF YEAR	<u>\$ (237,365,571)</u>	<u>\$ 7,515,171</u>	<u>\$ 60,518,968</u>	<u>\$ -</u>	<u>\$ (169,331,432)</u>

(B) To eliminate inter-entity revenue/expense.



**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**

West Virginia Higher Education Policy Commission
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Higher Education Policy Commission (the "Commission") as of and for the year ended June 30, 2016, and the related notes to the financial statements and have issued our report thereon dated December 22, 2016. Our report includes a reference to other auditors who audited the financial statements of the West Virginia Regional Technology Park Corporation, as described in our report on the Commission's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by the auditors of the West Virginia Regional Technology Park Corporation.

Internal Control over Financial Reporting

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

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

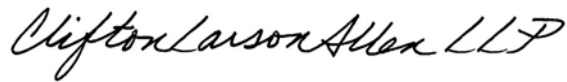
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies. Given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

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission’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 Commission’s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Plymouth Meeting, Pennsylvania
December 22, 2016