

West Virginia
School of Osteopathic Medicine

Financial Statements
Years Ended June 30, 2017 and 2016

and

Independent Auditor's Reports

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INDEPENDENT AUDITOR'S REPORT

Board of Governors
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), a component unit of the West Virginia Higher Education Policy Commission, as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise WVSOM's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We did not audit the financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. (the Foundation), the discretely presented component unit of WVSOM. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Foundation, is based solely on the report of the other auditor. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of WVSOM, as of June 30, 2017 and 2016, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11 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 Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 4, 2017, on our consideration of WVSOM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WVSOM's internal control over financial reporting and compliance.



Charleston, West Virginia
October 4, 2017



West Virginia School of Osteopathic Medicine

400 North Lee Street
Lewisburg, West Virginia 24901

Management's Discussion and Analysis Fiscal Year 2017 Financial Statements

Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine (WVSOM) is proud to present its financial statements for fiscal year 2017, with fiscal year 2016 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. 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. This discussion and analysis of WVSOM's financial statements provides an overview of its financial activities for the year and its required supplemental information.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated (WVSOM Foundation, Inc.) are discretely presented as part of WVSOM's financial statements for the fiscal years ended June 30, 2017 and 2016.

Statement of Net Position

The Statement of Net Position presents the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position of WVSOM as of the end of the fiscal year. 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 WVSOM. The Statement of Net Position presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows of Resources, Liabilities (current and noncurrent), Deferred Inflows of Resources, and Net Position (Assets plus Deferred Outflows minus Liabilities minus Deferred Inflows). The difference between current and noncurrent assets and liabilities are discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Position are able to determine the assets available to continue the operations of WVSOM. They are also able to determine how much is owed to vendors, employees, and lending institutions.

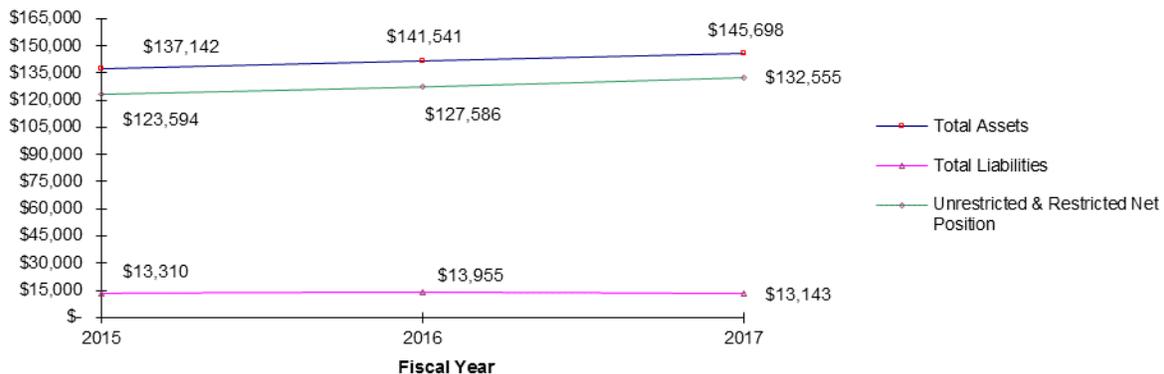
Finally, the Statement of Net Position provides a picture of the net assets and their availability for expenditure by WVSOM.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Net position is divided into three major categories. The first category, net investment in capital assets, represents equity in the property, plant and equipment owned by WVSOM. The next category is restricted net position, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net position is available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. Within expendable net position, the balances that had been restricted by the West Virginia Legislature (Legislature) were removed by State Code and moved to the unrestricted category in fiscal year 2004. These activities were fundamental to the normal ongoing operations of WVSOM and are subject to change by future actions of the Legislature. The final category is unrestricted net position, which is available for expenditure for any lawful purpose of WVSOM.

**Condensed Schedules of Net Position
June 30,
(In thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Current assets	\$ 61,001	\$ 56,074	\$ 62,025
Other noncurrent assets	5,903	5,895	6,103
Capital assets, net	<u>78,794</u>	<u>79,572</u>	<u>69,014</u>
Total assets	<u>145,698</u>	<u>141,541</u>	<u>137,142</u>
Total deferred outflows of resources	<u>-</u>	<u>-</u>	<u>-</u>
Current liabilities	3,879	4,942	4,759
Noncurrent liabilities	<u>9,264</u>	<u>9,013</u>	<u>8,551</u>
Total liabilities	<u>13,143</u>	<u>13,955</u>	<u>13,310</u>
Pledges	<u>-</u>	<u>-</u>	<u>238</u>
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>238</u>
Net investment in capital assets	78,794	79,572	69,014
Restricted – expendable	10,680	10,298	9,170
Restricted – nonexpendable	-	-	-
Unrestricted	<u>43,081</u>	<u>37,716</u>	<u>45,410</u>
Total net position	<u>\$ 132,555</u>	<u>\$ 127,586</u>	<u>\$ 123,594</u>



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

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In fiscal years 2017 and 2016, the total assets of WVSOM increased by approximately \$4.2 million and \$4.4 million respectively. The changes described below represent the majority of the increase in 2017:

- Current assets increased by approximately \$4.9 million with cash and cash equivalents decreasing approximately \$2.3 million and investments increasing approximately \$7.0 million.
- Noncurrent and capital assets decreased by approximately \$0.8 million due primarily to a decrease in capital assets.

In fiscal year 2017 and 2016, total liabilities decreased by approximately \$0.8 million and increased by \$0.6 million, respectively. The changes described below represent the majority of the decrease in 2017:

- Current liabilities for the year decreased by approximately \$1.1 million primarily due to a decrease in accounts payable.
- Noncurrent liabilities increased by approximately \$0.3 million because of an increase in the OPEB accrued liability.

The ratio of current assets to current liabilities for fiscal years 2017 and 2016 is 15.7:1 and 11.3:1 respectively.

For fiscal years 2017 and 2016, net position increased approximately \$5.0 million and approximately \$4.0 million, respectively.

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 activities presented in the Statement of Revenues, Expenses, and Changes in Net Position (the SRECNP). The purpose of the SRECNP is to present the revenues earned, both operating and nonoperating, the expenses incurred, operating and nonoperating, and any other revenues, expenses, gains, and losses earned or incurred by WVSOM.

Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WVSOM mission. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating revenues because they are provided by the Legislature to WVSOM without the Legislature directly receiving commensurate goods and services for those revenues.

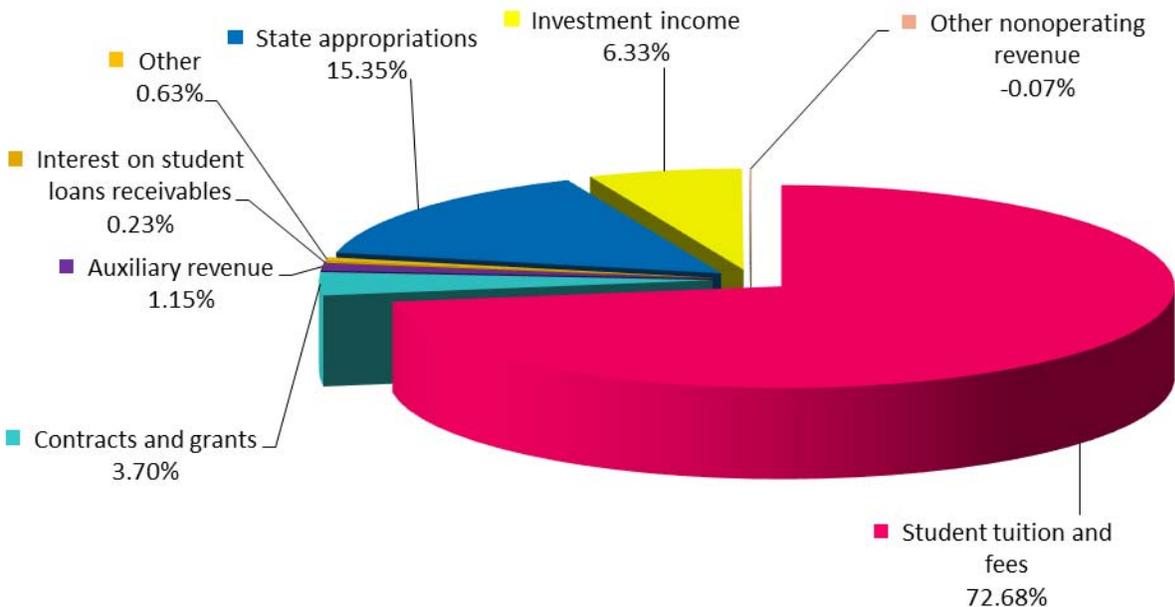
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

**Condensed Schedules of Revenues, Expenses, and Changes in Net Position
Years Ended June 30,
(In thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Operating revenues	\$ 37,616	\$ 35,400	\$ 34,428
Operating expenses	<u>43,015</u>	<u>38,635</u>	<u>38,467</u>
Operating income (loss)	(5,399)	(3,235)	(4,039)
Nonoperating revenues, net	<u>10,369</u>	<u>7,226</u>	<u>8,458</u>
Increase in net position	4,970	3,991	4,419
Net position, beginning of year	<u>127,585</u>	<u>123,594</u>	<u>119,175</u>
Net position, end of year	<u>\$ 132,555</u>	<u>\$ 127,585</u>	<u>\$ 123,594</u>

The Statement of Revenues, Expenses, and Changes in Net Position reflects a positive year with an increase in the net position at the end of the year. A review of the individual revenue and expense categories that contributed to the overall increase in net position reveals the following:

**FY 2017 Total Revenues: Operating,
Nonoperating, and Capital**



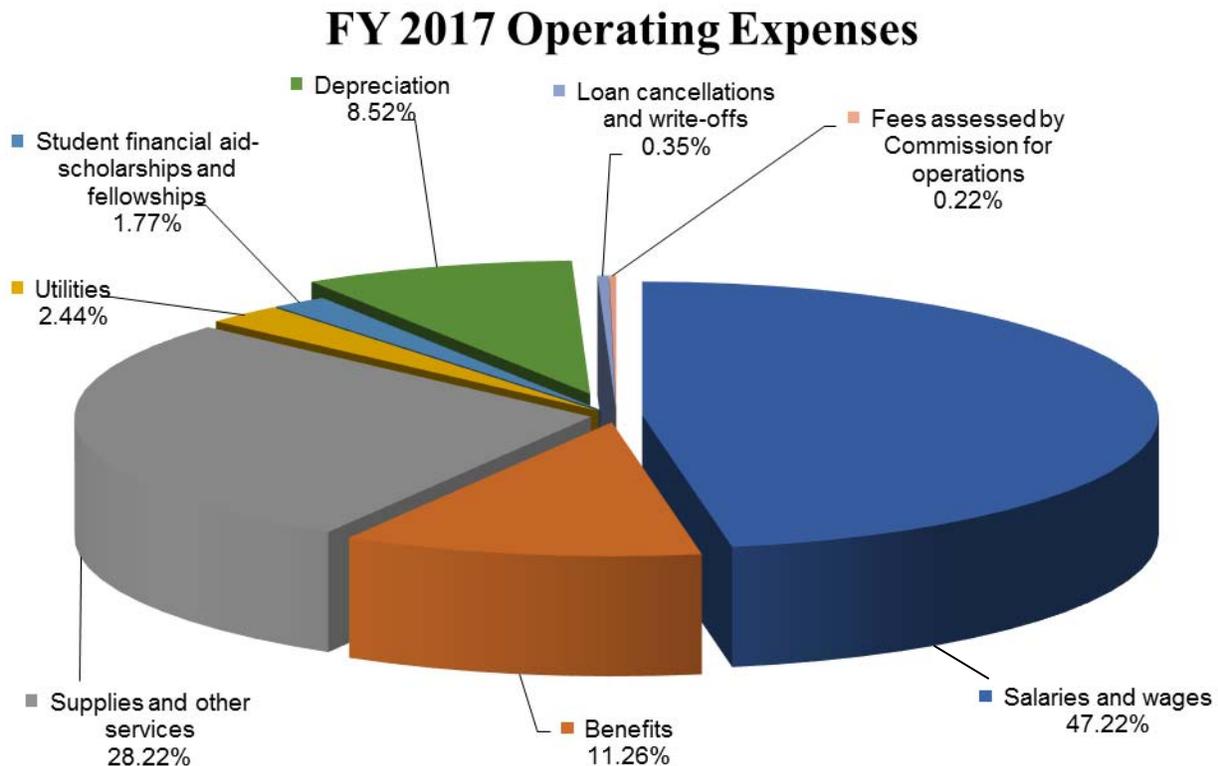
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

In fiscal year 2017 and 2016, total operating revenues increased by approximately \$2.2 million and approximately \$1.0 million, respectively. The following explains the increase in operating revenues in fiscal year 2017:

- Tuition and fees increased by approximately \$1.6 million due primarily to a 5% increase in tuition for the first year class. Other Operating Revenues increased by approximately \$0.6 million. These other operating revenue sources comprise 7.28% of WVSOM's operating revenues and 5.71% of total revenues.

In fiscal year 2017 and 2016, nonoperating revenues increased by approximately \$3.1 million and decreased by approximately \$1.2 million, respectively. The increase in fiscal year 2017 was primarily due to an increase in investment income. State Appropriations decreased slightly by \$0.1 million, accounted for 15.35% of total revenues, and were used to support the operations of WVSOM. Investment income increased by \$3.7 million and accounted for 6.33% of total revenues. WVSOM participates in the investment pool managed by the State and the WVSOM Foundation, Inc., whose investment managers are Jefferies and Morgan Stanley.

In fiscal year 2017, net position increased approximately \$5.0 million while, in fiscal year 2016, the increase was approximately \$4.0 million.



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Total operating expenses for fiscal year 2017 increased by approximately \$4.4 million, compared with an increase of approximately \$0.2 million in fiscal year 2016. The following explains the increase in operating expenses:

- The salaries and wages and employee benefits categories increased by approximately \$1.1 million primarily due to an increase in new hires and health benefit premiums. Salary and wages made up approximately 47.22% of the operating expenses of WVSOM. Classified staff continued to be fully funded on the Mercer Schedule.
- Supplies and other services increased by approximately \$1.8 million primarily due to an increase in contracts, software license, and the opening of the food service in the student center and accounts for 28.22% of the operating expenses of WVSOM.
- All other operating expenses make up 24.56% of the total operating expenses as indicated on the pie chart.

Statement of Cash Flows

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. 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 assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating gain or loss reflected in the SRECNP. Overall, cash and cash equivalents decreased by approximately \$2.3 million in fiscal year 2017. This decrease is primarily due to decreasing accounts payable.

**Condensed Schedules of Cash Flows
Years Ended June 30,
(In thousands of dollars)**

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash provided by (used in):			
Operating activities	\$ (1,336)	\$ 582	\$ (847)
Noncapital financing activities	7,377	7,697	7,779
Capital financing activities	(4,346)	(13,748)	(14,715)
Investing activities	<u>(4,025)</u>	<u>(9,318)</u>	<u>(19,659)</u>
Decrease in cash and cash equivalents	(2,330)	(14,787)	(27,442)
Cash and cash equivalents, beginning of year	<u>25,656</u>	<u>40,443</u>	<u>67,885</u>
Cash and cash equivalents, end of year	<u>\$ 23,326</u>	<u>\$ 25,656</u>	<u>\$ 40,443</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2017**

Capital Asset and Debt Administration

During 2016-17, WVSOM began the Main Building Exterior Restoration project at a cost of \$500,000. The Project is to be completed in Fall 2017. WVSOM completed its new 58,000 square foot student center in August 2016 at a cost of \$25.9 million.



The school expects to begin four new projects in 2017-18. The first is the replacement of the Library HVAC system, the second is the replacing of the Library's roof, the third is the front entrance improvement project, and the fourth is the Technology Building HVAC Replacement. The anticipated cost for the four projects is \$2.5 million.

As of June 30, 2017, WVSOM had no existing capital debt and does not expect to have to incur debt to complete the capital projects planned in fiscal year 2017-18.



Economic Outlook

West Virginia State officials continue to be concerned about the general and lottery revenues due to the continuing recession in the coal industry. WVSOM's financial position is closely tied to the financial position of the State of West Virginia and WVSOM is always at some risk that State appropriations will be reallocated away from higher education and WVSOM. The State's appropriation is important to WVSOM's financial condition. WVSOM expects a 3% reduction in the Appropriation it receives in 2017-18.

WVSOM's overall financial position continues to remain strong. WVSOM is well positioned to continue to attract, recruit, and matriculate professional medical students. Increases in the number of applicants, non-resident students, and improvements in the physical plant, along with continued favorable ranking of the academic programs at the national level with peer schools indicate WVSOM should be able to remain competitive.

For 2017-18 academic year, the school expects to increase its tuition and fees for the first and second year classes. WVSOM anticipates the 2017-18 fiscal year will be much like the last and it will continue to maintain a close watch over institutional resources to maintain WVSOM's ability to react to unknown internal and external issues.

Requests for Information

The financial report is designed to provide an overview of the finances of WVSOM for those with an interest in this organization. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to West Virginia School of Osteopathic Medicine at 400 North Lee Street, Lewisburg, West Virginia 24901.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 23,325,942	\$ 25,656,279
Investments	35,501,778	28,442,038
Appropriations due from Primary Government	5,729	16,922
Accounts receivable	1,274,896	1,173,366
Due from Commission	18,783	14,806
Loans to students - current portion	545,242	507,298
Prepaid expenses	172,946	124,686
Inventories	155,973	139,147
Total current assets	<u>61,001,289</u>	<u>56,074,542</u>
NONCURRENT ASSETS:		
Other Accounts Receivable - noncurrent	145,639	168,771
Loans to students, net of allowance of \$392,893 and \$410,817 in 2017 and 2016, respectively	5,757,913	5,726,213
Capital assets, net of accumulated depreciation	78,793,605	79,571,796
Total noncurrent assets	<u>84,697,157</u>	<u>85,466,780</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Total deferred outflows of resources	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 145,698,446</u>	<u>\$ 141,541,322</u>
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 485,570	\$ 1,811,155
Due to Commission	9,102	8,458
Accrued liabilities	1,572,860	1,368,377
Compensated absences - current portion	1,060,604	1,028,289
Unearned revenue	750,777	726,328
Total current liabilities	<u>3,878,913</u>	<u>4,942,607</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	1,933,542	1,933,542
Compensated absences	730,556	720,072
Other post employment benefit liability	6,600,132	6,359,146
Total noncurrent liabilities	<u>9,264,230</u>	<u>9,012,760</u>
DEFERRED INFLOWS OF RESOURCES:		
Total deferred inflows of resources	<u>-</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	78,793,605	79,571,796
Restricted for - expendable - research	628,435	552,212
Restricted for - expendable - loans	5,560,733	5,598,673
Restricted for - expendable - capital projects	4,490,882	4,147,511
Unrestricted	43,081,648	37,715,763
Total net position	<u>132,555,303</u>	<u>127,585,955</u>
TOTAL	<u>\$ 145,698,446</u>	<u>\$ 141,541,322</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$699,200 and \$749,400 in 2017 and 2016, respectively	\$ 34,875,351	\$ 33,223,401
Contracts and grants:		
Federal	1,177,143	568,877
State	583,016	878,719
Private	13,100	8,488
Interest on student loans receivable	109,717	103,764
Auxiliary enterprise revenue	553,983	404,722
Miscellaneous, net	303,264	212,240
Total operating revenues	<u>37,615,574</u>	<u>35,400,211</u>
OPERATING EXPENSES:		
Salaries and wages	20,310,989	19,452,371
Benefits	4,843,270	4,610,895
Supplies and other services	12,140,462	10,296,704
Utilities	1,049,967	822,887
Student financial aid - scholarships and fellowships	761,500	106,250
Depreciation	3,663,658	3,105,667
Loan cancellations and write-offs	151,592	149,245
Fees assessed by the Commission for operations	93,985	90,690
Total operating expenses	<u>43,015,423</u>	<u>38,634,709</u>
OPERATING LOSS	<u>(5,399,849)</u>	<u>(3,234,498)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	7,365,957	7,442,924
Investment income	3,039,167	(704,874)
Loss on disposal of capital assets	(168,111)	(25,307)
Net nonoperating revenues	<u>10,237,013</u>	<u>6,712,743</u>
INCREASE IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	4,837,164	3,478,245
Capital gifts and grants	<u>132,184</u>	<u>513,210</u>
INCREASE IN NET POSITION	4,969,348	3,991,455
NET POSITION - Beginning of year	<u>127,585,955</u>	<u>123,594,500</u>
NET POSITION - End of year	<u>\$ 132,555,303</u>	<u>\$ 127,585,955</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2017 AND 2016

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	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 34,930,661	\$ 33,357,793
Contracts and grants	1,799,606	1,405,517
Payments to and on behalf of employees	(24,665,991)	(23,253,073)
Payments to suppliers	(12,230,747)	(10,530,411)
Payments to utilities	(1,056,875)	(764,196)
Payments for scholarships and fellowships	(761,500)	(106,250)
Loans issued to students	(1,064,050)	(1,095,800)
Collection of loans to students	842,813	934,181
Auxiliary enterprise charges	550,564	408,664
Operation service assessed by Commission	(93,985)	(90,690)
Other receipts, net	412,981	316,005
Net cash provided by (used in) operating activities	<u>(1,336,523)</u>	<u>581,740</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	7,377,150	7,697,592
Graduate Plus loan program receipts	14,604,259	13,838,444
Graduate Plus loan program payments	(14,604,259)	(13,838,444)
Federal Stafford loan program direct lending receipts	27,854,074	27,443,264
Federal Stafford loan program direct lending payments	(27,854,074)	(27,443,264)
Net cash provided by noncapital financing activities	<u>7,377,150</u>	<u>7,697,592</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	<u>(4,346,414)</u>	<u>(13,747,797)</u>
Net cash used in capital financing activities	<u>(4,346,414)</u>	<u>(13,747,797)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest on investments	3,035,190	(56,902)
Purchase of Investments	<u>(7,059,740)</u>	<u>(9,260,932)</u>
Net cash used in investing activities	<u>(4,024,550)</u>	<u>(9,317,834)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,330,337)	(14,786,299)
CASH AND CASH EQUIVALENTS - Beginning of year	<u>25,656,279</u>	<u>40,442,578</u>
CASH AND CASH EQUIVALENTS - End of year	<u>\$ 23,325,942</u>	<u>\$ 25,656,279</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (5,399,849)	\$ (3,234,498)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	3,663,658	3,105,667
Loan cancellations and write-offs	151,592	149,245
Changes in assets and liabilities:		
Accounts receivable, net	33,112	(57,084)
Loans to students, net	(221,236)	(161,619)
Other receivables	20,674	46,523
Prepaid expenses	(48,260)	762
Inventories	(16,826)	27,763
Accounts payable	(32,749)	(190,203)
Due to Commission	644	(13,337)
Accrued liabilities	204,483	300,209
Compensated absences	42,799	76,073
Unearned revenue	24,449	98,328
Other postemployment benefits liability	240,986	433,911
Net cash provided by (used in) operating activities	<u>\$ (1,336,523)</u>	<u>\$ 581,740</u>
NONCASH TRANSACTIONS:		
(Gain) loss on disposal of capital assets	<u>\$ 168,111</u>	<u>\$ 25,307</u>
Capital expenses in accounts payable	<u>\$ 3,444</u>	<u>\$ 1,296,280</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

<u>ASSETS</u>	<u>2017</u>	<u>Restated 2016</u>
CURRENT ASSETS		
Cash and cash equivalents	\$ 410,010	\$ 1,045,610
Accounts receivable	15,630	10,431
Current portion of pledges receivable, net	431,897	405,941
Loans receivable	18,000	12,375
TOTAL CURRENT ASSETS	875,537	1,474,357
INVESTMENTS		
Assets held in trust	250,000	250,000
Marketable securities	41,976,753	33,319,574
TOTAL INVESTMENTS	42,226,753	33,569,574
NON-CURRENT PLEDGES RECEIVABLE, NET	899,022	913,617
TOTAL ASSETS	\$ 44,001,312	\$ 35,957,548
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES		
Current portion of scholarship liabilities	\$ 100,000	\$ 80,000
Custodial liabilities	36,982,282	29,438,807
TOTAL CURRENT LIABILITIES	37,082,282	29,518,807
SCHOLARSHIP LIABILITIES, NET OF CURRENT PORTION	120,000	100,000
TOTAL LIABILITIES	37,202,282	29,618,807
NET ASSETS		
Unrestricted	1,879,820	1,696,273
Temporarily restricted	1,478,527	1,419,930
Permanently restricted	3,440,683	3,222,538
TOTAL NET ASSETS	6,799,030	6,338,741
TOTAL LIABILITIES AND NET ASSETS	\$ 44,001,312	\$ 35,957,548

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUES & OTHER SUPPORT				
Contributed services	\$ 261,771	\$ -	\$ -	\$ 261,771
Contributions	220,691	52,615	218,145	491,451
Facility rental revenue	26,265	-	-	26,265
Investment income				
Interest and dividends	47,032	93,878	-	140,910
Realized gain (loss)	6,704	(13,449)	-	(6,745)
Unrealized gain (loss)	109,482	250,151	-	359,633
Other revenue	1,607	-	-	1,607
Net assets released from restrictions	324,598	(324,598)	-	-
TOTAL REVENUES & OTHER SUPPORT	<u>998,150</u>	<u>58,597</u>	<u>218,145</u>	<u>1,274,892</u>
EXPENSES				
School and student support activities	504,783	-	-	504,783
Management and general	171,668	-	-	171,668
Fundraising	138,152	-	-	138,152
TOTAL EXPENSES	<u>814,603</u>	<u>-</u>	<u>-</u>	<u>814,603</u>
CHANGE IN NET ASSETS	183,547	58,597	218,145	460,289
NET ASSETS AT BEGINNING OF YEAR	<u>1,696,273</u>	<u>1,419,930</u>	<u>3,222,538</u>	<u>6,338,741</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,879,820</u>	<u>\$ 1,478,527</u>	<u>\$ 3,440,683</u>	<u>\$ 6,799,030</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.
A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Restated Total</u>
REVENUES & OTHER SUPPORT				
Contributed services	\$ 246,252	\$ -	\$ -	\$ 246,252
Contributions	69,069	42,325	2,111,692	2,223,086
Facility rental revenue	33,771	-	-	33,771
Investment income				
Interest and dividends	45,205	21,873	-	67,078
Realized gain (loss)	(30,443)	(46,685)	-	(77,128)
Unrealized gain (loss)	(23,705)	(1,009)	-	(24,714)
Other revenue	9,000	-	-	9,000
Net assets released from restrictions	223,000	(223,000)	-	-
TOTAL REVENUES & OTHER SUPPORT	<u>572,149</u>	<u>(206,496)</u>	<u>2,111,692</u>	<u>2,477,345</u>
EXPENSES				
School and student support activities	401,736	-	-	401,736
Management and general	133,044	-	-	133,044
Fundraising	106,547	-	-	106,547
TOTAL EXPENSES	<u>641,327</u>	<u>-</u>	<u>-</u>	<u>641,327</u>
CHANGE IN NET ASSETS	(69,178)	(206,496)	2,111,692	1,836,018
NET ASSETS AT BEGINNING OF YEAR	<u>1,765,451</u>	<u>1,626,426</u>	<u>1,110,846</u>	<u>4,502,723</u>
NET ASSETS AT END OF YEAR	<u>\$ 1,696,273</u>	<u>\$ 1,419,930</u>	<u>\$ 3,222,538</u>	<u>\$ 6,338,741</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 1 - ORGANIZATION

The West Virginia School of Osteopathic Medicine (WVSOM) is governed by the West Virginia School of Osteopathic Medicine Board of Governors (the Board). The Board was established by Senate Bill 653 (S.B. 653).

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

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

As a requirement of Governmental Accounting Standards Board standards (GASB), WVSOM has included information from the West Virginia School of Osteopathic Medicine Foundation, Inc. (the Foundation).

Although WVSOM benefits from the activities of the Foundation, the Foundation is independent of WVSOM in all respects. The Foundation is not a subsidiary of WVSOM and is not directly or indirectly controlled by WVSOM. The Foundation has its own separate, independent Board of Directors. Moreover, the assets of the Foundation are the exclusive property of the Foundation and do not belong to WVSOM. WVSOM is not accountable for, and does not have ownership of, any of the financial and capital resources of the Foundation. WVSOM does not have the power or authority to mortgage, pledge, or encumber the assets of the Foundation. The Board of Directors of the Foundation is entitled to make all decisions regarding the business and affairs of the Foundation, including, without limitation, distributions made to WVSOM. Under State law, neither the principal nor income generated by the assets of the Foundation can be taken into consideration in determining the amount of State-appropriated funds allocated to WVSOM. Third parties dealing with WVSOM, the Board, and the State of West Virginia (the State) (or any agency thereof) should not rely upon the financial statements of the Foundation for any purpose without consideration of all the foregoing conditions and limitations.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of WVSOM have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by GASB. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of WVSOM's assets, liabilities, deferred outflows and inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

The accompanying financial statements present all funds under the authority of WVSOM. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from WVSOM's ability to significantly influence operations and accountability for fiscal matters of related entities. The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the Foundation), The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the Clinic), and the Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI), a consortium, are not part of the WVSOM reporting entity and are not included in the accompanying financial statements as WVSOM has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of these entities under GASB.

The audited financial statements of the Foundation are presented here as a discrete component unit with the WVSOM financial statements in accordance with GASB. The Foundation is a private non-profit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 13, 14 and 16).

Financial Statement Presentation - GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on such basis to focus on WVSOM as a whole. Net position is classified into four categories according to external donor restrictions or availability of assets for satisfaction of WVSOM obligations. WVSOM's net position is classified as follows:

- *Net investment in capital assets* - This represents WVSOM's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- *Restricted net position - expendable* - This includes resources for which WVSOM is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 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 WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted net position - nonexpendable* - These include 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.
- *Unrestricted net position* - Unrestricted net position represents resources derived from student tuition and fees, State appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

Basis of Accounting - For financial reporting purposes, WVSOM is considered a special-purpose government engaged only in business-type activities. Accordingly, WVSOM'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 expenditures when materials or services are received. All intercompany accounts and transactions have been eliminated.

Cash and Cash Equivalents - For purposes of the statement of net position, WVSOM 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 West Virginia code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the legislature. The WV Legislature amended state code 12-1-12d in 2016 which allows WVSOM to invest funds outside the WV State Treasurer's office through its Foundation.

Investments - WVSOM had investments in nine funds with Jefferies Group and Morgan Stanley at June 30, 2017, comprised of Money Market Funds, Common Stocks, U.S. Government Securities and Corporate Bonds. The Foundation acts as the investment agent and manages these investments.

Investments measured and reported at fair value are classified according to the following hierarchy. Level 1, investments reflect prices quoted in active markets. Level 2, investments reflect prices that are based on a similar observable asset either directly or indirectly, which may include inputs in markets that are not considered to be active. Level 3, investments reflect prices based upon unobservable inputs. The categorization of investments within the hierarchy is based upon the pricing transparency of the instrument and should not be perceived as the particular investment's risk.

Alternative investments are carried at fair value using the net asset value as a practical expedient. These valuations include assumptions and methods that were reviewed by WVSOM management and are primarily based on quoted market prices or other readily determinable market values for the underlying investments. WVSOM believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. Because a portion of alternative investments is not readily marketable and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Permissible investments for WVSOM include those guaranteed by the United States of America, its agencies, and instrumentalities (U.S. Government obligations); certain money markets, common stocks, real estate investment trusts, U.S. Treasury Securities, bonds, and other investments in accordance with the investment policy of the Foundation, who serves as the investment agent for WVSOM, and is subject to the provisions of the Uniform Prudent Investor Act codified as article six-c, chapter forty-four of the West Virginia Code.

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

Allowance for Doubtful Accounts - It is WVSOM'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 WVSOM on such balances and such other factors which, in WVSOM's judgment, require consideration in estimating doubtful accounts.

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

Noncurrent Cash, Cash Equivalents, and Investments - Cash, cash equivalents, and investments, that are (1) externally restricted to make debt service payments 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, or (3) permanently restricted assets, are classified as noncurrent assets in the accompanying statement of net position.

Current and Noncurrent Assets and Liabilities - Current assets are expected to be converted to cash, sold, or consumed in the next year or less. Current liabilities are debts that are expected to be paid with cash, goods, or services in the next year or less. Noncurrent assets and liabilities are all other assets and liabilities that are not expected to be extinguished in the next year.

Capital Assets - Capital assets include property, plant, equipment, and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 4 to 12 years for furniture and equipment. WVSOM's capitalization thresholds are \$15,000 for land and building improvements and \$5,000 for equipment. There was no interest capitalized during 2017 and 2016. The accompanying financial statements reflect all adjustments required by GASB.

Unearned Revenue - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue, including items such as tuition and fees. Financial aid and other deposits are separately classified as deposits.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Compensated Absences and Other Postemployment Benefits (OPEB) - GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. WVSOM is required to participate in this multiple-employer, cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and its stand alone financials can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), 601 57th Street, SE, Charleston, WV 25304 or <http://www.wvpeia.com>.

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. WVSOM's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, 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 sponsored by the State.

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

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

Deferred Outflows of Resources - Consumption of net position by WVSOM that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deferred Inflows of Resources - An acquisition of net position by WVSOM that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. Deferred inflows of resources at WVSOM relate to pledges receivable from the Foundation. These pledges will be recognized as revenue upon completion of the capital projects they fund.

Risk Management - The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and medical malpractice liability coverage to WVSOM and its employees. Such coverage may be provided to WVSOM 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 WVSOM or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums WVSOM is currently charged by BRIM and the ultimate cost of that insurance based on WVSOM's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to WVSOM and WVSOM's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, WVSOM 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, WVSOM has transferred its risks related to health, life, prescription drug coverage, and job related injuries.

West Virginia had a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to WVSOM. Other private insurance companies began to offer coverage to private-sector employers beginning July 1, 2009 and to government employers July 1, 2010. Nearly every employer in the state who has a payroll must have coverage. The cost of all coverage is paid by employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

Classification of Revenues - WVSOM has classified its revenues according to the following criteria:

- *Operating revenues* - Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.
- *Nonoperating revenues* - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as State appropriations, investment income, and the sale of capital assets (including natural resources).

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Use of Restricted Net Position - WVSOM 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 assets are available. Generally, WVSOM attempts to utilize restricted net position first, when practicable.

Federal Financial Assistance Programs - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program and Graduate Plus Loan Program. These loans are not included as receivable on WVSOM's statements of net position as the loans are repayable directly to the U.S. Department of Education. WVSOM has awarded \$27,854,074 and \$27,443,264 in 2017 and 2016, respectively, under the Federal Stafford Loan Program and \$14,604,259 and \$13,838,444 in 2017 and 2016, respectively, under the Graduate Plus Loan Program, which are not included as revenue and expense on the statements of revenues, expenses, and changes in net position. Both programs are from the U.S. Department of Education.

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2017 and 2016, WVSOM received and disbursed \$760,056 and \$648,536, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statement of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by WVSOM, and the amount that is paid by students and/or third parties making payments on the student's behalf.

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

Government Grants and Contracts - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. WVSOM 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.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

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NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes - WVSOM is exempt from income taxes, except for unrelated business income, as a governmental instrumentality under federal income tax laws and regulations of the Internal Revenue Service as described in Section 115 of the Internal Revenue Code.

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 statement of cash flows.

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

Risk and Uncertainties - Investments are exposed to various risks, such as interest rate, credit and overall market volatility. Due to the level of risk associated with certain securities, it is reasonably possible that changes in risk and values will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

Reclassifications - Certain amounts in the 2016 financial statements have been reclassified to conform with the 2017 presentation. Such reclassifications had no effect on the 2016 net position or changes in net position.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

WVSOM implemented Statement No. 80, *Blending Requirements for Certain Component Units an amendment of GASB Statement No. 14*, effective for fiscal years beginning after June 15, 2016. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity*, as amended. The adoption of GASB Statement No. 80 had no impact on the June 30, 2017 financial statements.

WVSOM implemented Statement No. 81, *Irrevocable Split-Interest Agreements*, effective for fiscal years beginning after December 15, 2016. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The adoption of GASB Statement No. 81 had no impact on the June 30, 2017 financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

WVSOM implemented Statement No. 86, *Certain Debt Extinguishment Issues*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will increase consistency in accounting and financial reporting for debt extinguishments by establishing uniform guidance for derecognizing debt that is defeased in substance, regardless of how cash and other monetary assets placed in an irrevocable trust for the purpose of extinguishing that debt were acquired. The requirements of this Statement also will enhance consistency in financial reporting of prepaid insurance related to debt that has been extinguished. In addition, this Statement will enhance the decision-usefulness of information in notes to financial statements regarding debt that has been defeased in substance. The adoption of GASB Statement No. 86 had no impact on the June 30, 2017 financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 75 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

NOTE 3 - CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2017 and 2016, is as follows:

	2017		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 21,579,052	\$ -	\$ 21,579,052
Cash in money market funds	1,125,849	-	1,125,849
Cash in bank	620,441	-	620,441
Cash on hand	600	-	600
	<u>\$ 23,325,942</u>	<u>\$ -</u>	<u>\$ 23,325,942</u>

	2016		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 24,255,374	\$ -	\$ 24,255,374
Cash in money market funds	658,608	-	658,608
Cash in bank	741,947	-	741,947
Cash on hand	350	-	350
	<u>\$ 25,656,279</u>	<u>\$ -</u>	<u>\$ 25,656,279</u>

Cash held by the Treasurer includes \$4,611,183 and \$4,303,502 of restricted cash at June 30, 2017 and 2016, respectively.

The combined carrying amount of cash in the bank at June 30, 2017 and 2016 was \$620,441 and \$741,947, respectively, as compared with the combined bank balance of \$1,174,094 and \$1,131,483 for the years ended June 30, 2017 and 2016, 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 (FDIC) up to \$250,000. Non-interest bearing accounts are fully insured through December 31, 2017.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

Amounts with the State Treasurer were \$21,579,052 and \$24,255,374 as of June 30, 2017 and 2016, respectively. Of these amounts \$20,467,175 and \$23,161,609 were invested in the WV Money Market Pool and the WV Short Term Bond Pool as of June 30, 2017 and 2016, respectively. The remainder of the cash held with the State Treasurer was not invested at June 30, 2017 and 2016.

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:

	2017		2016	
	Carrying Value	S & P Rating	Carrying Value	S & P Rating
External Pool				
WV Money Market Pool	\$ 20,006,662	AAAm	\$ 22,628,006	AAAm
WV Short Term Bond Pool	\$ 460,513	Not Rated	\$ 533,603	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:

	2017		2016	
	Carrying Value	WAM (Days)	Carrying Value	WAM (Days)
External Pool				
WV Money Market Pool	\$ 20,006,662	36	\$ 22,628,006	49

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

	2017		2016	
	Carrying Value	WAM (Days)	Carrying Value	WAM (Days)
External Pool				
WV Short Term Bond Pool	\$ 460,513	426	\$ 533,603	462

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

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)

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

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WVSOM'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.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. WVSOM has no securities with foreign currency risk.

NOTE 4 - INVESTMENTS

WVSOM categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. WVSOM had the following recurring fair value measurements comprised of investments as of June 30, 2017 and 2016.

	2017			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Morgan Stanley Private Wealth Management:				
Common stock	\$ 12,022,540	\$ 12,022,540	\$ -	\$ -
U.S. treasury securities	7,568,078	7,568,078	-	-
Corporate bonds	10,250,322	10,250,322	-	-
Total	<u>29,840,940</u>	<u>\$ 29,840,940</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Jefferies & Company, Inc.:				
Alternative investments	5,660,838			
Total Investments Measured at the NAV	<u>5,660,838</u>			
Total Investments Measured at Fair Value	<u>\$ 35,501,778</u>			
Total		<u>\$ 29,840,940</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 4 - INVESTMENTS (Continued)

	2016			
	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Investment by Fair Value Level				
Jefferies & Company, Inc.:				
Common stock	\$ 5,087,867	\$ 5,087,867	\$ -	\$ -
Real estate investment trusts	468,292	468,292	-	-
U.S. treasury securities	4,886,021	4,886,021	-	-
Corporate bonds	<u>10,227,521</u>	<u>10,227,521</u>	-	-
Total	<u>20,669,701</u>	<u>\$ 20,669,701</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Measured at Net Asset Value (NAV)				
Jefferies & Company, Inc.:				
Alternative investments	<u>7,772,337</u>			
Total Investments Measured at the NAV	<u>7,772,337</u>			
Total Investments Measured at Fair Value	<u>\$ 28,442,038</u>			
Total		<u>\$ 20,669,701</u>	<u>\$ -</u>	<u>\$ -</u>

Debt and equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets for those securities.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table.

	2017			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Jefferies & Company, Inc.:				
Salzman Offshore LTD	\$ 2,577,379	n/a	Quarterly	30 Days
Mudrick Distressed Opportunity Fund	<u>3,083,459</u>	n/a	Quarterly	90 Days
Total Investments Measured at the NAV	<u>\$ 5,660,838</u>			
	2016			
	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Jefferies & Company, Inc.:				
Salzman Offshore LTD	\$ 2,353,380	n/a	Quarterly	30 Days
BHR Offshore Fund LTD	1,683,009	n/a	Quarterly	92 Days
Mudrick Distressed Opportunity Fund	2,506,763	n/a	Quarterly	90 Days
RBR European	<u>1,229,185</u>	n/a	Daily	35 Days
Total Investments Measured at the NAV	<u>\$ 7,772,337</u>			

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016**

NOTE 4 - INVESTMENTS (Continued)

Credit Risk

WVSOM's investment policy adheres to fiduciary responsibilities in accordance with the provisions of the Uniform Prudent Investor Act (WV State Code 44-6C-1 Prudent Investor Rule). At June 30, 2017, the RNC Capital Management fund had a Bond Maturity Schedule and Bond Quality of:

Bond Maturity	Market Value	% of Bond Market Value
Less than 1 year	\$ 2,212,275	12.4%
1 to 5 years	9,322,873	52.3%
6 to 10 years	4,038,847	22.7%
Over 10 years	<u>2,244,406</u>	<u>12.6%</u>
Total	<u>\$ 17,818,401</u>	<u>100.0%</u>

Bond Quality	Market Value	% of Bond Market Value
A3	\$ 2,674,364	15.0%
AAA	7,568,078	42.5%
BA1	874,825	4.9%
BAA1	1,341,101	7.5%
BAA2	891,058	5.0%
BAA3	<u>4,468,975</u>	<u>25.1%</u>
Total	<u>\$ 17,818,401</u>	<u>100.0%</u>

Concentration of Credit Risk

To minimize risk, the WVSOM's investment policy allows for no more than 5% of available assets to be invested with any one issuer, except U.S. government securities.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Interest rate risk is managed by limiting the time period or duration of the specific investment.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 5 - ACCOUNTS RECEIVABLE

Accounts receivable are as follows at June 30:

	2017	2016
Grants and contracts receivable	\$ 21,138	\$ 152,033
Other accounts receivable	<u>1,253,758</u>	<u>1,021,333</u>
	<u>\$ 1,274,896</u>	<u>\$ 1,173,366</u>

Noncurrent receivables were as follows at June 30:

	2017	2016
Arrears Pay Conversion	<u>\$ 145,639</u>	<u>\$ 168,771</u>
	<u>\$ 145,639</u>	<u>\$ 168,771</u>

WVSOM's pledges receivable relate to amounts pledged by donors to have rooms named in accordance with donor wishes. WVSOM's pledges receivable became current in fiscal year 2016, and are included in other accounts receivable.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 6 - CAPITAL ASSETS

The following is a summary of capital asset transactions of WVSOM for the years ended June 30:

	2017			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,358,411	\$ 12,000	\$ (2,375)	\$ 1,368,036
Construction in progress	<u>24,377,742</u>	<u>1,724,824</u>	<u>(25,730,357)</u>	<u>372,209</u>
Total capital assets not being depreciated	<u>\$ 25,736,153</u>	<u>\$ 1,736,824</u>	<u>\$ (25,732,732)</u>	<u>\$ 1,740,245</u>
Other capital assets:				
Land improvements	\$ 2,732,900	\$ 7,499	\$ -	\$ 2,740,399
Buildings	69,162,467	25,958,578	(207,575)	94,913,470
Equipment	7,173,717	1,112,105	(165,240)	8,120,582
Library books	<u>220,055</u>	<u>12,804</u>	<u>(60,028)</u>	<u>172,831</u>
Total other capital assets	<u>79,289,139</u>	<u>27,090,986</u>	<u>(432,843)</u>	<u>105,947,282</u>
Less accumulated depreciation for:				
Land improvements	(1,823,780)	(249,390)	-	(2,073,170)
Buildings	(18,947,144)	(2,513,824)	11,725	(21,449,243)
Equipment	(4,558,671)	(866,089)	151,479	(5,273,281)
Library books	<u>(123,901)</u>	<u>(34,355)</u>	<u>60,028</u>	<u>(98,228)</u>
Total accumulated depreciation	<u>(25,453,496)</u>	<u>(3,663,658)</u>	<u>223,232</u>	<u>(28,893,922)</u>
Other capital assets, net	<u>\$ 53,835,643</u>	<u>\$ 23,427,328</u>	<u>\$ (209,611)</u>	<u>\$ 77,053,360</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 25,736,153	\$ 1,736,824	\$ (25,732,732)	\$ 1,740,245
Other capital assets	<u>79,289,139</u>	<u>27,090,986</u>	<u>(432,843)</u>	<u>105,947,282</u>
Total cost of capital assets	105,025,292	28,827,810	(26,165,575)	107,687,527
Less accumulated depreciation	<u>(25,453,496)</u>	<u>(3,663,658)</u>	<u>223,232</u>	<u>(28,893,922)</u>
Capital assets, net	<u>\$ 79,571,796</u>	<u>\$ 25,164,152</u>	<u>\$ (25,942,343)</u>	<u>\$ 78,793,605</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 6 - CAPITAL ASSETS (Continued)

	2016			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 1,238,411	\$ 120,000	\$ -	\$ 1,358,411
Construction in progress	<u>11,915,323</u>	<u>12,553,326</u>	<u>(90,907)</u>	<u>24,377,742</u>
Total capital assets not being depreciated	<u>\$ 13,153,734</u>	<u>\$ 12,673,326</u>	<u>\$ (90,907)</u>	<u>\$ 25,736,153</u>
Other capital assets:				
Land improvements	\$ 2,732,900	\$ -	\$ -	\$ 2,732,900
Buildings	68,717,431	445,036	-	69,162,467
Equipment	6,730,953	628,564	(185,800)	7,173,717
Library books	<u>206,866</u>	<u>44,693</u>	<u>(31,504)</u>	<u>220,055</u>
Total other capital assets	<u>78,388,150</u>	<u>1,118,293</u>	<u>(217,304)</u>	<u>79,289,139</u>
Less accumulated depreciation for:				
Land improvements	(1,574,884)	(248,896)	-	(1,823,780)
Buildings	(16,907,117)	(2,040,027)	-	(18,947,144)
Equipment	(3,928,320)	(778,625)	148,274	(4,558,671)
Library books	<u>(117,286)</u>	<u>(38,119)</u>	<u>31,504</u>	<u>(123,901)</u>
Total accumulated depreciation	<u>(22,527,607)</u>	<u>(3,105,667)</u>	<u>179,778</u>	<u>(25,453,496)</u>
Other capital assets, net	<u>\$ 55,860,543</u>	<u>\$ (1,987,374)</u>	<u>\$ (37,526)</u>	<u>\$ 53,835,643</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 13,153,734	\$ 12,673,326	\$ (90,907)	\$ 25,736,153
Other capital assets	<u>78,388,150</u>	<u>1,118,293</u>	<u>(217,304)</u>	<u>79,289,139</u>
Total cost of capital assets	91,541,884	13,791,619	(308,211)	105,025,292
Less accumulated depreciation	<u>(22,527,607)</u>	<u>(3,105,667)</u>	<u>179,778</u>	<u>(25,453,496)</u>
Capital assets, net	<u>\$ 69,014,277</u>	<u>\$ 10,685,952</u>	<u>\$ (128,433)</u>	<u>\$ 79,571,796</u>

WVSOM 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, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections were neither disposed of for financial gain nor encumbered in any means.

At June 30, 2017, WVSOM had outstanding contractual commitments of \$3,444 for property, plant, and equipment expenditures.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 7 - LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions of WVSOM for the years ended June 30:

	2017				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,748,361	42,799	-	1,791,160	1,060,604
Other postemployment benefits liability	<u>6,359,146</u>	<u>731,942</u>	<u>(490,956)</u>	<u>6,600,132</u>	<u>-</u>
Total long-term liabilities	<u>\$ 10,041,049</u>	<u>\$ 774,741</u>	<u>\$ (490,956)</u>	<u>\$ 10,324,834</u>	<u>\$ 1,060,604</u>
	2016				
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,672,288	76,073	-	1,748,361	1,028,289
Other postemployment benefits liability	<u>5,925,235</u>	<u>897,579</u>	<u>(463,668)</u>	<u>6,359,146</u>	<u>-</u>
Total long-term liabilities	<u>\$ 9,531,065</u>	<u>\$ 973,652</u>	<u>\$ (463,668)</u>	<u>\$ 10,041,049</u>	<u>\$ 1,028,289</u>

NOTE 8 - OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2017, 2016, and 2015, the noncurrent liability related to OPEB costs was \$6,600,132, \$6,359,146, and \$5,925,235, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$731,942 and \$26,367, respectively, during 2017, or 3%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$897,579 and \$21,083, respectively, during 2016, or 2%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$868,432 and \$15,545, respectively, during 2015, or 2%. As of the years ended June 30, 2017, 2016, and 2015 there were 24, 19, and 14 retirees, respectively, retirees receiving these benefits. During the 2015 Legislative session, the State took proactive measures to address the unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 9 - LEASES

WVSOM leases various equipment under agreements reported as operating leases. WVSOM has no non-cancelable leases. As of June 30, 2017, the future annual minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2018	\$ 111,168
2019	<u>4,874</u>
	<u>\$ 116,042</u>

The total rent expense for this equipment for the years ended June 30, 2017 and 2016 was \$231,502 and \$156,019 respectively.

NOTE 10 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

WVSOM is a State institution of higher education, and it receives a State appropriation to finance a portion of its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of WVSOM's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's colleges and universities, including certain facilities of WVSOM. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the Boards). These obligations administered by the Commission are the direct and total responsibility of the Municipal Bond Commission, as successor to the former Boards.

The Municipal Bond Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System (the System) are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2017 and 2016.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016

NOTE 11 - UNRESTRICTED NET POSITION

WVSOM's unrestricted net position at June 30, 2017 and 2016 includes certain designated net position, as follows:

	<u>2017</u>	<u>2016</u>
Designated for auxiliaries	\$ 144,020	\$ 139,938
Undesignated	<u>49,537,760</u>	<u>43,934,971</u>
Total unrestricted net position before OPEB liability	49,681,780	44,074,909
Less: OPEB liability	<u>(6,600,132)</u>	<u>(6,359,146)</u>
Total unrestricted net position	<u>\$ 43,081,648</u>	<u>\$ 37,715,763</u>

NOTE 12 - RETIREMENT PLANS

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

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. WVSOM accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for the years ended June 30, 2017 and 2016. Required employee contributions were at the rate of six percent of total annual salary for the years ended June 30, 2017 and 2016. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Annual pension benefits are based upon two percent of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the years ended June 30, 2017, 2016, and 2015 were \$0.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as WVSOM. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, 4101 MacCorkle Avenue SE, Charleston, West Virginia 25304.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
NOTES TO FINANCIAL STATEMENTS
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NOTE 12 - RETIREMENT PLANS (Continued)

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

Total contributions to the TIAA-CREF for the years ended June 30, 2017, 2016, and 2015 were \$2,255,126, \$2,126,788, and \$2,175,921, respectively, which consisted of equal contributions from WVSOM and covered employees of \$1,127,563, \$1,063,394, and \$1,087,960, in 2017, 2016, and 2015, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2017, 2016, and 2015 was \$18,838,462, \$18,071,927, and \$17,600,184, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$0 and \$18,838,462 in 2017, \$0 and \$18,071,927 in 2016, and \$0 and \$17,600,184 in 2015, 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 Educators Money 401(a) Basic Retirement Plan (the Educators Money). New hires have the choice of either plan.

The Educators Money is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. WVSOM matches the employees' 6% contributions. Contributions are immediately and fully vested. Employees may elect to make additional contributions to the Educators Money, which are not matched by WVSOM. As of June 30, 2017, no employees were enrolled in the Educators Money 401(a) basic retirement plan.

Total contributions to the Educators Money for the years ended June 30, 2017, 2016, and 2015, were approximately \$0, \$180, and \$240, respectively which consisted of approximately \$0 from WVSOM each year and approximately \$0, \$180, and \$240, respectively from covered employees in each year.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
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NOTE 13 - FOUNDATION

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (the Foundation) is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Foundation is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although WVSOM does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon that the Foundation holds and invests, are restricted to the activities of WVSOM by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, WVSOM, the Foundation is considered a component unit of WVSOM and therefore, is discretely presented in accordance with GASB. Complete financial statements of the Foundation can be obtained by writing to 400 North Lee Street, Lewisburg, West Virginia 24901.

Gifts, grants, pledges, bequests, and other revenue contributed to the Foundation totaled \$491,451 and \$2,223,086 for the years ended June 30, 2017 and 2016, respectively.

WVSOM provided direct financial support of \$504,783 and \$401,736 for the years ended June 30, 2017 and 2016, respectively.

NOTE 14 - AFFILIATED ORGANIZATIONS (UNAUDITED)

The West Virginia School of Osteopathic Medicine Robert C. Byrd Clinic, Inc. (the Clinic) operates a health center located in Lewisburg, West Virginia. The Clinic, opened in January of 1997, was established to provide health care to the community and to serve as a laboratory for the students of WVSOM. Although the Clinic was created for the purpose of assisting WVSOM in achieving its missions, it is a separate non-profit organization incorporated in the State of West Virginia. Oversight of the Clinic is the responsibility of an independently elected Board of Directors, not otherwise affiliated with WVSOM. The Board of Directors employs management, forms policy, and maintains fiscal accountability over the financial affairs of the Clinic. The financial statements of the Clinic are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB.

WVSOM owns the building in which the Clinic is operated and the cost of the building is recognized in WVSOM's financial statements. WVSOM has an operating lease with the clinic under which it charges the Clinic \$1 each month for rental of the office space and certain furniture and equipment.

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NOTE 14 - AFFILIATED ORGANIZATIONS (UNAUDITED) (Continued)

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2017 and 2016, the amount paid by WVSOM for instruction, office expenses, utilities and equipment rental totaled approximately \$815,449 and approximately \$531,960, respectively. WVSOM made payments totaling approximately \$125,000 and approximately \$100,000 for the years ended June 30, 2017 and 2016, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are available at www.guidestar.org.

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI) is a medical education consortium formed in 1998 through affiliation agreements among MSOPTI, WVSOM (central partner), and partner training institutions (hospitals, teaching health centers) in the States of West Virginia, Ohio and Kentucky which provides postdoctoral training to medical interns, residents and fellows. MSOPTI is accredited by both the American Osteopathic Association (AOA) and the Accreditation Council for Graduate Medical Education (ACGME). The affiliation agreements are renewed annually and are executed among each training institution, WVSOM and MSOPTI. As of June 30, 2017 MSOPTI had nine (9) Full Partner members, paying Full Partner membership dues, in addition to the Central Partner. MSOPTI also had one (1) Associate Partner member, which paid an annual program development fee and one (1) Affiliate Member, which paid an annual Affiliate Member fee. Only Full Partners and the Central Partner have voting privileges on the MSOPTI Governing Board of Directors. MSOPTI also has three (3) Supporters: The Beckley (WV) VA Hospital, Mon General Hospital (WV), and the Southeastern Area Health Education Center (SEAHEC) which do not pay membership fees. MSOPTI serves as the grants administrator for SEAHEC.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate 501(c) (3) non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Governing Board of Directors, as specified in the MSOPTI by-laws. The MSOPTI Governing Board of Directors is made up of three voting members from WVSOM and one voting member from each of the nine Full Partner training institutions. In carrying out its responsibilities, the MSOPTI Governing Board of Directors directs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. MSOPTI is audited annually by an independent CPA through a written letter of engagement. Accordingly, the financial statements of MSOPTI are not included in the accompanying financial statements because they did not meet the criterion as indicated in GASB. For each of the years ended June 30, 2017 and 2016, WVSOM contributed \$50,000 to MSOPTI. In addition, WVSOM incurred \$281,598 and \$269,130 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2017 and 2016, respectively. The financial statements of MSOPTI are available at www.guidestar.org.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
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NOTE 15 - CONTINGENCIES

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

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. WVSOM's management believes that disallowances, if any, will not have a significant financial impact on WVSOM's financial position.

WVSOM owns various buildings which are known to contain asbestos. WVSOM is not required by federal, state, or local law to remove the asbestos from its buildings. WVSOM is required under federal environmental health and safety regulations to manage the presence of asbestos in its buildings in a safe condition. WVSOM addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. WVSOM also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition

NOTE 16 - COMPONENT UNIT DISCLOSURES

On the following pages are the notes taken directly from the audited financial statements of the Foundation. Questions concerning any of the information provided in the following pages or requests for additional financial information should be addressed to West Virginia School of Osteopathic Medicine Foundation, Inc. at 400 North Lee Street, Lewisburg, West Virginia 24901.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of organization – The West Virginia School of Osteopathic Medicine Foundation, Inc. (the “Foundation”) is a West Virginia not-for-profit corporation established for the purpose of promoting and advancing educational and fraternal opportunities for current students, faculty, staff, and alumni of the West Virginia School of Osteopathic Medicine (“WVSOM”), located in Lewisburg, West Virginia. It is the Foundation’s mission to serve the WVSOM, its faculty, staff, students, and alumni as an additional funding source through fundraising, managing funds, and overseeing the distribution of these funds. The Foundation accomplishes this by engaging in the following principal activities:

- Solicitation of restricted and unrestricted charitable contributions;
- Investment of available liquid assets;
- Awarding to qualified students, faculty, or staff of WVSOM certain grants, scholarships, or enhancements to their job performance;
- Rental of a conference/meeting/event facility located on the WVSOM campus.

Basis of presentation – The financial statements are presented in accordance with the Financial Accounting Standards Board Accounting Standards Codification 958 (FASB ASC 958), *Financial Statements of Not-for-Profit Organizations*, which requires the Foundation to report net assets based on the existence or absence of donor-imposed restrictions. The Foundation reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. The Foundation does not imply time restrictions on gifts of long-lived assets. In the absence of explicit donor stipulation as to how long an asset must be held, the Foundation releases any purpose restrictions when the asset is placed in service for the use stipulated by the donor.

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 certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates used in preparing these financial statements include those used in determining the allowance for uncollectible pledges receivable. It is at least reasonably possible that the significant estimates used will change within the next year.

Income tax status – The Foundation qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, therefore, no provision for federal or state income taxes has been recorded. There was no interest or penalties to the Internal Revenue Service included in these financial statements. The Foundation’s tax returns are generally subject to examination by the Internal Revenue Service for a period of three years from the date they are to be filed.

Cash and cash equivalents – For purposes of financial statement presentation, the Foundation considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and investment risk – Investments in equity securities and mutual funds with readily determinable fair values and all investments in debt securities are measured at fair value. Cash and cash equivalents are carried at cost which approximates fair value. The Foundation's investments are comprised of a variety of financial instruments and are managed by investment advisors. The fair values reported in the statement of financial position are exposed to various risks including changes in the equity markets, the interest rate environment, and general economic conditions. Due to the level of risk associated with certain investment securities, it is reasonably possible that the amounts reported in the accompanying financial statements could change materially in the near term.

Pledges receivable – Unconditional pledges to contribute cash and other assets are reported at their estimated fair value at the date the promise is received. Pledges receivable that are expected to be collected within one year are recorded at the net realizable value. Pledges receivable that are expected to be collected in future years are recorded at the present value of estimated net realizable future cash flows. An annual rate of four percent was used to discount those pledges receivable that are expected to be collected in excess of one year.

The Foundation annually evaluates the collectability of its pledges receivable and either reserves for or writes off pledges when they are determined to be uncollectible. Recoveries of accounts previously written off are recorded as a reduction to bad debt expense when received.

Property and equipment – Property and equipment are reported at historical cost and depreciated using the straight line method over the estimated useful lives of the assets. Contributed assets are recorded as revenue and capitalized at fair market value at the date the asset is received.

Restricted and unrestricted support – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Donor-restricted support is reported as an increase in unrestricted net assets if the restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor-restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Concentration of credit risk – The Foundation maintains cash on deposit at federally insured financial institutions; bank balances did not exceed federally insured limit at June 30, 2017.

Subsequent events – The Foundation evaluated subsequent events for recognition or disclosure through September 7, 2017, the date the financial statements were available to be issued.

Reclassifications – Certain amounts relating to 2016 have been reclassified to conform to the 2017 reporting format.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 2 – PLEDGES RECEIVABLE

Pledges receivable consist of the following at June 30:

	2017	2016
Pledges collectible within one year	\$ 431,897	\$ 405,941
Pledges collectible in one to five years	984,494	986,128
Pledges collectible in more than five year	-	-
Total pledges receivable, gross	1,416,391	1,392,069
Less allowance for uncollectible pledges	(7,500)	-
Less unamortized discount	(77,972)	(72,511)
Total pledges receivable, net	1,330,919	1,319,558
Less current portion of pledges receivable, net	(431,897)	(405,941)
Non-current portion of pledges receivable, net	\$ 899,022	\$ 913,617

NOTE 3 – LOANS RECEIVABLE

Loans receivable in the amounts of \$18,000 and \$12,375 at June 30, 2017 and 2016, respectively represent loans made to current students, faculty and staff of WVSOM which are payable within 90 days of their issuance and accrue interest at the rate of 6 percent per annum. If the loans remain unpaid in excess of 90 days, the rate of interest payable on the loan increases to 10 percent per annum. The majority of these loans are typically made in order to provide certain students with temporary source of funding until such time as their respective long-term funding for tuition or other living expenses becomes available. No interest accrual has been reflected in the accompanying financial statements as it is undeterminable as to the ultimate amount collectible.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 4 – INVESTMENTS

Investments consist of the following at June 30:

	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 1,332,276	\$ 1,166,284
Common stocks	13,448,519	7,044,999
Federal government and agency securities	7,649,748	4,988,334
Corporate bonds	12,541,954	11,879,328
Hedge funds	7,004,256	7,772,337
Real estate investment trusts	<u>-</u>	<u>468,292</u>
Total	<u>\$ 41,976,753</u>	<u>\$ 33,319,574</u>

Total investment return is comprised of the following for the years ended June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Interest and dividends	\$ 140,910	\$ 67,078
Unrealized and realized gains and losses, net	<u>352,888</u>	<u>(101,842)</u>
Total	<u>\$ 493,798</u>	<u>\$ (34,764)</u>

NOTE 5 – CUSTODIAL LIABILITIES

The Foundation entered into an Investment Management Agency Agreement with the WVSOM on June 21, 2014. In accordance with the terms of this agreement, the WVSOM has transferred \$35,000,000 to the Foundation, who serves as the investment agent for the funds. The Foundation recognizes a custodial liability in an amount equal to the funds held under the terms of this agreement including all subsequent earnings thereon. Also, the Foundation recognizes custodial liabilities for additional funds held on behalf of various student, faculty, and alumni organizations. These liabilities amounted to \$36,982,282 and \$29,438,807 at June 30, 2017 and 2016, respectively.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 6 – RELATED PARTY TRANSACTIONS

The WVSOM provides all the pay and employee benefits for the personnel who operate the Foundation as well as assistance with certain operating costs. On November 12, 2011 the Foundation sold the office building from which it operates to the WVSOM. Subsequently, the WVSOM provides this office space to the Foundation without charge. The costs associated with the office space, the operational expenses, and the wages and benefits paid by the WVSOM are recorded as contributed services and operational expenses in the accompanying statement of activities. The Foundation measures these expenses at the cost recognized by the WVSOM for the personnel providing the services and the fair value of the office space occupied. The total amount of the services and operating costs provided were \$261,771 and \$246,252 for the years ended June 30, 2017 and 2016, respectively. As a part of a Memorandum of Understanding with the WVSOM signed concurrent with the sale of the building, the Foundation will be able to continue to collect revenues from the rental of a conference room contained within the office building. As the fair value of this arrangement is not readily determinable, no reflection of it has been recorded in the accompanying financial statements.

The Foundation holds and disburses funds at the discretion of the WVSOM and various student, faculty, and alumni organizations. See Note 5 for a more complete description of these custodial arrangements and the balances held under these arrangements at June 30, 2017 and 2016.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets have been restricted for the benefit of the WVSOM and include support for various departments and services at the School such as community programs, major capital projects and equipment purchases and other miscellaneous programs.

NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS

Permanent endowments consist of twenty individual funds established primarily for funding academic scholarships for WVSOM students. Contributions to the endowment funds are subject to donor restrictions that may stipulate the original principal balance of the contribution be held and invested by the Foundation indefinitely and income from the endowment fund be expended for scholarships and awards. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
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NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

The Board of Directors has interpreted the State of West Virginia Uniform Prudent Management of Institutional Funds Act (WVUPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of the subsequent gifts to the permanent endowment, (c) accumulations to the permanent endowment made in accordance with direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted net assets are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by WUPMIFA.

In accordance with WVUPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and the appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

The Foundation monitors investment returns and spending activity within the endowment investment accounts in an attempt to provide a predictable stream of scholarship funding while seeking to maintain purchasing power of the endowment assets. The endowment assets are invested in a manner that is intended to produce a real return, net of inflation and investment management fees, sufficient to at least meet the intended annual scholarship awards of each endowment.

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Foundation to retain as a fund of perpetual duration. These deficiencies result from unfavorable market fluctuations that occurred shortly after the investment of new permanently restricted contributions and/or continued appropriation for certain programs that was deemed prudent by the Board of Trustees. Deficiencies of this nature which are reported in unrestricted net assets as of June 30, 2017 and 2016 totaled \$0 and \$13,436, respectively.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 – ENDOWMENT AND PERMANENTLY RESTRICTED NET ASSETS (Continued)

The composition and the changes in endowment net assets for the fiscal years ended June 30, 2017 and 2016, consisted of the following:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2015	\$ (9,711)	\$ 121,998	\$ 993,421	\$ 1,105,708
Investment return				
Investment income, net of fees	-	(4,064)	-	(4,064)
Net appreciation (depreciation)	(3,725)	11,197	-	7,472
Contributions	-	-	2,111,692	2,111,692
Scholarships and awards	-	(11,700)	-	(11,700)
Endowment net assets, June 30, 2016	<u>(13,436)</u>	<u>117,431</u>	<u>3,105,113</u>	<u>3,209,108</u>
Investment return				
Investment income, net of fees	-	48,541	-	48,541
Net appreciation (depreciation)	13,436	151,832	-	165,268
Contributions	-	-	218,145	218,145
Scholarships and awards	-	(23,900)	-	(23,900)
Endowment net assets, June 30, 2017	<u>\$ -</u>	<u>\$ 293,904</u>	<u>\$ 3,323,258</u>	<u>\$ 3,617,162</u>

NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS

The Foundation adopted the Financial Accounting Standards Board (FASB) Accounting Standards Codification for financial instruments measured at fair value on a recurring basis. The standard defines the fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The framework establishes a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). These tiers include:

Level 1, defined as observable inputs such as quoted prices for identical instruments in active markets;

Level 2, defined as inputs other than quoted prices, such as quoted prices in active markets that are directly or indirectly observable such as quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in markets that are not active; and

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

Level 3, defined as unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions, such as valuations derived from valuation techniques in which one or more significant value drivers are observable.

Fair Value Measurements

The following is a description of the valuation methodologies used for assets measured at fair value and for financial instruments disclosed at fair value. There have been no changes in methodologies used at June 30, 2017 and 2016.

Cash and cash equivalents: carrying amounts approximate fair value because of the short maturity of these financial instruments.

Corporate stocks: valued at quoted prices in active markets for the common stock.

U.S. Treasury & Agency obligations, corporate bonds and real estate investment trusts: fair value is based on pricing provided by an independent pricing vendor, broker/dealer, or model-based technique for which the inputs for the valuation are based upon readily observable pricing information.

Mutual funds and exchange-traded funds: valued at the net asset values available in observable markets for the shares held by the fund.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The following table presents the recorded amount of assets measured at fair value on a recurring basis.

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
June 30, 2017:				
Cash and cash equivalents	\$ 1,332,276	\$ 1,332,276	\$ -	\$ -
Common stocks	13,448,519	13,448,519	-	-
Federal government and agency securities	7,649,748	-	7,649,748	-
Corporate bonds	12,541,954	-	12,541,954	-
Hedge funds	<u>7,004,256</u>	<u>-</u>	<u>7,004,256</u>	<u>-</u>
Total	<u>\$ 41,976,753</u>	<u>\$ 14,780,795</u>	<u>\$ 27,195,958</u>	<u>\$ -</u>

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 – FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

	<u>Fair Value</u>	<u>Fair Value Measurements Using</u>		
		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
June 30, 2016:				
Cash and cash equivalents	\$ 1,166,284	\$ 1,166,284	\$ -	\$ -
Common stocks	7,044,999	7,044,999	-	-
Federal government and agency securities	4,988,334	-	4,988,334	-
Corporate bonds	11,879,328	-	11,879,328	-
Hedge funds	7,772,337	-	7,772,337	-
Real estate investment trusts	<u>468,292</u>	<u>468,292</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 33,319,574</u>	<u>\$ 8,679,575</u>	<u>\$ 24,639,999</u>	<u>\$ -</u>

NOTE 10 – PRIOR PERIOD ADJUSTMENT

The previously issued financial statements for the year ended June 30, 2016 have been restated. A custodial liability from a prior period was improperly included in net assets at year end. As a result of the restatement, temporarily restricted net assets decreased by \$35,879 and custodial liabilities increased by \$35,879.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE
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NOTE 17 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

	2017								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commissions	Total
Instruction	\$ 10,176,514	\$ 2,252,235	\$ 4,570,184	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,998,933
Research	100,356	35,156	203,060	3,630	-	-	-	-	342,202
Public service	95,635	6,949	96,103	-	-	-	-	-	198,687
Academic support	2,343,841	567,781	1,354,606	-	-	-	-	-	4,266,228
Student services	1,761,860	466,995	1,710,934	10,101	-	-	-	-	3,949,890
General institutional support	4,544,620	1,022,392	2,366,738	-	-	-	-	-	7,933,750
Operations and maintenance of plant	1,199,568	473,428	1,374,538	1,036,236	-	-	-	-	4,083,770
Student financial aid	-	-	125,000	-	761,500	-	-	-	886,500
Auxiliary enterprises	88,595	18,334	325,697	-	-	-	-	-	432,626
Depreciation	-	-	-	-	-	3,663,658	-	-	3,663,658
Other	-	-	13,602	-	-	-	151,592	-	259,179
Total	\$ 20,310,989	\$ 4,843,270	\$ 12,140,462	\$ 1,049,967	\$ 761,500	\$ 3,663,658	\$ 151,592	\$ 93,985	\$ 43,015,423

	2016								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commissions	Total
Instruction	\$ 9,982,882	\$ 2,105,958	\$ 3,761,140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15,849,980
Research	92,822	32,722	252,918	6,852	-	-	-	-	385,314
Public service	253,695	25,268	129,756	-	-	-	-	-	408,719
Academic support	2,379,170	622,488	1,087,809	-	-	-	-	-	4,089,467
Student services	1,345,632	369,135	1,156,809	8,357	-	-	-	-	2,879,933
General institutional support	4,214,354	976,850	2,057,162	-	-	-	-	-	7,248,366
Operations and maintenance of plant	1,107,571	464,395	1,398,350	807,678	-	-	-	-	3,777,994
Student financial aid	-	-	100,000	-	106,250	-	-	-	206,250
Auxiliary enterprises	76,245	14,079	325,105	-	-	-	-	-	415,429
Depreciation	-	-	-	-	-	3,105,667	-	-	3,105,667
Other	-	-	27,655	-	-	-	149,245	90,690	267,590
Total	\$ 19,452,371	\$ 4,610,895	\$ 10,296,704	\$ 822,887	\$ 106,250	\$ 3,105,667	\$ 149,245	\$ 90,690	\$ 38,634,709

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

Board of Governors
West Virginia School of Osteopathic Medicine
Lewisburg, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise WVSOM's basic financial statements, and have issued our report thereon dated October 4, 2017, which states reliance on another auditor for the discretely presented component unit. Our report includes a reference to another auditor who audited the financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. (the Foundation), as described in our report on WVSOM's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

A handwritten signature in cursive script that reads "Seattle & Stalaker, PLLC".

Charleston, West Virginia
October 4, 2017