

**WEST VIRGINIA HIGHER EDUCATION  
POLICY COMMISSION**

**FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION**

**YEARS ENDED JUNE 30, 2018 AND 2017**

CliftonLarsonAllen LLP



WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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## INDEPENDENT AUDITORS' REPORT

West Virginia Higher Education Policy Commission  
Charleston, West Virginia

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

We have audited the accompanying financial statements of the business-type activities of the West Virginia Higher Education Policy Commission (the Commission) (a component unit of the West Virginia Higher Education Fund) as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

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

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

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

Our responsibility is to express an opinion on these basic financial statements based on our audits. We did not audit the financial statements of West Virginia Regional Technology Park Corporation (the Corporation) for the years ended June 30, 2018 and 2017, which represent 31%, (33)%, and 7%, respectively, of total assets, total net position, and total revenues of the Commission in 2018 and 31%, (34)%, and 7%, respectively, of total assets, total net position, and total revenues of the Commission in 2017. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Corporation, is based solely on the report of such other auditors. We, and the auditors for the Corporation, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

### ***Opinion***

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Commission as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in Note 2 to the financial statements, the Commission implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* for the year ended June 30, 2018, which represents a change in accounting principle. As of July 1, 2017, the Commission's net position was restated to reflect the impact of adoption. Our opinion is not modified with respect to this matter.

As discussed in Note 2 to the financial statements, the Commission corrected two prior year errors related to the recognition of certain portion of the lottery excess revenue and accrued interest expense. Accordingly, certain amounts have been restated in the 2017 financial statements now presented, and adjustments have been made to net position as of June 30, 2016. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Proportionate Share of TRS Net Pension Liability, Schedule of Employer Contributions, Schedule of Proportionate Share of Net OPEB Liability, and Schedule of Employer Contributions, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

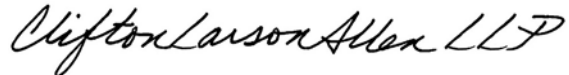
#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the West Virginia Higher Education Policy Commission's financial statements. The combining schedule of net position and combining schedule of revenues, expenses, and changes in net position (the Supplementary Information) are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2018 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Commission's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control over financial reporting and compliance.



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
October 15, 2018

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS**

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

The following discussion and analysis of the West Virginia Higher Education Policy Commission's (the Commission) financial statements provides an overview of its financial activities for the years ended June 30, 2018 and 2017 with a primary focus on the current year. Three years of comparative data are provided for discussion and analysis purposes. There are three financial statements presented: the statement of net position, the statement of revenues, expenses, and changes in net position, and the statement of cash flows.

**Statement of Net Position**

The statement of net position presents the assets, liabilities, deferred outflows, and deferred inflows of resources and net position of the Commission as of June 30, 2018 and 2017. The statement of net position is a point of time financial statement. The purpose of the statement of net position is to present to the readers of the financial statements a fiscal snapshot of the Commission. The statement of net position presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows, and Net Position (assets and deferred outflows minus liabilities and deferred inflows).

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

Net position is divided into three major categories. The first category, net investment in capital assets provides the Commission's equity in land, buildings, furniture, and equipment owned by the Commission. The next net position category is restricted, which is divided into two categories, nonexpendable and expendable. The nonexpendable restricted category is used for an endowment program where funds are invested and the earnings are available for expenditure but the original principal is not. The Commission does not use the nonexpendable category because it does not have an endowment program. The expendable restricted category reflects amounts that are available for expenditure by the Commission but have a specific purpose. The final category is unrestricted. The unrestricted category is used to record amounts that are available to be used for any lawful purpose of the Commission. The deficit is primarily attributable to the 2004, 2007, 2010, 2012 and the two 2017 bond issuances proceeds which were transferred to the Institutions for their capital projects without any assets being received by the Commission in return.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Net Position (Continued)**

**Condensed Statements of Net Position**  
**(in thousands of dollars)**

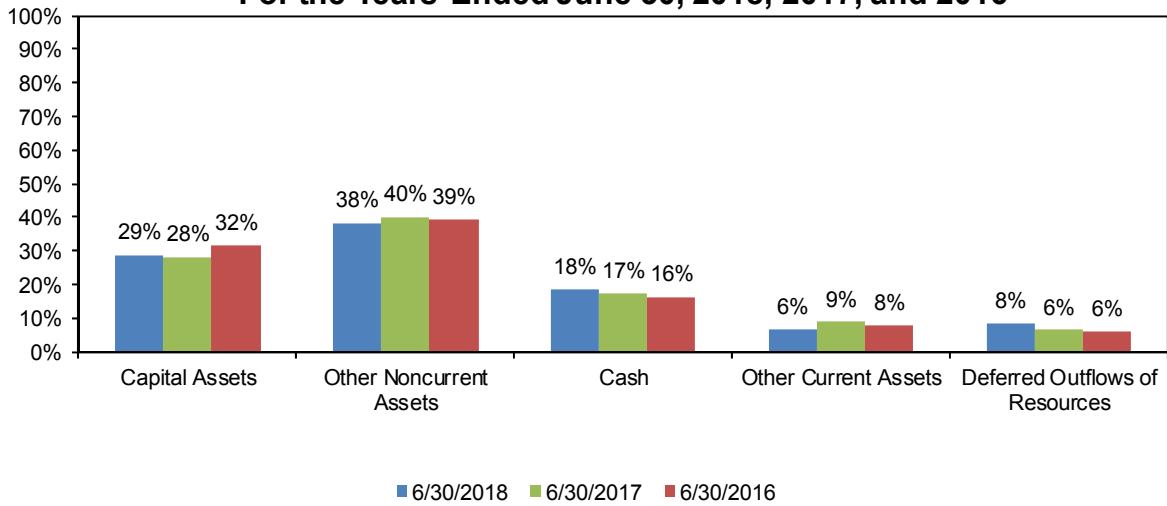
	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>2016</u>
<b>Assets</b>			
Current Assets	\$ 52,418	\$ 55,342	\$ 58,344
Other Noncurrent Assets	81,368	84,433	92,595
Capital Assets, Net	<u>61,020</u>	<u>59,889</u>	<u>76,225</u>
Total Assets	194,806	199,664	227,164
<b>Deferred Outflows</b>	<u>17,335</u>	<u>13,501</u>	<u>14,240</u>
Total Assets and Deferred Outflows	<u>\$ 212,141</u>	<u>\$ 213,165</u>	<u>\$ 241,404</u>
<b>Liabilities</b>			
Current Liabilities	\$ 30,843	\$ 29,169	\$ 34,400
Noncurrent Liabilities	357,526	361,275	376,296
Total Liabilities	<u>388,369</u>	<u>390,444</u>	<u>410,696</u>
<b>Deferred Inflows</b>	631	36	40
<b>Net Position</b>			
Invested in Capital Assets	60,153	58,878	75,076
Restricted - Expendable	39,298	38,034	46,913
Restricted - Nonexpendable			
Unrestricted	<u>(276,310)</u>	<u>(274,227)</u>	<u>(291,321)</u>
Total Net Position	<u>(176,859)</u>	<u>(177,315)</u>	<u>(169,332)</u>
Total Liabilities, Deferred Inflows, and Net Position	<u>\$ 212,141</u>	<u>\$ 213,165</u>	<u>\$ 241,404</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Net Position (Continued)**

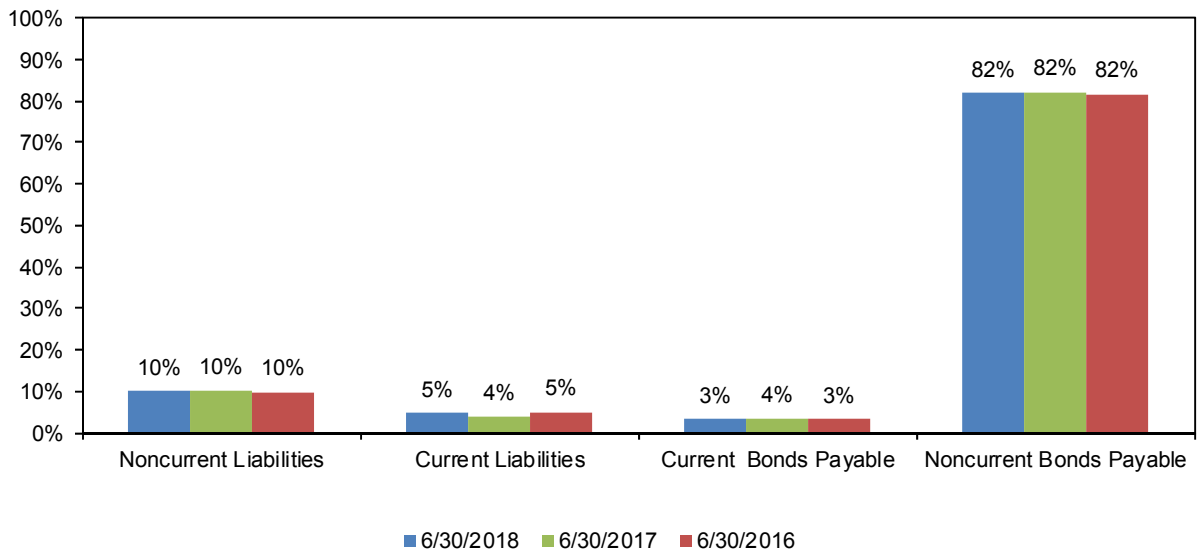
**Assets and Deferred Outflows Composition**

**For the Years Ended June 30, 2018, 2017, and 2016**



**Liabilities Composition**

**For the Years Ended June 30, 2018, 2017, and 2016**





**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Net Position (Continued)**

Major items of note in the statements of net position include:

- As of June 30, 2018, the Commission's financial statements reflect a receivable from the higher education institutions (an internal obligation) related to principal payments owed by the Commission on system-wide debt obligations that were issued on behalf of the University and College Systems before the 2004 issuance. Prior to fiscal year 2002, the system debt had been reflected solely as an obligation of the Commission and the requirement of the institutions to contribute funds to repay this debt was disclosed in a footnote. The internal assignment of this liability was shown as a transfer in the statement of revenue, expenses, and changes in net position during fiscal year 2002. On the statement of net position as of June 30, 2018 a receivable has been recorded for Institutional obligations totaling \$61.8 million out of the total amount due from Institutions of \$64.5 million as compared to \$87.3 million in debt including outstanding University System Bonds of \$49.0 million plus future interest payable of \$39.9 million, but not including bond premiums. As discussed later, the Commission debt for bonds issued in fiscal year 2005 (2004 Series B Bonds), fiscal year 2009 (2009 Series A Bonds), and fiscal year 2011 (2010 Series A, B, and C Bonds) and fiscal year 2012 (Series A and B Bonds) is not allocated to the Institutions as the funding will be forthcoming from excess Lottery Commission proceeds.
- As of June 30, 2018, total current assets of \$52.4 million exceeded total current liabilities of \$30.8 million. As of June 30, 2017, total current assets of \$55.3 million exceeded total current liabilities of \$29.2 million. As of June 30, 2016, total current assets of \$58.3 million exceeded total current liabilities of \$34.4 million. By the nature of the Commission, significant funds flow through the operations reported in these financial statements with further distribution to the West Virginia public institutions in subsequent years based on the decisions of the Commission.
  - Current cash balances at June 30, 2018 were \$38.8 million compared to cash balances as of June 30, 2017 and 2016 of \$36.7 million and \$39.4 million, respectively.
  - Current receivables from the Institutions totaled approximately \$6.6 million as of June 30, 2018, and \$6.8 million and \$6.4 million as of June 30, 2017 and 2016, respectively. These receivables primarily represent the Institutions' current obligations for principal payments to be paid on the University and College system-wide bond obligations.
  - Current liabilities total \$30.8 million, \$29.1 million, and \$34.4 million as of June 30, 2018, 2017, and 2016, respectively. In addition, the \$2.4 million increase in deposits was offset by a \$54,000 million decline in interest payable and \$1.6 million decline in the current portion of bond payable. Accounts payable and amounts due to institutions and affiliates increased by \$370,000 and \$348,000, respectively. In FY 2018, accounts payable increased from \$639,000 to \$1.0 million and the amounts due to institutions increased from \$1.4 million to \$1.8 million primarily because the total due for construction payments decreased over the previous year.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Net Position (Continued)**

- As of June 30, 2018, 2017, and 2016, noncurrent assets totaled \$142.3 million, \$144.3 million, and \$168.8 million, respectively.
  - Except for capital assets, the most significant portion of noncurrent assets are the receivables from the Institutions that are primarily related to the University and College system-wide bonds. These obligations totaled \$64.5 million as of June 30, 2018 compared to \$66.7 million at June 30, 2017 and \$70.6 million at June 30, 2016. The other amounts due from Institutions reflect the advances made to certain Institutions.
  - Noncurrent cash totaled \$21.2 million as of June 30, 2018, compared to \$16.1 million as of June 30, 2017 and \$21.2 million as of June 30, 2016. In FY 2008, the Legislature appropriated \$37.0 million that included \$30.0 million for two advanced technology centers for the Community and Technical College System and \$7.0 million for an energy savings loan program. \$800,000 had been expended for the advanced technology centers in FY 2018 compared to \$1.1 million that had been expended in FY 2017 and \$3.8 million that had been expended in FY 2016. The amount of loans exceeded loan repayments by \$870,000 for fiscal year 2018 and \$1.8 million for fiscal year 2017. As of June 30, 2016 loan payments exceeded loans by \$1.3 million. The rest of the FY 2018 increase is primarily attributable to the proceeds received from the issuance of the 2017 Series Community and technical College Capital Improvements Revenue Refunding Bonds.
- The primary noncurrent liability represents the actual system-wide bonds outstanding, as further described in Note 8 to the financial statements. At June 30, 2018, 2017, and 2016 noncurrent bonds payable totaled \$318.5 million, \$321.0 million, and \$335.6 million, respectively, plus future interest payable on bonds of \$34.7 million as of June 30, 2018, \$35.5 million as of June 30, 2017, and \$35.9 million as of June 30, 2016. The future interest includes payments, which commenced in FY 2014 and are classified as a current liability. In FY 2018, FY 2017, and FY 2016, the related current liability is \$4.6 million, \$4.5 million and \$4.3 million, respectively.
- Total net position of the Commission was a deficit of \$176.9 million, \$177.3 million, and \$169.3 million as of June 30, 2018, 2017, and 2016, respectively.
  - Net investment in capital assets of \$60.2 million is primarily the capital assets of the West Virginia Regional Technology Park.
  - The major components of restricted net position as of June 30, 2018 are as follows:
    - ✓ Funds restricted for scholarship programs total \$7.6 million
    - ✓ Funds restricted for sponsored projects total \$6.6 million
    - ✓ Funds restricted for capital projects total \$15.5 million
    - ✓ Funds restricted for debt service total \$9.6 million
  - The unrestricted net deficit of \$276.3 million is primarily because of bonds outstanding where the funds were provided to the institutions for capital additions but the repayments will be made from excess Lottery funds, if available.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Revenues, Expenses, and Changes in Net Position**

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

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

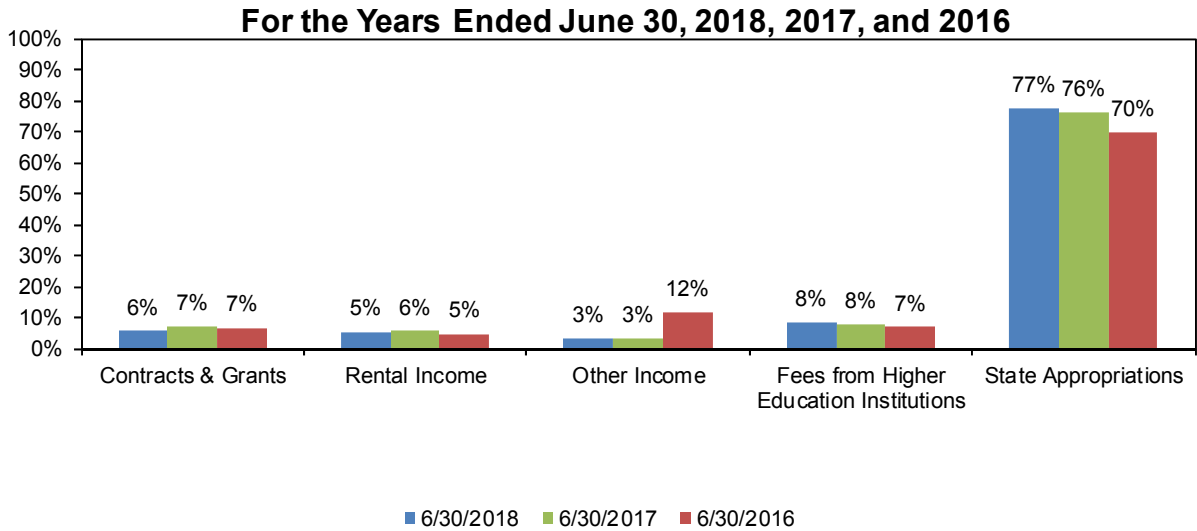
**Condensed Statements of Revenues, Expenses, and Changes in Net Position**  
**(in thousands of dollars)**

	<u>2018</u>	<u>2017</u> <u>(As Restated)</u>	<u>2016</u>
Operating Revenues	\$ 21,891	\$ 23,132	\$ 26,869
Operating Expenses	<u>28,150</u>	<u>28,102</u>	<u>31,046</u>
Operating Loss	(6,259)	(4,970)	(4,177)
Net Nonoperating Revenues	<u>10,574</u>	<u>10,316</u>	<u>13,311</u>
Gain Before Other Revenues, Expenses, Gains, Losses, or Transfers	4,315	5,346	9,134
Capital Grants	-	-	1,352
Capital Payments and Transfers to Institutions and Outside Entities	<u>(3,718)</u>	<u>(15,753)</u>	<u>(495)</u>
Increase (Decrease) in Net Position	597	(10,407)	9,991
Net Position - Beginning of Year	<u>(177,315)</u>	<u>(169,332)</u>	<u>(179,323)</u>
Restatement July 1, 2017, OPEB Liability	(139)	-	-
Restatement July 1, 2017, Correction of Prior Year Error	<u>-</u>	<u>2,424</u>	<u>-</u>
Net Position - End of Year, As restated	<u>\$ (176,859)</u>	<u>\$ (177,315)</u>	<u>\$ (169,332)</u>

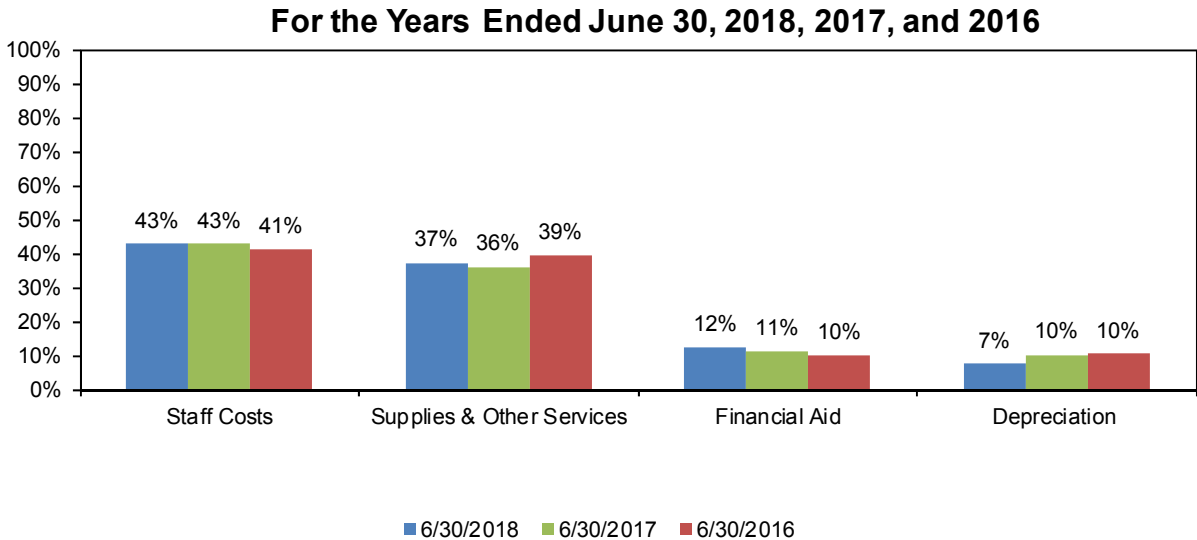
**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

**Total Revenues**



**Total Operating Expenses**



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Revenues, Expenses, and Changes in Net Position (Continued)**

Major items of note in the statements of revenue, expenses, and change in net position include:

- Operating revenues of the Commission totaled \$21.9 million in FY 2018 compared to \$23.1 million in FY 2017 and \$26.9 million in FY 2016.
  - The amount of fees collected from higher education institutions for the operations of the Commission totaled about \$8.0 million for FY 2018, \$7.6 million for FY 2017, and \$7.9 million for FY 2016 and FY 2016, respectively. The FY 2018 decline was caused by institutional enrollment increases.
  - Federal, State, and local grants totaled \$5.3 million in FY 2018 compared to \$6.8 million in FY 2017 and \$7.7 million in FY 2016.
  - Rental income was \$5.2 million, \$5.4 million, and \$5.4 million in FY 2018, FY 2017, and FY 2016, respectively, and is received from tenants occupying space within the West Virginia Regional Technology Park. Lease and service revenues are from four major tenants. The decrease in rental income is due to reductions, which were a direct result of a decrease in utility usage.
- Operating expenses totaled \$28.2 million in FY 2018 and FY 2017, \$31.0 million in FY 2016. During FY 2018, Personal services expenses as well as depreciation declined over previous years. Positions were not filled in response to state budget reductions.
- Net nonoperating revenue of \$10.6 million in FY 2018 compared to \$10.3 million in FY 2017 and \$13.3 million in FY 2016.
  - State general revenue and lottery appropriations were \$74.4 million in FY 2018 compared to \$73.4 million in FY 2017 and \$74.7 million in FY 2016.
  - Expenditures for student financial aid and other payments to institutions totaled \$54.0 million in FY 2018 compared to \$52.8 million in FY 2017 and \$49.9 million in FY 2016.
- During FY 2017, the Commission transferred the \$15 million Northern West Virginia Advanced Technology

**Statement of Cash Flows**

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Statement of Cash Flows (Continued)**

**Condensed Statements of Cash Flows**  
**(in thousands of dollars)**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Cash Provided (Used) by:			
Operating Activities	\$ (593)	\$ (5,239)	\$ 207
Noncapital Financing Activities	27,500	25,173	27,283
Capital Financing Activities	(25,429)	(22,891)	(23,470)
Investing Activities	570	306	114
Increase (Decrease) in Cash and Cash Equivalents	2,048	(2,651)	4,134
Cash and Cash Equivalents - Beginning of Year	36,740	39,391	35,257
Cash and Cash Equivalents - End of Year	<u>\$ 38,788</u>	<u>\$ 36,740</u>	<u>\$ 39,391</u>

Major items of note in the cash flow statement include:

- Net cash provided (used) by operating activities in FY 2018, FY 2017, and FY 2016 was (\$0.4) million, (\$5.2) million, and \$.2 million, respectively. Major reconciling items in all fiscal years from the operating loss reported on the statements of revenue, expenses, and changes in net position include depreciation expense and fluctuations in accounts receivable, accounts payable, and accrued liabilities.
- Net cash provided by noncapital financing activities in FY 2018, FY 2017, and FY 2016 was \$27.5 million, \$25.2 million, and \$27.3 million, respectively. Noncapital financing sources and uses of funds include state appropriations, receipts for fiduciary governmental entities and disbursements to fiduciary governmental entities and payments to institutions.
- Net cash used in capital financing activities totaled \$25.4 million, \$22.9 million, and \$23.5 million in FY 2018, FY 2017, and FY 2016, respectively. Capital payments to institutions, purchases of capital assets, disbursements of bond principal and interest payments were offset by the receipt of bond proceeds and capital grants.
- Net cash provided by Investing Activities totaled \$570,000 in FY 2018, \$306,000 in FY 2017 and \$114,000 in FY 2016.
- Total cash increased by \$2.0 million in FY 2018, decreased \$2.7 million in FY 2017, and increased \$4.1 million in FY 2016, ending the years at \$38.8 million at June 30, 2018, \$36.7 million at June 30, 2017, and \$39.4 million at June 30, 2016.

**Long-Term Debt Activity**

On November 7, 2017, The Commission issued Series 2017 West Virginia Higher Education Policy Commission Community and Technical Colleges Capital Improvement Revenue Refunding Bonds to advance refund the outstanding principal amount of the state of West Virginia Higher Education Policy Commission Community and Technical Colleges Capital Improvement Revenue Refunding Bonds, 2009 Series A and to provide funds to finance the acquisition, construction, equipping or improvement of community and technical college facilities located in the state of West Virginia. The bonds refunded \$66,340,000 in outstanding 2009 Series A bonds.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Long-Term Debt Activity (Continued)**

On December 21, 2017, The Commission issued the state of West Virginia Higher Education Policy Commission Revenue Refunding Bonds (Higher Education Facilities Series 2017). The bonds were issued to provide funds to advance refund the West Virginia Higher Education Policy Commission Revenue Bonds (Higher Education Facilities) 2007 Series A bonds (the 2007 Series A Bonds), and a portion of the West Virginia Higher Education Policy Commission Revenue Bonds (Higher Education Facilities) 2010 Series A bonds (the 2010 Series A Bonds) to reduce debt service payments and to pay the costs associated with the bonds. The bonds refunded and defeased the \$15,765,000 in outstanding 2007 Series A Bonds and \$12,880,000 of the 2010 Series A Bonds.

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

The Commission made all required debt service payments and repaid principal of \$14.0 million in FY 2018, \$13.5 million in FY 2017 and \$14.4 million in FY 2016, respectively. See Notes 7 and 8 to the financial statements for further detail of long-term debt.

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

The mission of the Commission is to align the West Virginia Higher Education System in accord with the master plan for 2017-2018. The master plan entitled Leading the Way: Access. Success. Impact. sets forth the overarching goals for West Virginia public higher education and provides the conceptual framework plan.

Three areas that are central to meeting current challenges in West Virginia higher education are identified in the plan:

1. Access
2. Success
3. Impact

For each area, a definition of the area, current Commission efforts, strategies for success and goals are provided for West Virginia's public colleges and universities to address in each of the three areas of the public agenda. These plan components for addressing needs in higher education in West Virginia from 2013 to 2018 are the basis for the development of new institutional compacts for the State's four-year public colleges and universities and the West Virginia School for Osteopathic Medicine.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Other Factors Impacting the Financial Position and Results of Operations of the Commission  
(Continued)**

The achievement of the goals for the higher education system as described in the master plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time, the Commission itself maintains a strong financial condition. Although the net position of the Commission is reported as a deficit of \$176.9 million, \$39.3 million of future interest payable on the 2000 Series A Bonds (repayment on these bonds began during Y 2014) and the \$113.1 million of debt on the 2012 Series A and B Bonds will be paid by Lottery Commission excess proceeds, if available. In addition, \$64.1 million of debt on 2017 Series Community and Technical College Capital Improvement Revenue Refunding Bonds will be paid by the Lottery Commission excess proceeds, if available, and \$53.7 million of debt on the 2010 Series A and B Facilities Bonds will also be paid by the Lottery Commission excess proceeds, if available. In the event that excess Lottery Commission proceeds are not available, the Institutions will be responsible for providing the moneys for repayment of the debt except on the 2017 Community and Technical College Capital Improvement Revenue Refunding Bonds Series A. The vast majority of the funding that is reported in the financial statements of the Commission is ultimately assigned to the public higher education Institutions in the state for capital projects, grants, scholarships and special projects. This funding is critical to the success of the higher education system in meeting the compact goals.

The Commission entered into an agreement on February 25, 2011 with the Union Carbide Corporation (UCC) a wholly owned subsidiary of The Dow Chemical Company (Dow) for the donation of property known as Union Carbide Corporation's Technology Park in the City of South Charleston, County of Kanawha, and state of West Virginia. This property consists of 258 acres, several major buildings, and infrastructure. On December 15, 2011, the deed for the property transferred to the Commission. The Commission has opened the Tech Park to other business to enhance economic development opportunities. Kanawha Valley Community and Technical College has relocated their campus to the site with the renovation of one of the existing buildings and there and an Advanced Technology Center for community college technical training and education was completed. The net value of the capital gifts of equipment and buildings was \$21.0 million, which was recognized in FY 2012. During FY 2018, the West Virginia Regional Technology Park's operating revenues totaled \$7.7 million, including \$5.2 million in rental income. The operating revenues totaled \$7.7 million in FY 2017, including \$5.4 million in rental income. Total operating expenses for FY 2018 were \$9.0 million, including \$3.3 million for utilities. For FY 2017, total operating expenses were \$7.6 million including \$2.9 million for utilities.

In June 2018, the Governor of West Virginia created a Blue Ribbon Commission on Four Year Higher Education, and charged it to recommend policies, structure, and organization to improve four-year higher education. The report will be submitted to the Governor by December 10, 2018.

The Commission will recommend policies that support keeping schools in communities with institutional local governing boards, and that support mission differentiation, particularly, service, research, and innovation. In forming recommendations, the Commission will do the following:

- Examine policies and governance structures to provide institutions with the ability to streamline administrative services to increase quality, create potential economies of scale and scope, including provision of services by a central service-providing entity.
- Examine policies that facilitate the compatibility and alignment among the institutions and any central service-providing body.



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
MANAGEMENT DISCUSSION AND ANALYSIS (RSI) (UNAUDITED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

**Other Factors Impacting the Financial Position and Results of Operations of the Commission  
(Continued)**

- Examine policies that enhance the value and ability of four-year institutions to provide high-quality instruction, community outreach, economic development, as well as research and creative discovery within the scope of each institution's mission.
  
- Examine methods used in other states to restructure higher education.

The Commission will recommend policies that provide all four-year institutions the opportunity to meet goal to increase access, retention, and degree attainment. The Commission will do the following:

- Identify bureaucratic barriers and inefficiencies that interfere with efficient delivery of education.
  
- Identify means to optimize means of access to instruction.
  
- Identify all technological breakthroughs to deliver world-class educational opportunities.
  
- Identify the best practices to enroll, educate, and retain at-risk students.
  
- Identify incentives for graduates to remain in West Virginia's workforce and leaders of West Virginia's communities.

**Economic Outlook**

For FY 2019 the Governor has asked state agencies, including public higher education, to submit appropriation requests equal to the fiscal year 2018 amounts. The current outlook for West Virginia has become more positive as economic growth and tax revenues have improved.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
STATEMENTS OF NET POSITION  
JUNE 30, 2018 AND 2017**

	2018	2017 (As Restated)
<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>		
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 38,788,573	\$ 36,740,365
Appropriations Due from Primary Government	3,958,095	5,349,426
Accounts Receivable - Net	2,316,930	5,811,008
Interest Receivable	474,590	238,214
Prepaid Expense	284,717	353,424
Receivable from Institutions - Current Portion	6,595,043	6,849,727
Total Current Assets	52,417,948	55,342,164
<b>NONCURRENT ASSETS</b>		
Cash and Cash Equivalents	21,241,117	16,093,964
Accounts Receivable Noncurrent	2,191,392	2,360,961
Receivable from Institutions	57,935,328	65,977,871
Capital Assets - Net	61,020,364	59,888,895
Total Noncurrent Assets	142,388,201	144,321,691
Total Assets	194,806,149	199,663,855
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Deferred Loss on Refunding	16,921,427	13,237,791
Deferred Outflows Related to OPEB	245,958	-
Deferred Outflows Related to Pensions	167,961	263,434
Total Deferred Outflows of Resources	17,335,346	13,501,225
Total Assets and Deferred Outflows of Resources	\$ 212,141,495	\$ 213,165,080

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**STATEMENTS OF NET POSITION (CONTINUED)**  
**JUNE 30, 2018 AND 2017**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION</b>	2018	2017 (As Restated)
<b>CURRENT LIABILITIES</b>		
Accounts Payable	\$ 1,009,381	\$ 639,820
Amounts Due to Institutions and Affiliates	1,759,087	1,410,733
Accrued Liabilities	859,616	823,079
Deposits	4,718,603	2,236,510
Unearned Revenue - Services	167,598	94,105
Compensated Absences - Current Portion	692,539	692,307
Interest Payable	9,186,947	9,241,293
Notes Payable Current Portion	148,249	143,339
Bonds Payable - Current Portion	12,301,064	13,888,248
Total Current Liabilities	30,843,084	29,169,434
<b>NONCURRENT LIABILITIES</b>		
Compensated Absences	272,679	204,961
Future Interest Payable	34,728,356	35,466,339
Net Pension Liability	484,318	638,666
Other Postemployment Benefit Liability	2,849,608	3,051,291
Notes Payable	718,572	866,750
Bonds payable	318,472,400	321,046,785
Total Noncurrent Liabilities	357,525,933	361,274,792
Total Liabilities	388,369,017	390,444,226
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Deferred Inflows Related to OPEB	537,502	-
Deferred Inflows Related to Pensions	93,890	35,631
Total Deferred Inflows of Resources	631,392	35,631
Total Liabilities and Deferred Inflows of Resources	389,000,409	390,479,857
<b>NET POSITION</b>		
Net Investment in Capital Assets	60,153,544	58,878,806
Restricted for - Expendable:		
Scholarships	7,582,862	10,847,153
Sponsored Projects	6,596,080	5,316,354
Capital Projects	15,533,530	12,138,569
Debt Service	9,585,392	9,731,993
Total Restricted Expendable	39,297,864	38,034,069
Unrestricted	(276,310,322)	(274,227,652)
Total Net Position	(176,858,914)	(177,314,777)
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 212,141,495	\$ 213,165,080

See accompanying Notes to Financial Statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017 (As Restated)
<b>OPERATING REVENUES</b>		
Fees from Higher Education Institutions	\$ 4,563,379	\$ 4,584,457
Institutional Collections	3,472,644	3,030,521
Contracts and Grants:		
Federal	3,471,858	5,153,158
State	1,735,510	1,580,364
Private	117,389	121,023
Rental Income	5,249,308	5,434,985
Sales and Services of Educational Activities	3,253,446	3,200,379
Miscellaneous - Net	27,537	27,162
Total Operating Revenues	21,891,071	23,132,049
<b>OPERATING EXPENSES</b>		
Salaries and Wages	9,547,966	9,625,836
Benefits	2,491,011	2,365,699
Supplies and Other Services	10,505,158	10,149,711
Utilities	3,504,168	3,103,162
Depreciation	2,102,090	2,858,037
Total Operating Expenses	28,150,393	28,102,445
<b>OPERATING LOSS</b>	(6,259,322)	(4,970,396)
<b>NONOPERATING REVENUES (EXPENSES)</b>		
State Appropriations	51,411,250	50,355,273
State Lottery Appropriations	23,000,656	23,009,816
Investment Gain	592,430	330,564
Payments Made on Behalf of the Commission	288,774	113,501
Institutional Debt Service Payments from Institutions:		
Interest	6,664,260	6,813,342
Other	421,082	421,082
Interest on Indebtedness	(18,867,904)	(18,921,820)
Student Financial Aid and Other Payments to Institutions	(54,001,492)	(52,765,528)
Other Nonoperating Revenues - Net	1,064,842	959,704
Net Nonoperating Revenue	10,573,898	10,315,934
<b>INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS</b>	4,314,576	5,345,538
<b>CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES</b>	(3,719,710)	(15,753,060)
<b>INCREASE (DECREASE) IN NET POSITION</b>	594,866	(10,407,522)
Net Position - Beginning of Year	(177,314,777)	(169,331,432)
Restatement July 1, 2017, OPEB Liability	(139,003)	-
Restatement July 1, 2016, Correction of Prior Year Errors	-	2,424,177
Net Position - Beginning of Year, Restated	(177,453,780)	(166,907,255)
<b>NET POSITION - END OF YEAR</b>	<b>\$ (176,858,914)</b>	<b>\$ (177,314,777)</b>

See accompanying Notes to Financial Statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Fees and Reimbursements from Higher Education Institutions	\$ 4,563,379	\$ 4,584,457
Institutional Collections	4,002,567	3,385,227
Contracts and Grants	5,778,083	6,675,623
Payments to and on Behalf of Employees	(12,118,925)	(11,907,343)
Payments to Suppliers	(10,148,714)	(11,413,028)
Payments to Utilities	(3,438,888)	(3,337,391)
Rental Income Receipts	7,489,917	3,545,892
Sales and Service of Educational Activities	3,253,446	3,200,379
Other	26,282	27,156
Net Cash Used by Operating Activities	(592,853)	(5,239,028)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
State Appropriations	75,803,237	75,455,801
Receipts for Fiduciary Governmental Entities	50,582,264	47,524,189
Disbursements to Fiduciary Governmental Entities	(48,830,031)	(48,037,107)
Payments to Institutions	(50,055,732)	(49,769,644)
Net Cash Provided by Noncapital Financing Activities	27,499,738	25,173,239
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES</b>		
Payment on Bond Issuance Cost	105,825,436	-
Proceeds from Bond Issuances	-	-
Institutional Receipts for Debt Service	(94,985,000)	13,147,572
Payoff of Refinanced Bonds	(4,381,761)	-
Purchases of Capital Assets	14,513,590	(3,762,767)
Principal Paid on Bonds	(3,160,543)	(13,518,148)
Proceeds from Sale of Capital Assets	7,650	-
Interest Paid on Bonds	(14,023,248)	(19,271,756)
Principal Paid on Notes	(143,268)	(138,457)
Interest Paid on Notes	(19,628,198)	(37,424)
Capital Payments and Transfers to Institutions and Outside Entities	(5,142,894)	(802,248)
Capital Loans to Institutions	-	605,479
Capital Loan Repayments from Institutions	868,979	(2,375,000)
Deposits to Noncurrent Cash and Cash Equivalents	(29,720,936)	(26,956,941)
Withdrawals from Noncurrent Cash and Cash Equivalents	24,573,783	30,218,710
Net Cash Used by Capital Financing Activities	(25,428,728)	(22,890,980)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Receipts from Investment Income	570,052	305,316
<b>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	2,048,208	(2,651,453)
Current Cash and Cash Equivalents - Beginning of Year	36,740,365	39,391,818
<b>CURRENT CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 38,788,573	\$ 36,740,365

See accompanying Notes to Financial Statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
STATEMENTS OF CASH FLOWS (CONTINUED)  
YEARS ENDED JUNE 30, 2018 AND 2017**

	<u>2018</u>	<u>2017</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Operating Loss	\$ (6,259,322)	\$ (4,970,396)
Adjustments to Reconcile Operating Loss to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization Expense	2,102,089	2,858,037
Changes in Assets and Liabilities:		
Accounts Receivables - Net	3,262,747	(1,289,214)
Prepaid Expenses	68,707	194,214
Accounts Payable	198,406	(1,545,539)
Accrued Liabilities	36,820	5,210
Other Postemployment Benefit Liability	(201,683)	109,597
Defined Benefit Pension	64,175	19,693
Compensated Absences	67,950	(116,827)
Deposits Held in Custody for Others	(6,235)	(112,043)
Deferred Revenue	73,493	(391,760)
	<u>                    </u>	<u>                    </u>
Net Cash Used by Operating Activities	<u>\$ (592,853)</u>	<u>\$ (5,239,028)</u>
<b>SIGNIFICANT NONCASH TRANSACTIONS</b>		
Capital Transfers to Institutions Included in Accounts Payable	<u>\$ 144,456</u>	<u>\$ 55,637</u>
Capital Asset Additions Included in Accounts Payable	<u>\$ 132,435</u>	<u>\$ -</u>
Gain on Disposal of Capital Assets	<u>\$ -</u>	<u>\$ 9,500</u>
Expenses Paid on Behalf of the Commission	<u>\$ 288,774</u>	<u>\$ 113,501</u>

See accompanying Notes to Financial Statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 1 ORGANIZATION**

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

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

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

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

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Reporting Entity**

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

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

**Financial Statement Presentation**

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

Net Investment in Capital Assets – This represents the Commission's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to capital assets, including those on individual institutions' financial statements. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted Net Position – Expendable – This includes resources in which the Commission is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code (the Code). House Bill No. 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the related institutions. These restrictions are subject to change by future actions of the West Virginia Legislature. The Commission does not have any such Code-restricted net position at June 30, 2018 and 2017.



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Financial Statement Presentation (Continued)**

Restricted Net Position – Nonexpendable – This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. There was no nonexpendable net position as of June 30, 2018 and 2017.

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

**Basis of Accounting**

For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities. Accordingly, the Commission's financial statements have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses when materials or services are received. All interdivision accounts and transactions have been eliminated.

**Cash and Cash Equivalents**

For purposes of the statements of net position, the Commission considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the State Treasurer) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with the Code, policies set by the BTI, provisions of bond indentures, and the trust agreements when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Cash and Cash Equivalents (Continued)**

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

**Appropriations Due from Primary Government**

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

**Allowance for Doubtful Accounts**

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

**Noncurrent Cash and Cash Equivalents**

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

**Capital Assets**

Capital assets include buildings, software, intangibles, and furniture and equipment. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Depreciation or amortization is computed using the straight-line method over the estimated useful lives of the assets, generally 3 to 7 years for software and intangibles; 3 to 10 years for furniture and equipment; 15 years for land improvements, and 30 years for buildings. The Commission uses a capitalization policy of \$5,000.

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Unearned Revenue**

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

**Compensated Absences and Other Postemployment Benefits**

GASB provides standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for OPEB for the State. Effective July 1, 2007, the Commission was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan and the stand-alone financial statements can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia 25305-0710 or <http://www.wvpeia.com>.

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

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Net Pension Liability**

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

**Future Interest Payable**

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

**Bonds**

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

**Deferred Outflows of Resources**

Consumption of net position by the Commission that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statements of net position. As of June 30, 2018 and 2017, the Commission had a deferred loss on refunding of \$16,921,427 and \$13,237,791, respectively, and deferred outflows of resources related to pensions of \$167,961 and \$263,434 as of June 30, June 30, 2018 and 2017, respectively (Note 10). As of June 30, 2018, the Commission had deferred outflows of resources related to OPEB of \$245,958 (Note 9).

**Deferred Inflows of Resources**

Acquisition of net position by the Commission that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statements of net position. As of June 30, 2018 and 2017, the deferred inflows related to pensions were \$93,890 and \$35,631, respectively (Note 10). As of June 30, 2018, the Commission had deferred inflows of resources related to OPEB of \$537,502 (Note 9).

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Risk Management**

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

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

In addition, through its participation in the PEIA and third-party insurers, the Commission has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the Commission has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

**Classification of Revenues**

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

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

Nonoperating Revenues – Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions and other revenues that are defined as nonoperating revenues by GASB, such as state and federal appropriations, investment income/loss, and sale of capital assets (including natural resources).

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

**Use of Restricted Net Position**

The Commission has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available. Generally, the Commission attempts to utilize restricted funds first when practical.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

**Institutional Collections**

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

**Government Grants and Contracts**

Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Commission recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to five years.

**Interest on Indebtedness**

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

**Student Financial Aid and Other Payments to Institutions**

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

**Income Taxes**

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

**Cash Flows**

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

**Use of Estimates**

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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 JUNE 30, 2018 AND 2017**

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

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

The Commission implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the Commission to report its share of the defined benefit other postemployment benefits (OPEB) liabilities and expense, as well as the related deferred outflows or resources and deferred inflows of resources, allocated to it by the West Virginia Health Benefit Trust Fund (RHBT). The July 1, 2017, balance of the net OPEB liability and related deferred outflows of resources is reported in the statement of revenues, expenses, and changes in net position as a restatement to the 2017 net position at beginning of year. The RHBT was not able to provide sufficient information to restate the June 30, 2017 financial statements.

	2017
Net Position - Beginning of the Year, as Previously Stated	\$ (177,314,777)
Balance of the OPEB Liability and Related Deferred Outflows of Resources	(139,003)
Net Position - Beginning of Year, Restated	\$ (177,453,780)

The GASB has issued Statement No. 85, Omnibus 2017, which is effective for fiscal years beginning after June 15, 2017. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The adoption of this standard had no effect on the Commission's financial statements.

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

The GASB has also issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The Commission has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The GASB has also issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The Commission has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

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

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

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The Commission has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

The GASB has also issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. This statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The statement defines debt for purposes of disclosure in the notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed as the date the contractual obligation is established. This statement requires that additional essential information related to debt be disclosed in the notes to the financial statements. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The Commission has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

The GASB has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, which is effective for fiscal years beginning after December 15, 2019. The objective of this statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify the accounting for certain interest costs. This statement also establishes accounting requirements for interest cost incurred before the end of a construction period. The Commission has not yet determined the effect that the adoption of GASB No. 89 may have on its financial statements.

The GASB has also issued Statement No. 90, *Major Equity Interests*, which is effective for fiscal years beginning after December 15, 2018. This statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This statement also provides guidance for reporting component unit if a government acquires a 100% equity interest in that component unit. The Commission has not yet determined the effect that the adoption of GASB No. 90 may have on its financial statements.



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 CASH AND CASH EQUIVALENTS**

The composition of cash and cash equivalents at June 30, 2018 was held as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 32,735,872	\$ 7,506,928	\$ 40,242,800
Municipal Bond Commission	1,814,569	-	1,814,569
Bank	4,238,132	-	4,238,132
Trustee	-	13,734,189	13,734,189
Total	<u>\$ 38,788,573</u>	<u>\$ 21,241,117</u>	<u>\$ 60,029,690</u>

The composition of cash and cash equivalents at June 30, 2017 was held as follows:

	<u>Current</u>	<u>Noncurrent</u>	<u>Total</u>
State Treasurer	\$ 30,104,159	\$ 7,787,667	\$ 37,891,826
Municipal Bond Commission	1,875,441	-	1,875,441
Bank	4,760,765	-	4,760,765
Trustee	-	8,306,297	8,306,297
Total	<u>\$ 36,740,365</u>	<u>\$ 16,093,964</u>	<u>\$ 52,834,329</u>

Cash held by the State Treasurer includes \$7,506,928 and \$7,787,667 at June 30, 2018 and 2017, respectively, of restricted cash for sponsored projects, loans, and other purposes.

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

The combined carrying amount of cash in bank at June 30, 2018 and 2017 was \$4,238,132 and \$4,760,765 as compared with the combined bank balance of \$4,238,132 and \$4,760,765, respectively. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Amounts with the State Treasurer as of June 30, 2018 and 2017 are comprised of \$5,255,453 and \$4,186,266, respectively, held by the State Treasury Fund and not invested, and three investment pools, the WV Money Market Pool, the WV Government Money Market Pool, and the WV Short Term Bond Pool.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)**

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor’s rating of the investment pools as of June 30:

External Pool	2018		2017	
	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	\$ 32,420,615	AAAm	\$ 31,113,939	AAAm
WV Government Money Market Pool	1,814,569	AAAm	1,875,441	AAAm
WV Short-Term Bond Pool	752,163	Not Rated	716,180	Not Rated

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

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

External Pool	2018		2017	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	\$ 32,420,615	34	\$ 31,113,939	36
WV Government Money Market Pool	1,814,569	21	1,875,441	35

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

External Pool	2018		2017	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short-Term Bond Pool	\$ 752,163	372	\$ 716,180	426

**Cash in Bank with Trustee**

Credit Risk – Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with trustee is governed by provisions of the bond agreement.

Investment Type	Carrying Value	
	2018	2017
Money Market Fund	\$ 13,734,189	\$ 8,306,297

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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**NOTE 3 CASH AND CASH EQUIVALENTS (CONTINUED)**

**Cash in Bank with Trustee (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, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commission does not have a formal custodial credit risk policy.

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

**NOTE 4 ACCOUNTS RECEIVABLE**

Accounts receivable at June 30, 2018 and 2017 were as follows:

	<u>2018</u>	<u>2017</u>
Student Loan Receivables - Net of Allowance for Doubtful Accounts of \$1,760,417 and \$1,728,843	\$ 2,576,428	\$ 2,449,911
Grants and Contracts Receivable	104,762	852,844
Due from Higher Education Institutions	1,098,159	1,380,491
Rent Receivable - Net of Allowance for Doubtful Accounts of Rent Receivable of \$97,262 and \$48,714	367,818	2,443,703
Employee Conversion Pay Receivable	82,732	99,582
Due from State and State Agencies	278,423	945,438
Total	<u>\$ 4,508,322</u>	<u>\$ 8,171,969</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 CAPITAL ASSETS**

A summary of capital asset activity for the year ended June 30, 2018 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 15,130,000	\$ -	\$ -	\$ 15,130,000
Construction in Progress	12,717,912	14,370	-	12,732,282
Total Capital Assets not being Depreciated	<u>\$ 27,847,912</u>	<u>\$ 14,370</u>	<u>\$ -</u>	<u>\$ 27,862,282</u>
<b>Other Capital Assets:</b>				
Buildings and Building Improvements	\$ 30,576,588	\$ 2,380,505	\$ -	\$ 32,957,093
Leasehold Improvements	24,725	58,669	-	83,394
Infrastructure	3,985,900	-	-	3,985,900
Intangible	1,443,351	24,987	-	1,468,338
Equipment	13,814,152	755,028	-	14,569,180
Total Other Capital Assets	49,844,716	3,219,189	-	53,063,905
<b>Less Accumulated Depreciation and Amortization for:</b>				
Buildings and Building Improvements	3,830,300	1,076,573	-	4,906,873
Leasehold Improvements	5,152	9,318	-	14,470
Infrastructure	1,231,552	-	-	1,231,552
Intangible	1,191,725	62,244	-	1,253,969
Equipment	11,545,004	953,955	-	12,498,959
Total Accumulated Depreciation and Amortization	<u>17,803,733</u>	<u>2,102,090</u>	<u>-</u>	<u>19,905,823</u>
Other Capital Assets - Net	<u>\$ 32,040,983</u>	<u>\$ 1,117,099</u>	<u>\$ -</u>	<u>\$ 33,158,082</u>
<b>Capital Asset Summary:</b>				
Capital Assets Not Being Depreciated or Amortized	\$ 27,847,912	\$ 14,370	\$ -	\$ 27,862,282
Other Capital Assets	49,844,716	3,219,189	-	53,063,905
Total Cost of Capital Assets	77,692,628	3,233,559	-	80,926,187
Less: Accumulated Depreciation and Amortization	17,803,733	2,102,090	-	19,905,823
Capital Assets - Net	<u>\$ 59,888,895</u>	<u>\$ 1,131,469</u>	<u>\$ -</u>	<u>\$ 61,020,364</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 5 CAPITAL ASSETS (CONTINUED)**

A summary of capital asset activity for the year ended June 30, 2017 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 15,130,000	\$ -	\$ -	\$ 15,130,000
Construction in Progress	26,581,799	326,632	(14,190,519)	12,717,912
Total Capital Assets not being Depreciated	<u>\$ 41,711,799</u>	<u>\$ 326,632</u>	<u>\$ (14,190,519)</u>	<u>\$ 27,847,912</u>
<b>Other Capital Assets:</b>				
Buildings and Building Improvements	\$ 30,525,635	\$ 50,953	\$ -	\$ 30,576,588
Leasehold Improvements	24,725	-	-	24,725
Infrastructure	3,804,181	181,719	-	3,985,900
Intangible	1,443,351	-	-	1,443,351
Equipment	13,702,426	158,065	(46,339)	13,814,152
Total Other Capital Assets	<u>49,500,318</u>	<u>390,737</u>	<u>(46,339)</u>	<u>49,844,716</u>
<b>Less Accumulated Depreciation and Amortization for:</b>				
Buildings and Building Improvements	2,771,196	1,064,256	-	3,835,452
Infrastructure	1,145,000	86,552	-	1,231,552
Intangible	1,084,473	107,252	-	1,191,725
Equipment	9,986,460	1,599,977	(41,433)	11,545,004
Total Accumulated Depreciation and Amortization	<u>14,987,129</u>	<u>2,858,037</u>	<u>(41,433)</u>	<u>17,803,733</u>
Other Capital Assets - Net	<u>\$ 34,513,189</u>	<u>\$ (2,467,300)</u>	<u>\$ (4,906)</u>	<u>\$ 32,040,983</u>
<b>Capital Asset Summary:</b>				
Capital Assets not being Depreciated or Amortized	\$ 41,711,799	\$ 326,632	\$ (14,190,519)	\$ 27,847,912
Other Capital Assets	49,500,318	390,737	(46,339)	49,844,716
Total Cost of Capital Assets	<u>91,212,117</u>	<u>717,369</u>	<u>(14,236,858)</u>	<u>77,692,628</u>
Less: Accumulated Depreciation and Amortization	<u>14,987,129</u>	<u>2,858,037</u>	<u>(41,433)</u>	<u>17,803,733</u>
Capital Assets - Net	<u>\$ 76,224,988</u>	<u>\$ (2,140,668)</u>	<u>\$ (14,195,425)</u>	<u>\$ 59,888,895</u>

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

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

At June 30, 2018 and 2017, the Commission had outstanding contractual commitments of approximately \$736,117 and \$1.2 million for property, plant, and equipment expenditures, respectively.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 LONG-TERM LIABILITIES**

A summary of long-term obligation activity for the years ended June 30, 2018 and 2017 is as follows:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 334,935,033	\$ 105,825,436	\$ (109,987,005)	\$ 330,773,464	\$12,301,064
Notes Payable	1,010,089	-	(143,268)	866,821	148,249
Other Long-Term Liabilities:					
Accrued Compensated Absences	897,267	67,951	-	965,218	692,539
Future Interest Payable	39,928,091	-	(585,799)	39,342,292	4,613,936 *
Other Postemployment Benefit Liability	3,051,291	58,280	(259,963)	2,849,608	-
Net Pension Liability	638,666	-	(154,348)	484,318	-
Total Long-Term Liabilities	<u>\$ 380,460,437</u>	<u>\$ 105,951,667</u>	<u>\$ (111,130,383)</u>	<u>\$ 375,281,721</u>	
	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds Payable	\$ 349,152,456	\$ -	\$ (14,217,423)	\$ 334,935,033	\$ 13,888,248
Notes Payable	1,148,546	-	(138,457)	1,010,089	143,339
Other Long-Term Liabilities:					
Accrued Compensated Absences	1,014,095	-	(116,828)	897,267	692,307
Future Interest Payable	40,063,920	-	(135,829)	39,928,091	4,461,752 *
Other Postemployment Benefit Liability	2,941,694	109,597	-	3,051,291	-
Net Pension Liability	550,594	91,470	(3,398)	638,666	-
Unearned Revenue Leases	350,094	-	(350,094)	-	-
Total Long-Term Liabilities	<u>\$ 395,221,399</u>	<u>\$ 201,067</u>	<u>\$ (14,962,029)</u>	<u>\$ 380,460,437</u>	

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

**NOTE 7 NOTE PAYABLE**

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

**NOTE 8 BONDS PAYABLE**

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 8 BONDS PAYABLE (CONTINUED)**

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

Bonds payable at June 30, 2018 and 2017 consisted of the following:

	Maximum Interest Rate	Original Range of Annual Principal Installment Due	Principal Amount Outstanding	
			2018	2017
2017 Series Community and Technical College Capital Improvement Revenue Refunding Bonds	5.00%	\$30,000 to 4,760,000	\$ 64,075,000	\$ -
2017 Series Revenue Refunding Bonds Higher Education Facilities	5.00	\$1,205,000 to 3,885,000	24,905,000	-
2012 Series A Revenue Refunding Bonds, Due through 2034	5.00	\$1,425,000 to 42,100,000	106,650,000	110,975,000
2012 Series B Revenue Bonds, Due through 2034	5.00	\$200,000 to 2,400,000	6,400,000	6,700,000
2010 Series A Revenue Bonds, Due through 2026	5.00	\$235,000 to 12,750,000	3,405,000	16,520,000
2010 Series B Revenue Bonds, Due through 2040	7.65	\$10,800,000 to 39,465,000	50,265,000	50,265,000
2010 Series C Revenue Bonds, Due through 2018	5.28	\$1,340,000 to 1,580,000	-	1,420,000
2009 Series A Community and Technical College Improvement Revenue Bonds, Due through 2039	5.25	\$1,425,000 to 4,760,000	-	68,035,000
2007 Series A Revenue Refunding Bonds, Due through 2027	5.00	\$185,000 to 1,880,000	-	15,765,000
Series 2000A University System Bonds, Due through 2031	6.26	\$0 to 3,263,864	19,891,088	22,229,336
Series 1998 University System Bonds, Due through 2028	5.25	\$1,065,000 to 3,625,000	29,100,000	31,260,000
Subtotal			304,691,088	323,169,336
Add Bond Premium			26,082,376	12,119,242
Less: Bond Discount			-	(353,545)
Total			<u>\$ 330,773,464</u>	<u>\$ 334,935,033</u>

A summary of the annual aggregate payments for years subsequent to June 30, 2018 is as follows:

<u>Years Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 12,301,064	\$19,701,480	\$ 32,002,544
2020	14,416,188	19,304,032	33,720,220
2021	14,864,064	18,823,906	33,687,970
2022	15,402,104	18,836,365	34,238,469
2023	15,961,944	18,166,250	34,128,194
2024–2028	86,760,564	79,255,277	166,015,841
2029–2033	76,560,160	48,654,782	125,214,942
2034–2038	48,620,000	13,236,315	61,856,315
2039–2041	19,805,000	1,736,068	21,541,068
Total	<u>\$ 304,691,088</u>	<u>\$ 237,714,475</u>	<u>\$ 542,405,563</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
 NOTES TO FINANCIAL STATEMENTS  
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**NOTE 8 BONDS PAYABLE (CONTINUED)**

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

The proceeds of the 2017 Series Community and Technical College Capital Improvement Revenue Refunding Bonds were used, in part, to advance refund outstanding principal amount of the 2009 Series A Community and Technical College Improvement Revenue Bonds. This refunding reduced the Commission's total debt service payments by approximately \$34,000, resulting in a net economic gain of approximately \$7,184,000.

The proceeds of the 2017 Series Revenue Refunding Bonds Higher Education Facilities were used, in part, to currently refund outstanding principal amount of the 2007 Series A Revenue Refunding Bonds, and advance refund certain maturities of the outstanding principal amount of the 2010 Series A Revenue Bonds. This refunding reduced the Commission's total debt service payments by approximately \$2,776,000 resulting in a net economic gain of approximately \$2,517,000.

The 2017 advance refunding's created irrevocable trust funds, the securities and earnings therein are considered sufficient to fully service the bonds until they are called or mature. For financial reporting purposes, the bonds are considered defeased and the liability for those bonds has been removed from the statement of net position. At June 30, 2018, the amount of defeased bonds outstanding was \$66,340,000 related to the 2009 Series A Bonds and \$12,815,000 related to the 2010 Series A Revenue Bonds.

**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS**

Employees of the Commission are enrolled in the West Virginia Other Postemployment Benefit Plan (the OPEB plan) which is administered by the West Virginia Public Employees Insurance Agency (PEIA) and the West Virginia Retiree Health Benefit Trust Fund (the RHBT).

Following is the Commission's other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2018 (dollars in thousands):

Net OPEB Liability	\$	2,850
Deferred Outflows of Resources		246
Deferred Inflows of Resources		538
Revenues		180
OPEB Expense		344
Contributions Made by Commission		246



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Plan Description**

The OPEB plan is a cost-sharing, multiple employer, defined benefit other postemployment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in West Virginia Code Section 5-16D-2 (the Code). Plan benefits are established and revised by PEIA and the RHBT with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years, and are eligible for reappointment. The State Department of Administration secretary serves as Chairman of the Board. Four members represent labor, education, public employees, and public retirees. Four remaining members represent the public-at-large.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board (CPRB) and, as of July 1, 2008 forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the nonparticipating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and Empower Retirement), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teachers Retirement System (STRS), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The financial activities of the OPEB plan are accounted for in the RHBT, a fiduciary fund of the State of West Virginia. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at [www.peia.wv.gov](http://www.peia.wv.gov).

**Benefits Provided**

The OPEB plan provides the following benefits: medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: the self-insured preferred provider benefit plan option, which is primarily for non-Medicare-eligible retirees and spouses; and the external managed care organization option, which is primarily for Medicare-eligible retirees and spouses.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Contributions**

Pay as you go premiums (paygo) are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidize the retirees' health care.

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired between July 1, 1997 and June 30, 2010 pay a subsidized rate depending on the member's years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree's date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or vacation leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988 to June 30, 2001 may convert sick or vacation leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and vacation leave days per month for single healthcare coverage and three days of unused sick and vacation leave days per month for family healthcare coverage.

Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3-1/3 years of teaching service extend health insurance coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receive years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receive no health insurance premium subsidy when they retire. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010 who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Assumptions**

The net OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost method.
- Amortization method and period: Level percentage of payroll over 21 years; closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.
- Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
- Inflation rate: 2.75%.
- Discount rate: 7.15%
- Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (IMB) and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments (BTI).

Long-term pre-funding assets are invested with the IMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of the long-term geometric rates for each major asset class are summarized below.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Assumptions (Continued)**

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

<u>Asset Class</u>	<u>Long-Term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount Rate – The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Commission’s proportionate share of the net OPEB liability as of June 30, 2016 calculated using the discount rate of 7.15%, as well as what the Commission’s net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate (dollars in thousands):

	1% Decrease <u>(6.50%)</u>	Current Discount Rate <u>(7.50%)</u>	1% Increase <u>(8.50%)</u>
Net OPEB Liability 2018	\$ 3,596	\$ 2,850	\$ 2,666

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Assumptions (Continued)**

Sensitivity of the Net OPEB Liability to Changes in Healthcare Cost Trend Rates – The following presents the Commission’s proportionate share of the net OPEB liability as of June 30, 2016 calculated using the current healthcare cost trend rates, as well as what the Commission’s net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates (dollars in thousands):

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net OPEB Liability 2018	\$ 2,594	\$ 2,850	\$ 3,692

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The net OPEB liability at June 30, 2018 was measured as of June 30, 2016 rolled forward to June 30, 2017, which is the measurement date. The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date.

At June 30, 2018, the amount recognized as the Commission’s proportionate share of the net OPEB liability was \$2,849,608. At June 30, 2018, the nonemployer contributing entity’s (State of West Virginia) portion of the collective net OPEB liability is \$585,312 and the total net OPEB liability attributable to the Commission is \$3,434,920.

The allocation percentage assigned to each contributing employer is based on the employer’s proportionate share of employer contributions to the RHBT for the fiscal years ended June 30, 2017 and June 30, 2016. Employer contributions are recognized when due. At June 30, 2017, the Commission’s proportion was 0.125587%, a decrease of 0.026152% from its proportion of 0.151740% calculated as of June 30, 2016.

For the year ended June 30, 2018, the Commission recognized OPEB expense of \$343,969. Of this amount, \$164,292 was recognized as the Commission’s proportionate share of the OPEB expense, and \$179,677 as the amount of OPEB expense attributed to special funding. The Commission also recognized revenue of \$179,677 for support provided by the State.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 9 OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Assumptions (Continued)**

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ -	\$ 482,479
Net Difference between Projected and Actual Investment Earnings	-	45,481
Contributions After the Measurement Date	245,958	-
Net Difference between Actual and Expected Experience	-	9,542
Changes in Assumptions	-	-
Total	<u>\$ 245,958</u>	<u>\$ 537,502</u>

The Commission will recognize the \$245,958 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows (dollars in thousands):

<u>Year Ended June 30,</u>	<u>Amortization</u>
2019	\$ 143,848
2020	143,848
2021	143,848
2022	105,958
Total	<u>\$ 537,502</u>

**NOTE 10 RETIREMENT PLANS**

Substantially all full-time employees of the Commission, other than those employed by the Corporation as no plan has yet been established for them, participate in either the TRS or the Teachers' Insurance and Annuities Association – College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the TRS and TIAA-CREF. Effective July 1, 1991, the TRS was closed to new participants. Current participants in the TRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by the Commission's employees have not been significant to date.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Contribution Benefit Plans**

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

Total contributions to the TIAA-CREF for the years ended June 30, 2018, 2017, and 2016 were \$1,045,442, \$1,065,930, and \$1,101,880, respectively, which consisted of \$522,721, \$532,965, and \$550,940 from the Commission in 2018, 2017, and 2016, respectively, and \$522,721, \$532,965, and \$550,940 from covered employees in 2018, 2017, and 2016, respectively.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the new Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

Total contributions to Educators Money for the years ended June 30, 2018, 2017, and 2016 were \$12,758, \$15,632, and \$9,824, respectively, which consisted of \$6,739, \$7,816, and \$4,912 from the Commission in 2018, 2017, and 2016, respectively, and \$6,739, \$7,816, and \$4,912 from covered employees in 2018, 2017, and 2016, respectively.

The Commission's total payroll for the years ended June 30, 2018 and 2017 was \$10,511,110 and \$10,614,641 respectively. Total covered employees' salaries in the TIAA-CREF and Educators Money were \$9,899,363 and \$106,320, respectively, for the year ended June 30, 2018, and \$10,012,071 and \$130,267, respectively, for the year ended June 30, 2017.

**Defined Benefit Plan**

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

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

	<u>2018</u>	<u>2017</u>
Net Pension Liability	\$ 484,318	\$ 638,666
Deferred Outflows of Resources	167,961	263,434
Deferred Inflows of Resources	93,890	35,631
Revenues	110,352	113,501
Pension Expense	166,143	193,236
Contributions Made by Commission	59,824	59,629

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**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS

***Plan Description***

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

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

***Benefits Provided***

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

***Contributions***

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

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



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS (Continued)

***Contributions (Continued)***

**Employer Contributions:** Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents, and
5. under West Virginia State Code Section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2017 and 2016, the Commission's proportionate share attributable to this special funding subsidy was \$110,352 and \$107,983, respectively.

The Commission's contributions to TRS for the years ended June 30, 2018, 2017, and 2016 were approximately \$59,824, \$59,629, and \$60,246, respectively.

***Assumptions***

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2017 and rolled forward to June 30, 2018. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll
- Asset valuation method: Investments are reported at fair (market) value
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses
- Projected salary increases: Teachers 3.00% - 6.00% and nonteachers 3.00% - 6.50%, based on age
- Inflation rate of 3.0%
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables
- Withdrawal rates: Teachers 0.8% - 35% and nonteachers 1.3% - 24.7%
- Disability rates: 0% - 0.7%
- Retirement age: An age-related assumption is used for participants not yet receiving payments
- Retirement rates: 15% - 100%

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS (Continued)

***Assumptions (Continued)***

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

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2010 to June 30, 2015. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

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

<u>Asset Class</u>	2017	
	Long-Term Expected Real Rate of Return	Target Allocation
	Domestic Equity	7.0 %
International Equity	7.7	27.5
Core Fixed Income	2.7	7.5
High-Yield Fixed Income	5.5	7.5
TIPS	2.7	-
Real Estate	7.0	10.0
Private Equity	9.4	10.0
Hedge Funds	4.7	10.0

<u>Asset Class</u>	2016	
	Long-Term Expected Real Rate of Return	Target Allocation
	Domestic Equity	7.0 %
International Equity	7.7	27.5
Core Fixed Income	2.7	7.5
High-Yield Fixed Income	5.5	7.5
TIPS	2.7	-
Real Estate	7.0	10.0
Private Equity	9.4	10.0
Hedge Funds	4.7	10.0

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
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**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS (Continued)

***Assumptions (Continued)***

Discount Rate – The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS’ fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS’ investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan’s fiduciary net position, a municipal bond rate of 3.13% is to be used to discount the benefit payments not covered by the plan’s fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2016.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the Commission’s proportionate share of the TRS net pension liability as of June 30, 2018 and 2017 calculated using the discount rate of 7.50%, as well as what the Commission’s TRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate (dollars in thousands).

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability 2018	\$ 637,626	\$ 484,318	\$ 353,327
Net Pension Liability 2017	807,966	638,666	493,955

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

The TRS net pension liability was measured as of June 30, 2017 and 2016, respectively. The total pension liability was determined by an actuarial valuation as of July 1, 2018 and 2017, respectively, and rolled forward to the measurement dates.

At June 30, 2018 and 2017, the Commission’s proportionate share of the TRS net pension liability was \$1,555,345 and \$1,855,155, respectively. Of this amount, the Commission recognized approximately \$484,318 and \$638,666, respectively, as its proportionate share on the statements of net position. The remainder of \$1,071,027 and \$1,216,488, respectively, denotes the Commission’s proportionate share of net pension liability attributable to the special funding.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS (Continued)

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

The allocation percentage assigned to each participating employer and nonemployer contributing entity is based on their proportionate share of employer and nonemployer contributions to TRS for each of the fiscal years ended June 30, 2017 and 2016. Employer contributions are recognized when due. At June 30, 2017, the Commission's proportion was 0.014018%, a decrease of 0.001522% from its proportion of 0.015540% calculated as of June 30, 2016.

For the years ended June 30, 2018 and 2017, the Commission recognized TRS pension expense of \$166,143 and \$193,236, respectively. Of this amount, \$57,046 and \$79,735, respectively, was recognized as the Commission's proportionate share of the TRS expense, \$103,844 and \$107,983, respectively, as the amount of pension expense attributable to special funding from a nonemployer contributing entity and \$5,253 and \$5,518, respectively, as the amount of pension expense from a nonemployer contributing entity not attributable to a special funding situation. The Commission also recognized revenue of \$110,352 and \$113,501, respectively, for support provided by the State.

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ 85,732	\$ 70,040
Net Difference between Projected and Actual Investment Earnings	-	15,223
Contributions After the Measurement Date	59,824	-
Net Difference between Actual and Expected Experience	4,211	8,627
Changes in Assumptions	18,194	-
Total	<u>\$ 167,961</u>	<u>\$ 93,890</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 10 RETIREMENT PLANS (CONTINUED)**

**Defined Benefit Plan (Continued)**

TRS (Continued)

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

At June 30, 2017, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows:

	2017	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in Proportion and Difference between Employer Contributions and Proportionate Share of Contributions	\$ 119,590	\$ 31,901
Net Difference between Projected and Actual Investment Earnings	52,559	-
Contributions After the Measurement Date	59,629	-
Net Difference between Actual and Expected Experience	-	3,730
Changes in Assumptions	25,263	-
Total	\$ 263,434	\$ 35,631

The Commission will recognize the \$59,824 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows.

Year Ended June 30,	Amortization
2019	\$ 11,265
2020	28,142
2021	7,856
2022	(22,379)
2023	(10,637)
Total	\$ 14,247

***Payables to the Pension Plan***

The Commission did not report any amounts payable for normal contributions to the TRS as of June 30, 2018 and 2017.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 11 OPERATING LEASES**

During the fiscal years ended June 30, 2018 and 2017, the Corporation as lessor, leased its facilities under 27 and 24 separate lease and facilities services agreements, respectively. These agreements contain lease terms with termination dates ranging from the fiscal years 2018 through 2021. Rent and utilities fees income for the fiscal years ended June 30, 2018 and 2017 were \$5,249,308 and \$5,434,985, respectively.

The following is a schedule by years of minimum future rentals of the Tech Park, excluding renewal options, under the aforementioned lease agreements as of June 30, 2018:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 5,604,357
2020	3,942,584
2021	2,960,857
2022	2,722,196
2023	454,580
Total	<u>\$ 15,684,574</u>

Future annual minimum scheduled lease payments on operating leases of the Commission for years subsequent to June 30, 2018 are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 18,651

Total rent expense for the years ended June 30, 2018 and 2017 was \$436,664 and \$437,942, respectively. The Commission has no noncancelable leases.

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

**NOTE 12 CONTINGENCIES**

The nature of the educational industry is such that, from time to time, claims will be presented against the Commission on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Commission would not impact seriously on the financial status of the Commission.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 12 CONTINGENCIES (CONTINUED)**

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Commission's management believes disallowances, if any, will not have a significant impact on the Commission's financial position.

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2018 and 2017.

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

**NOTE 13 REIMBURSED EXPENDITURES**

The Commission, through WVNET, acts as a purchasing agent for the public higher education institutions of the State and other State agencies to obtain bulk-pricing discounts for maintenance and equipment purchases. In addition, the Commission, through WVNET, provides purchasing services regarding computer equipment purchases. In fiscal years 2018 and 2017, approximately \$3,500,916 and \$4,490,000 was reimbursed by the schools and other State agencies to WVNET, respectively. The Commission treats these items as reimbursed expenditures so as not to distort total revenues and expenditures.

**NOTE 14 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

For the year ended June 30, 2018, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation and Amortization	Total
General Institutional Support Administration, Operations, and Maintenance of Plant	\$ 8,294,347	\$ 2,063,628	\$ 7,914,829	\$ -	\$ -	\$ 18,272,804
Administration of Leasing Activity	-	-	-	180,342	-	180,342
Depreciation and Amortization	1,253,619	427,383	2,590,329	3,323,826	-	7,595,157
Total	<u>\$ 9,547,966</u>	<u>\$ 2,491,011</u>	<u>\$ 10,505,158</u>	<u>\$ 3,504,168</u>	<u>\$ 2,102,090</u>	<u>\$ 28,150,393</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 14 NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS (CONTINUED)**

For the year ended June 30, 2017, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation and Amortization	Total
General Institutional Support Administration, Operations, and Maintenance of Plant	\$ 8,531,012	\$ 2,003,411	\$ 8,215,802	\$ -	\$ -	\$ 18,750,225
Administration of Leasing Activity	-	-	-	183,802	-	183,802
Depreciation and Amortization	1,094,824	362,288	1,933,909	2,919,360	-	6,310,381
Total	<u>\$ 9,625,836</u>	<u>\$ 2,365,699</u>	<u>\$ 10,149,711</u>	<u>\$ 3,103,162</u>	<u>\$ 2,858,037</u>	<u>\$ 28,102,445</u>

**NOTE 15 CONDENSED COMPONENT UNIT INFORMATION**

Condensed combining information for the Commission and WVRTP, the Commission's blended component unit, for the years ended June 30, 2018 and 2017 is as follows:

**Condensed Combining Statements of Net Position**  
**June 30, 2018**

	Commission	WVRTP	Eliminations	Combined
<b>ASSETS</b>				
Current Assets	\$ 47,748,534	\$ 4,669,414	\$ -	\$ 52,417,948
Noncurrent Assets	81,367,837	-	-	81,367,837
Capital Assets, Net	4,755,150	56,265,214	-	61,020,364
Total Assets	<u>133,871,521</u>	<u>60,934,628</u>	<u>-</u>	<u>194,806,149</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	17,335,346	-	-	17,335,346
<b>LIABILITIES</b>				
Current Liabilities	29,955,608	887,476	-	30,843,084
Long-Term Liabilities	356,807,361	718,572	-	357,525,933
Total Liabilities	<u>386,762,969</u>	<u>1,606,048</u>	<u>-</u>	<u>388,369,017</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	631,392	-	-	631,392
<b>NET POSITION</b>				
Net Investment in Capital Assets	(282,367,613)	55,398,393	287,122,764	60,153,544
Restricted - Expendable	39,297,864	-	-	39,297,864
Unrestricted	6,882,255	3,930,187	(287,122,764)	(276,310,322)
Total Net Position	<u>\$ (236,187,494)</u>	<u>\$ 59,328,580</u>	<u>\$ -</u>	<u>\$ (176,858,914)</u>



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)**

Condensed Combining Statements of Net Position (As Restated)  
June 30, 2017

	<u>Commission</u>	<u>WVRTP</u>	<u>Eliminations</u>	<u>Combined</u>
<b>ASSETS</b>				
Current Assets	\$ 48,054,092	\$ 7,288,072	\$ -	\$ 55,342,164
Noncurrent Assets	84,432,796	-	-	84,432,796
Capital Assets, Net	5,257,081	54,631,814	-	59,888,895
Total Assets	<u>137,743,969</u>	<u>61,919,886</u>	<u>-</u>	<u>199,663,855</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
	13,501,225	-	-	13,501,225
<b>LIABILITIES</b>				
Current Liabilities	28,718,862	450,572	-	29,169,434
Long-Term Liabilities	360,408,042	866,750	-	361,274,792
Total Liabilities	<u>389,126,904</u>	<u>1,317,322</u>	<u>-</u>	<u>390,444,226</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
	35,631	-	-	35,631
<b>NET POSITION</b>				
Net Investment in Capital Assets	(285,194,026)	53,621,725	290,451,107	58,878,806
Restricted - Expendable	38,034,069	-	-	38,034,069
Unrestricted	9,242,616	6,980,839	(290,451,107)	(274,227,652)
Total Net Position	<u>\$ (237,917,341)</u>	<u>\$ 60,602,564</u>	<u>\$ -</u>	<u>\$ (177,314,777)</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)**

**Condensed Combining Statements of Revenues, Expenses, and Changes in Net Position**  
**Year Ended June 30, 2018**

	Commission	WVRTP	Eliminations	Combined
<b>OPERATING REVENUES</b>				
Fees from Higher Education Institutions	\$ 4,563,379	\$ -	\$ -	\$ 4,563,379
Contracts and Grants	4,639,204	2,435,545	(1,749,992)	5,324,757
Rental Income	-	5,249,308	-	5,249,308
Sales and Services of Educational Activities	3,253,446	-	-	3,253,446
Other Operating Revenues	3,570,553	26,282	(96,654)	3,500,181
<b>Total Operating Revenues</b>	<b>16,026,582</b>	<b>7,711,135</b>	<b>(1,846,646)</b>	<b>21,891,071</b>
<b>OPERATING EXPENSES</b>				
Operations	18,459,412	7,595,157	(6,266)	26,048,303
Depreciation	736,513	1,365,577	-	2,102,090
<b>Total Operating Expense</b>	<b>19,195,925</b>	<b>8,960,734</b>	<b>(6,266)</b>	<b>28,150,393</b>
<b>OPERATING LOSS</b>	<b>(3,169,343)</b>	<b>(1,249,599)</b>	<b>(1,840,380)</b>	<b>(6,259,322)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Other Nonoperating Revenues (Expenses)	10,598,283	(24,385)	-	10,573,898
<b>CAPITAL PAYMENTS AND TRANSFERS</b>	<b>(5,560,090)</b>	<b>-</b>	<b>1,840,380</b>	<b>(3,719,710)</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>1,868,850</b>	<b>(1,273,984)</b>	<b>-</b>	<b>594,866</b>
Net Position - Beginning of Year	(237,917,341)	60,602,564	-	(177,314,777)
Restatement July1, 2017, OPEB Liability	(139,003)	-	-	(139,003)
Net Position - Beginning of Year, Restated	(238,056,344)	60,602,564	-	(177,453,780)
<b>NET POSITION - END OF YEAR</b>	<b>\$ (236,187,494)</b>	<b>\$ 59,328,580</b>	<b>\$ -</b>	<b>\$ (176,858,914)</b>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)**

**Condensed Combining Statements of Revenues, Expenses, & Changes in Net Position (As Restated)**  
**Year Ended June 30, 2017**

	Commission	WVRTP	Eliminations	Combined
<b>OPERATING REVENUES</b>				
Fees from Higher Education Institutions	\$ 4,584,457	\$ -		\$ 4,584,457
Contracts and Grants	6,402,898	2,260,109	(1,808,462)	6,854,545
Rental Income	-	5,434,985	-	5,434,985
Sales and Services of Educational Activities	3,200,379	-	-	3,200,379
Other Operating Revenues	3,174,636	27,162	(144,115)	3,057,683
<b>Total Operating Revenues</b>	<b>17,362,370</b>	<b>7,722,256</b>	<b>(1,952,577)</b>	<b>23,132,049</b>
<b>OPERATING EXPENSES</b>				
Operations	19,028,142	6,310,381	(94,115)	25,244,408
Depreciation	1,557,349	1,300,688	-	2,858,037
<b>Total Operating Expense</b>	<b>20,585,491</b>	<b>7,611,069</b>	<b>(94,115)</b>	<b>28,102,445</b>
<b>OPERATING INCOME (LOSS)</b>	<b>(3,223,121)</b>	<b>111,187</b>	<b>(1,858,462)</b>	<b>(4,970,396)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>				
Other Nonoperating Revenues (Expenses)	10,343,525	(27,591)	-	10,315,934
<b>CAPITAL PAYMENTS AND TRANSFERS</b>	<b>(17,611,522)</b>	<b>-</b>	<b>1,858,462</b>	<b>(15,753,060)</b>
<b>INCREASE (DECREASE) IN NET POSITION</b>	<b>(10,491,118)</b>	<b>83,596</b>	<b>-</b>	<b>(10,407,522)</b>
Net Position - Beginning of Year	(229,850,400)	60,518,968	-	(169,331,432)
Restatement July 1, 2016, Correction of Prior Year Errors	2,424,177	-	-	2,424,177
Net Position - Beginning of Year, Restated	(227,426,223)	60,518,968	-	(166,907,255)
<b>NET POSITION - END OF YEAR</b>	<b>\$ (237,917,341)</b>	<b>\$ 60,602,564</b>	<b>\$ -</b>	<b>\$ (177,314,777)</b>

**Condensed Combining Statement of Cash Flows**  
**Year Ended June 30, 2018**

	Commission	WVRTP	Eliminations	Combined
Net Cash Provided (Used) by:				
Operating Activities	\$ (1,323,737)	\$ 2,571,264	\$ (1,840,380)	\$ (592,853)
Noncapital Financing Activities	25,659,358	-	1,840,380	27,499,738
Capital Financing Activities	(22,334,832)	(3,093,897)	-	(25,428,729)
Investing Activities	570,052	-	-	570,052
Decrease in Current Cash and Cash Equivalents	2,570,841	(522,633)	90,388	2,048,208
Current Cash and Cash Equivalents - Beginning of Year	31,979,600	4,760,765	-	36,740,365
Current Cash and Cash Equivalents - End of Year	<b>\$ 34,550,441</b>	<b>\$ 4,238,132</b>	<b>\$ 90,388</b>	<b>\$ 38,788,573</b>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2018 AND 2017**

**NOTE 15 CONDENSED COMPONENT UNIT INFORMATION (CONTINUED)**

**Condensed Combining Statement of Cash Flows**  
**Year Ended June 30, 2017**

	Commission	WVRTP	Eliminations	Combined
Net Cash Provided (Used) by:				
Operating Activities	\$ (2,714,406)	\$ (666,160)	\$ (1,858,462)	\$ (5,239,028)
Noncapital Financing Activities	23,314,777	-	1,858,462	25,173,239
Capital Financing Activities	(22,409,265)	(481,715)	-	(22,890,980)
Investing Activities	305,316	-	-	305,316
Decrease in Current Cash and Cash Equivalents	(1,503,578)	(1,147,875)	-	(2,651,453)
Current Cash and Cash Equivalents - Beginning of Year	33,483,178	5,908,640	-	39,391,818
Current Cash and Cash Equivalents - End of Year	<u>\$ 31,979,600</u>	<u>\$ 4,760,765</u>	<u>\$ -</u>	<u>\$ 36,740,365</u>

**NOTE 16 RESTATEMENTS**

In the fiscal year 2018, the Commission identified errors in previously reported lottery excess revenue and accrued interest resulting in a \$2,424,177 understatement of unrestricted net position as of June 30, 2016. The Commission corrected both errors. The summary of both restatements and their impact on the issued financial statements are presented in the tables below.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**STATEMENT OF NET POSITION**  
**As of June 30, 2017**

	As Previously Reported 2017	Effect of Correction	As Restated 2017
Total Liabilities and Deferred Inflows of Resources			
Deposits	\$ 2,968,956	\$ (732,446)	\$ 2,236,510
Interest Payable	10,892,649	(1,651,356)	9,241,293
Total Current Liabilities	31,553,236	(2,383,802)	29,169,434
Total Liabilities	392,828,028	(2,383,802)	390,444,226
Total Liabilities and Deferred Inflows of Resources	392,863,659	(2,383,802)	390,479,857
Net Position			
Unrestricted	(276,611,454)	2,383,802	(274,227,652)
Total Net Position	(179,698,579)	2,380,802	(177,317,777)

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2018 AND 2017**

**NOTE 16 RESTATEMENTS (CONTINUED)**

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN NET POSITION  
For the Year Ended June 30, 2017**

	<b>As Previously Reported 2017</b>	<b>Effect of Correction</b>	<b>As Restated 2017</b>
Interest on Indebtedness	\$ (18,881,445)	\$ (40,375)	\$ (18,921,820)
Net Nonoperating Revenue	10,356,309	(40,375)	10,315,934
<b>INCREASE (DECREASE) IN NET POSITION</b>	(10,367,147)	(40,375)	(10,407,522)
Net Position - Beginning of Year	(169,331,432)	2,424,177	(166,907,255)
<b>NET POSITION - END OF YEAR</b>	(179,698,579)	2,383,802	(177,314,777)

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION (RSI) (UNAUDITED)  
JUNE 30, 2018 AND 2017**

**Schedule of Proportionate Share of TRS Net Pension Liability**

<b>Measurement Date</b>	<b>Commission's Proportionate Share as a Percentage of Net Pension Liability</b>	<b>Commission's Proportionate Share</b>	<b>State's Proportionate Share</b>	<b>Total Proportionate Share</b>	<b>Commission's Covered Employee Payroll</b>	<b>Commission's Proportionate Share as a Percentage of Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of Total Pension Liability</b>
June 30, 2014	0.014583%	\$ 503,133	\$ 1,136,780	\$ 1,639,913	\$ 481,678	1.044542205	65.95%
June 30, 2015	0.015889%	550,594	1,256,334	1,806,928	401,803	1.370308335	66.25%
June 30, 2016	0.015540%	638,666	1,216,489	1,855,155	420,900	1.517381801	61.42%
June 30, 2017	0.014018%	484,318	1,071,027	1,555,345	427,197	1.133711145	67.85%

**Schedule of Employer Contributions**

<b>Measurement Date</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Actuarial Contribution as a Percentage of Covered Payroll</b>
June 30, 2014	\$ 67,161	\$ 72,252	\$ (5,091)	\$ 481,678	15.00%
June 30, 2015	72,251	60,246	12,005	401,803	17.98%
June 30, 2016	60,246	59,629	617	420,900	14.31%
June 30, 2017	58,031	59,824	(1,793)	427,197	14.59%

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
REQUIRED SUPPLEMENTARY INFORMATION (RSI) (UNAUDITED)  
JUNE 30, 2018 AND 2017**

**Schedule of Proportionate Share of Net OPEB Liability**

<b>Measurement Date</b>	<b>Commission's Proportionate Share as a Percentage of Net OPEB Liability</b>	<b>Commission's Proportionate Share</b>	<b>State's Proportionate Share</b>	<b>Total Proportionate Share</b>	<b>Commission's Covered Employee Payroll</b>	<b>Commission's Proportionate Share as a Percentage of Covered Payroll</b>	<b>Plan Fiduciary Net Position as a Percentage of Total OPEB Liability</b>
June 30, 2017	0.125587%	\$ 2,849,608	\$ 585,312	\$ 3,434,920	\$ 10,511,110	27%	25.10%

**Schedule of Employer Contributions**

<b>Measurement Date</b>	<b>Actuarially Determined Contribution</b>	<b>Actual Contribution</b>	<b>Contribution Deficiency (Excess)</b>	<b>Covered Payroll</b>	<b>Actuarial Contribution as a Percentage of Covered Payroll</b>
June 30, 2017	\$ 245,958	\$ 245,958	-	\$ 10,511,110	2.34%

These schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

**NOTE TO THE REQUIRED SUPPLEMENTARY INFORMATION**

There are no factors that affect trends in the amounts reported, such as change in benefit terms or assumptions. With only one year reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, can be obtained from the RHBT financial statements.

**SUPPLEMENTARY INFORMATION**



**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
COMBINING SCHEDULE OF NET POSITION  
JUNE 30, 2018**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	Administrative Division	WVNET Division	Corporation	Eliminations	Combined
<b>CURRENT ASSETS</b>					
Cash and Cash Equivalents	\$ 30,037,804	\$ 4,512,637	\$ 4,238,132	\$ -	\$ 38,788,573
Appropriations Due from Primary Government	3,958,095	-	-	-	3,958,095
Accounts Receivable - Net	794,294	1,154,818	367,818	-	2,316,930
Interest Receivable	467,433	7,157	-	-	474,590
Prepaid Expense	-	221,253	63,464	-	284,717
Receivable from Institutions - Current Portion	6,595,043	-	-	-	6,595,043
Total Current Assets	<u>41,852,669</u>	<u>5,895,865</u>	<u>4,669,414</u>	<u>-</u>	<u>52,417,948</u>
<b>NONCURRENT ASSETS</b>					
Cash and Cash Equivalents	21,241,117	-	-	-	21,241,117
Accounts Receivable Noncurrent	2,191,392	-	-	-	2,191,392
Receivable from Institutions	57,935,328	-	-	-	57,935,328
Capital Assets - Net	3,690,920	1,064,230	56,265,214	-	61,020,364
Total Noncurrent Assets	<u>85,058,757</u>	<u>1,064,230</u>	<u>56,265,214</u>	<u>-</u>	<u>142,388,201</u>
Total Assets	126,911,426	6,960,095	60,934,628	-	194,806,149
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Loss on Refunding	16,921,427	-	-	-	16,921,427
Deferred Outflows Related to OPEB	137,122	108,836	-	-	245,958
Deferred Outflows Related to Pensions	148,730	19,231	-	-	167,961
Total Deferred Outflows of Resources	<u>17,207,279</u>	<u>128,067</u>	<u>-</u>	<u>-</u>	<u>17,335,346</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 144,118,705</u>	<u>\$ 7,088,162</u>	<u>\$ 60,934,628</u>	<u>\$ -</u>	<u>\$ 212,141,495</u>

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
COMBINING SCHEDULE OF NET POSITION (CONTINUED)  
JUNE 30, 2018**

<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION (DEFICIT)</b>	Administrative Division	WVNET Division	Corporation	Eliminations	Combined
<b>CURRENT LIABILITIES</b>					
Accounts Payable	\$ 474,407	\$ 108,301	\$ 426,673	\$ -	\$ 1,009,381
Amounts Due to Institutions and Affiliates	1,759,087	-	-	-	1,759,087
Accrued Liabilities	402,951	316,462	140,203	-	859,616
Deposits	4,713,562	-	5,041	-	4,718,603
Deferred Revenue - Services	-	288	167,310	-	167,598
Compensated Absences - Current Portion	403,227	289,312	-	-	692,539
Interest Payable	9,186,947	-	-	-	9,186,947
Notes Payable - Current Portion	-	-	148,249	-	148,249
Bonds Payable - Current Portion	12,301,064	-	-	-	12,301,064
Total Current Liabilities	<u>29,241,245</u>	<u>714,363</u>	<u>887,476</u>	<u>-</u>	<u>30,843,084</u>
<b>NONCURRENT LIABILITIES</b>					
Compensated Absences	181,716	90,963	-	-	272,679
Deferred Interest Payable	34,728,356	-	-	-	34,728,356
Net Pension Liability	368,611	115,707	-	-	484,318
OPEB Liabilities	1,604,959	1,244,649	-	-	2,849,608
Notes Payable	-	-	718,572	-	718,572
Bonds Payable	318,472,400	-	-	-	318,472,400
Total Noncurrent Liabilities	<u>355,356,042</u>	<u>1,451,319</u>	<u>718,572</u>	<u>-</u>	<u>357,525,933</u>
Total Liabilities	384,597,287	2,165,682	1,606,048	-	388,369,017
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Inflows Related to OPEB	227,420	310,082	-	-	537,502
Deferred Inflows Related to Pensions	57,678	36,212	-	-	93,890
Total Deferred Outflows of Resources	<u>285,098</u>	<u>346,294</u>	<u>-</u>	<u>-</u>	<u>631,392</u>
Total Liabilities and Deferred Inflows of Resources	384,882,385	2,511,976	1,606,048	-	389,000,409
<b>NET POSITION</b>					
Net Investment in Capital Assets	(283,431,843)	1,064,230	55,398,393	287,122,764 (A)	60,153,544
Restricted for - Expendable:			-	-	
Scholarships	7,582,862	-	-	-	7,582,862
Sponsored Projects	6,596,080	-	-	-	6,596,080
Capital Projects	15,533,530	-	-	-	15,533,530
Debt Service	9,585,392	-	-	-	9,585,392
Total Restricted Expendable	<u>39,297,864</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>39,297,864</u>
Unrestricted	<u>3,370,299</u>	<u>3,511,956</u>	<u>3,930,187</u>	<u>(287,122,764) (A)</u>	<u>(276,310,322)</u>
Total Net Position	<u>(240,763,680)</u>	<u>4,576,186</u>	<u>59,328,580</u>	<u>-</u>	<u>(176,858,914)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position (Deficit)	<u>\$ 144,118,705</u>	<u>\$ 7,088,162</u>	<u>\$ 60,934,628</u>	<u>\$ -</u>	<u>\$ 212,141,495</u>

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION**  
**COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEAR ENDED JUNE 30, 2018**

	Administrative Division	WVNET Division	Corporation	Eliminations	Combined
<b>OPERATING REVENUES</b>					
Fees from Higher Education Institutions	\$ 4,563,379	\$ -	\$ -	\$ -	\$ 4,563,379
Institutional Collections	-	3,569,298	-	(96,654) (B)	3,472,644
Contracts and Grants:					
Federal	3,471,858	-	-	-	3,471,858
State	1,049,957	-	2,435,545	(1,749,992) (B)	1,735,510
Private	117,389	-	-	-	117,389
Rental Income	-	-	5,249,308	-	5,249,308
Sales and Services of Educational Activities	-	3,253,446	-	-	3,253,446
Miscellaneous - Net	-	1,255	26,282	-	27,537
Total operating revenues	<u>9,202,583</u>	<u>6,823,999</u>	<u>7,711,135</u>	<u>(1,846,646)</u>	<u>21,891,071</u>
<b>OPERATING EXPENSES</b>					
Salaries and Wages	4,698,882	3,595,465	1,253,619	-	9,547,966
Benefits	1,239,980	823,648	427,383	-	2,491,011
Supplies and Other Services	4,174,552	3,746,543	2,590,329	(6,266) (B)	10,505,158
Utilities	-	180,342	3,323,826	-	3,504,168
Depreciation and Amortization	226,717	509,796	1,365,577	-	2,102,090
Total Operating Expenses	<u>10,340,131</u>	<u>8,855,794</u>	<u>8,960,734</u>	<u>(6,266)</u>	<u>28,150,393</u>
<b>OPERATING LOSS</b>	(1,137,548)	(2,031,795)	(1,249,599)	(1,840,380)	(6,259,322)
<b>NONOPERATING REVENUES (EXPENSES)</b>					
State Appropriations	49,832,309	1,578,941	-	-	51,411,250
State Lottery Appropriations	23,000,656	-	-	-	23,000,656
Investment Income	553,967	38,463	-	-	592,430
Payments Made on Behalf of the Commission	184,231	104,543	-	-	288,774
Institutional Debt Service					
Payments from Institutions:					
Interest	6,664,260	-	-	-	6,664,260
Other	421,082	-	-	-	421,082
Interest on Indebtedness	(18,835,869)	-	(32,035)	-	(18,867,904)
Student Financial Aid and Other					
Payments to Institutions	(54,001,492)	-	-	-	(54,001,492)
Other Nonoperating Revenues - Net	1,057,192	-	7,650	-	1,064,842
Net Nonoperating Revenues (Expenses)	<u>8,876,336</u>	<u>1,721,947</u>	<u>(24,385)</u>	<u>-</u>	<u>10,573,898</u>
<b>INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS</b>	7,738,788	(309,848)	(1,273,984)	(1,840,380)	4,314,576
<b>FEDERAL CAPITAL GRANTS CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES</b>	<u>(5,560,090)</u>	<u>-</u>	<u>-</u>	<u>1,840,380</u>	<u>(3,719,710)</u>
<b>INCREASE (DECREASE) IN NET POSITION</b>	2,178,698	(309,848)	(1,273,984)	-	594,866
Net Position - Beginning of Year	<u>(243,138,320)</u>	<u>5,220,979</u>	<u>60,602,564</u>	<u>-</u>	<u>(177,314,777)</u>
Restatement July 1, 2017, OPEB Liability	190,699	(329,702)	-	-	(139,003)
Net Position - Beginning of Year, Restated	<u>(242,947,621)</u>	<u>4,891,277</u>	<u>60,602,564</u>	<u>-</u>	<u>(177,453,780)</u>
<b>NET POSITION - END OF YEAR</b>	<u>\$ (240,768,923)</u>	<u>\$ 4,581,429</u>	<u>\$ 59,328,580</u>	<u>\$ -</u>	<u>\$ (176,858,914)</u>

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

See accompanying Notes to Financial Statements.



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

West Virginia Higher Education Policy Commission  
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the West Virginia Higher Education Policy Commission (the Commission) as of and for the year ended June 30, 2018, and the related notes to the financial statements and have issued our report thereon dated October 15, 2018. Our report includes a reference to other auditors who audited the financial statements of the West Virginia Regional Technology Park Corporation, as described in our report on the Commission's financial statements. This report does not include the results of the other auditors testing of internal control over financial reporting or compliance and other matters that are reported on separately by the auditors of the West Virginia Regional Technology Park Corporation.

**Internal Control over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings as items 2018-001 and 2018-002, that we consider to be material weaknesses.

**Compliance and Other Matters**

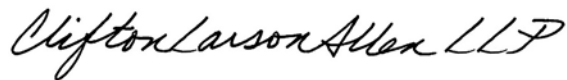
As part of obtaining reasonable assurance about whether the Commission’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material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

**Commission’s Responses to Findings**

The Commission’s responses to the findings identified in our audit are described in the accompanying schedule of findings. The Commission’s responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

**Purpose of this Report**

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



**CliftonLarsonAllen LLP**

Plymouth Meeting, Pennsylvania  
October 15, 2018

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2018**

**2018 – 001: Revenue Transactions Reconciliation**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** The Commission appears to have a lack of review control over certain revenue transactions reconciliation.

**Criteria or specific requirement:** Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

**Context:** While performing audit procedures, it was noted that management's control over the reconciliation of certain revenue recognition transactions did not properly operate one time during the prior fiscal year to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Effect:** The lack of controls in place over the financial reporting function increases the risk of misstatements, fraud, or errors occurring and not being detected and corrected.

**Cause:** The control over the revenue recognition of certain transactions did not operate one time during the prior fiscal year. As the result, prior year error was discovered. Because of the magnitude of the error, restatement of previously issued financial statements is required.

**Repeat Finding:** This is not a repeat finding.

**Recommendation:** The Commission should establish a more robust review control over certain revenue transactions reconciliation to ensure that their financial reporting processes and controls over the preparation of annual financial statements provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Views of responsible officials:** The need for this correction to the prior year was determined by the Commission. The adjustment is equal to .28% of the FY 2017 net position and 1.46% of the FY 2017 Student Financial Aid and other Payments to institutions. The funds related to this transaction will no longer be recorded as deposits. The appropriate recording of funds as deposits will be reviewed in future years.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
SCHEDULE OF FINDINGS (CONTINUED)  
YEAR ENDED JUNE 30, 2018**

**2018 – 002: Accrued Interest**

**Type of Finding:** Material Weakness in Internal Control over Financial Reporting

**Condition:** The Commission appears to have a lack of review control over accrued interest.

**Criteria or specific requirement:** Internal controls should be in place to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Context:** While performing audit procedures, it was noted that management's control over the accrued interest did not properly operate one time during the prior fiscal year to provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Effect:** The lack of controls in place over the financial reporting function increases the risk of misstatements, fraud, or errors occurring and not being detected and corrected.

**Cause:** The control over the accrued interest did not operate one time during the prior fiscal year. As the result, prior year error was discovered. Because of the magnitude of the error, restatement of previously issued financial statements is required.

**Repeat Finding:** This is not a repeat finding.

**Recommendation:** The Commission should establish a more robust review control over debt amortization reconciliation to ensure that their financial reporting processes and controls over the preparation of annual financial statements provide reasonable assurance that financial statements are prepared in accordance with U.S. GAAP.

**Views of responsible officials:** The need for this correction to the prior year was determined by the Commission. The corrected amount is equal to 3.69% of the FY 2017 Commission's interest payable and 8.73% of the FY 2017 Commission Interest Expense. In future years, the debt service interest schedules will be reviewed to determine that the correct interest payable amount has been calculated for the financial statements.



Investment advisory services are offered through CliftonLarsonAllen  
Wealth Advisors, LLC, an SEC-registered investment advisor.