

West Virginia  
School of Osteopathic Medicine

Financial Statements  
Years Ended June 30, 2014 and 2013

and

Independent Auditor's Reports

# WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE

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## INDEPENDENT AUDITOR'S REPORT

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

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

We have audited the accompanying financial statements of the business-type activities and the discretely presented component unit of the West Virginia School of Osteopathic Medicine (WVSOM), a component unit of the West Virginia Higher Education Policy Commission, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise WVSOM's basic financial statements as listed in the table of contents.

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

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinions***

In our opinion, based on our audits and the reports of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the discretely presented component unit of WVSOM, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 - 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2014, on our consideration of WVSOM's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering WVSOM's internal control over financial reporting and compliance.



Charleston, West Virginia  
October 22, 2014



# West Virginia School of Osteopathic Medicine

400 North Lee Street  
Lewisburg, West Virginia 24901

## Management's Discussion and Analysis Fiscal Year 2014 Financial Statements

### Overview of the Financial Statements and Financial Analysis

West Virginia School of Osteopathic Medicine (WVSOM) is proud to present its financial statements for fiscal year 2014, with fiscal year 2013 prior year data presented for comparative purposes. The emphasis of discussions about these statements will be on current year data. There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows. This discussion and analysis of WVSOM's financial statements provides an overview of its financial activities for the year and is required supplemental information.

As of July 1, 2003, WVSOM adopted GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB No. 14. As a result, the audited financial statements of the West Virginia School of Osteopathic Medicine Foundation, Incorporated are discretely presented as part of WVSOM's financial statements for the fiscal years ended June 30, 2014 and 2013.

### Statement of Net Position

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

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

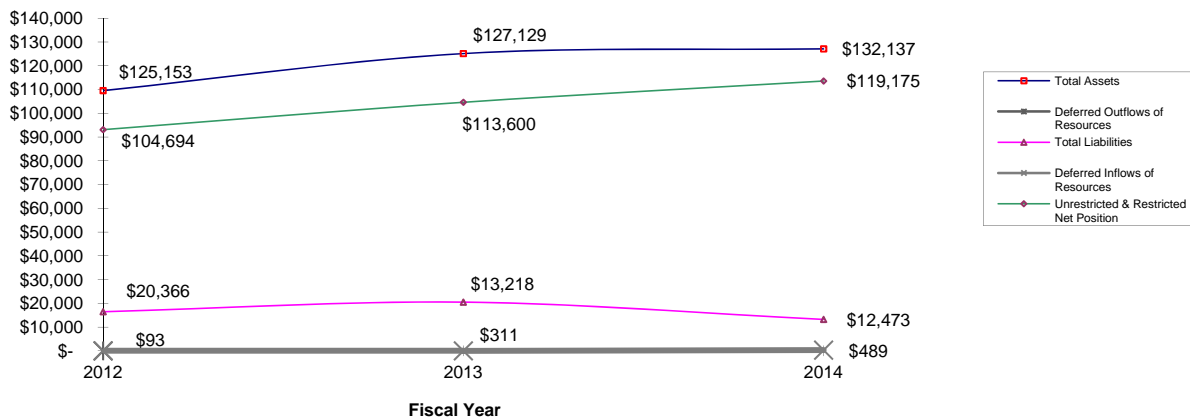
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Current assets	\$ 69,130	\$ 67,117	\$ 68,123
Other noncurrent assets	5,959	5,489	5,008
Capital assets, net	<u>57,048</u>	<u>54,523</u>	<u>52,022</u>
<b>Total assets</b>	<u>132,137</u>	<u>127,129</u>	<u>125,153</u>
<b>Total deferred outflows of resources</b>	-	-	-
Current liabilities	4,271	5,215	12,601
Noncurrent liabilities	<u>8,202</u>	<u>8,003</u>	<u>7,765</u>
<b>Total liabilities</b>	<u>12,473</u>	<u>13,218</u>	<u>20,366</u>
Pledges	<u>489</u>	<u>311</u>	<u>93</u>
<b>Total deferred inflows of resources</b>	<u>489</u>	<u>311</u>	<u>93</u>
Net investment in capital assets	57,048	54,523	52,022
Restricted – expendable	8,456	7,651	7,851
Restricted – nonexpendable	46	46	46
Unrestricted	<u>53,625</u>	<u>51,380</u>	<u>44,775</u>
<b>Total net position</b>	<u>\$ 119,175</u>	<u>\$ 113,600</u>	<u>\$ 104,694</u>



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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In fiscal years 2014 and 2013, the total assets of WVSOM increased by approximately \$5.0 million and approximately \$2.0 million, respectively. The changes described below represent the majority of the increase in 2014:

- Current assets increased by approximately \$2.0 million with cash and cash equivalents increasing approximately \$2.2 million, appropriations due from primary government decreasing by \$0.1 million and accounts receivable decreasing by \$0.08 million.
- Noncurrent and capital assets increased by approximately \$3.0 million due primarily to an increase in capital assets.

In fiscal year 2014, total liabilities decreased by approximately \$0.8 million while in fiscal year 2013 total liabilities decreased by approximately \$7.1 million. The changes described below represent the majority of the decrease in 2014:

- Current liabilities for the year decreased by approximately \$1.0 million primarily due to a decrease of approximately \$1.2 million in accounts payable associated with the early cutoff for invoices due to 2014 WV OASIS implementation.
- Noncurrent liabilities increased approximately \$0.2 million because of slight increases in the OPEB accrued liability and the compensated absences liability.

The ratio of current assets to current liabilities for fiscal years 2014 and 2013 is 16.2:1 and 12.9:1 respectively.

For fiscal years 2014 and 2013, net position increased approximately \$5.6 million and approximately \$8.9 million, respectively.

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

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

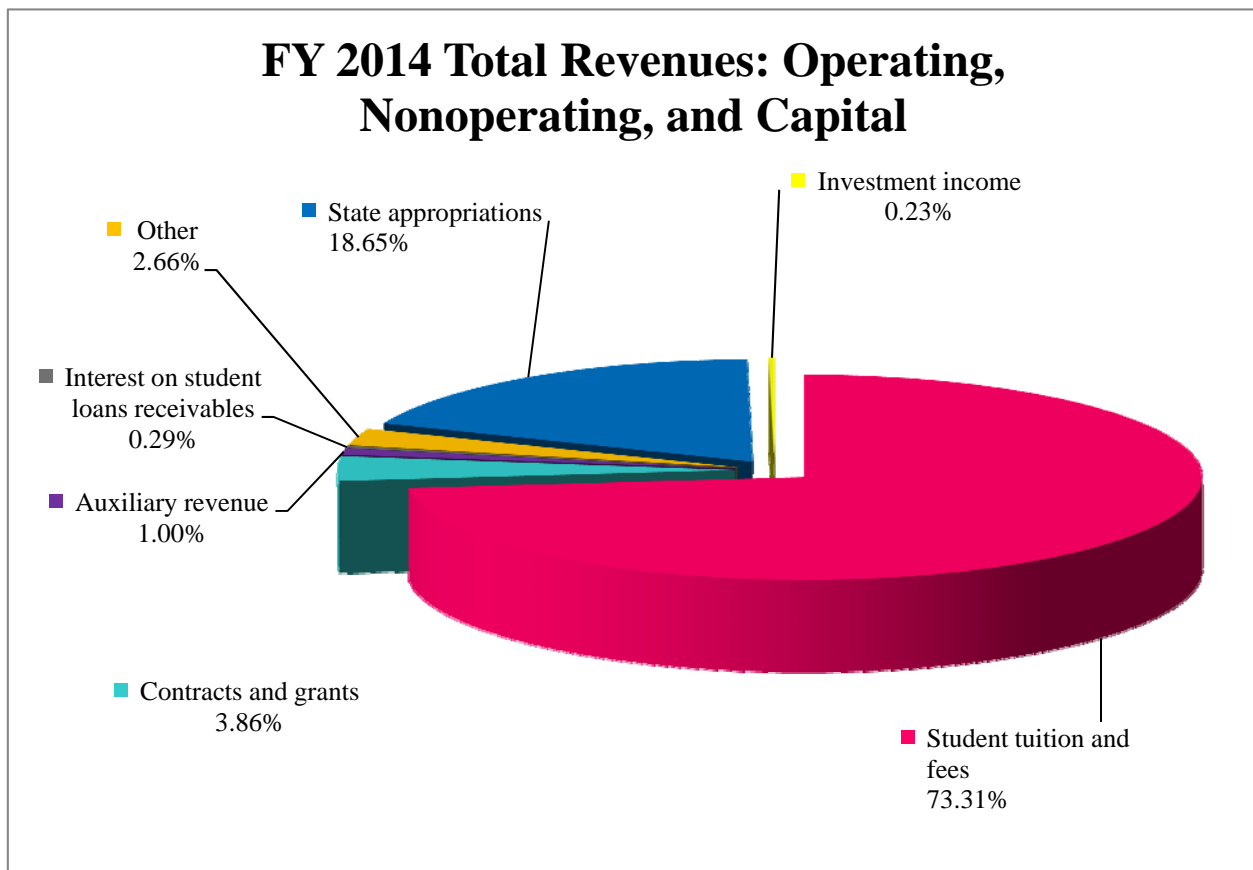
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WVSOM. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WVSOM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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Operating revenues	\$ 34,645	\$ 35,010	\$ 33,978
Operating expenses	<u>37,128</u>	<u>35,125</u>	<u>34,240</u>
Operating income (loss)	(2,483)	(115)	(262)
Nonoperating revenues, net	<u>8,058</u>	<u>8,905</u>	<u>8,468</u>
Income before other revenues, expenses, gains, or losses	5,575	8,790	8,206
Capital bond proceeds from State	<u>-</u>	<u>116</u>	<u>3,384</u>
Increase in net position	5,575	8,906	11,590
Net position, beginning of year	<u>113,600</u>	<u>104,694</u>	<u>93,104</u>
Net position, end of year	<u>\$ 119,175</u>	<u>\$ 113,600</u>	<u>\$ 104,694</u>

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





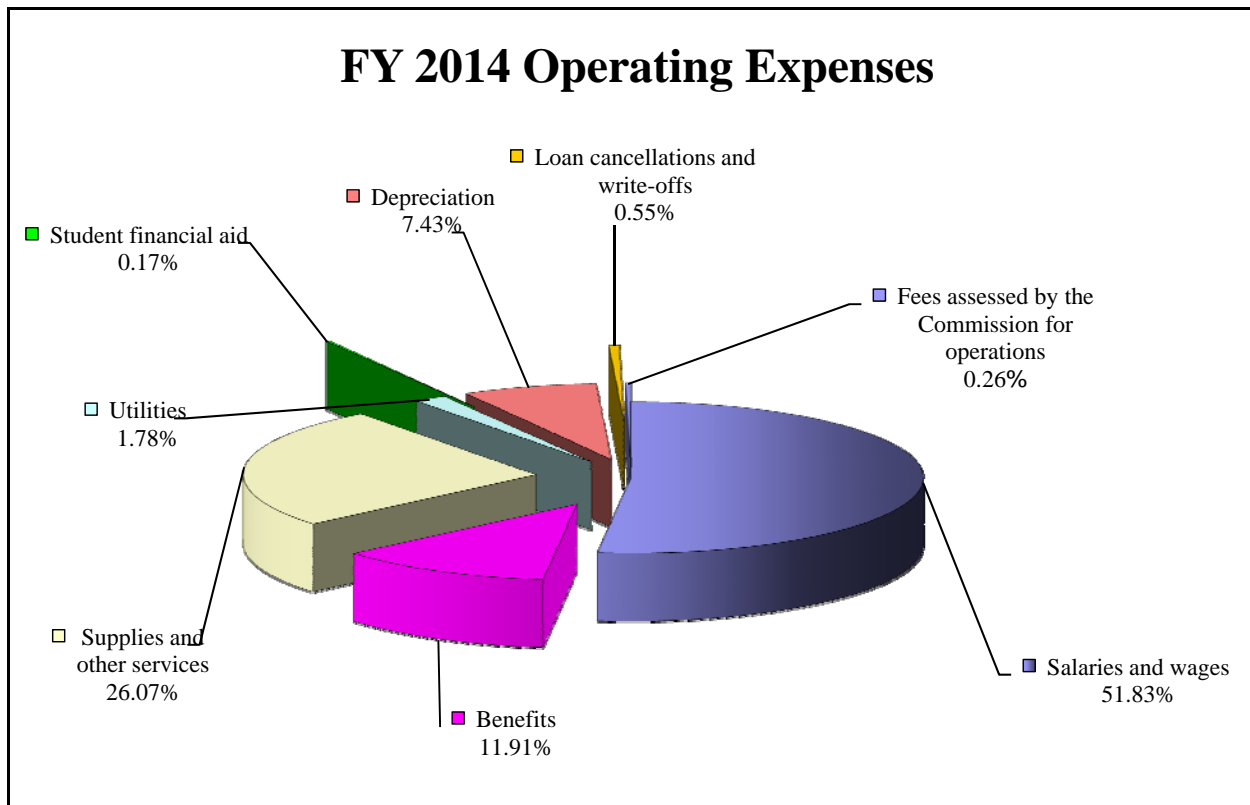
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

In fiscal year 2014 and 2013, total operating revenues decreased approximately \$0.4 million and increased approximately \$1.0 million, respectively. The following explains the decrease in operating revenues in fiscal year 2014:

- Tuition and fees decreased by \$0.5 million due primarily to the number of enrolled students and the reduction in non-resident tuition. Grants and Contracts increased approximately \$0.06 million and Other Operating Revenues increased \$0.1 million. These other operating revenue sources comprise 9.63% of WVSOM's operating revenues and 7.81% of total revenues.

In fiscal year 2014 and 2013, nonoperating revenues and Bond proceeds from the Commission decreased in total by approximately \$0.8 million and decreased in total by approximately \$0.1 million, respectively. The decrease in fiscal year 2014 was primarily the result of a decrease in the State Appropriations of approximately \$0.9 million. State appropriations accounted for 18.65% of total revenues and were used to support the operations of WVSOM. Investment income made up a relatively small portion of the nonoperating revenues at 0.23% of total operating and nonoperating revenues. WVSOM participates in the investment pool managed by the State.

In fiscal year 2014, net position increased approximately \$5.6 million while, in fiscal year 2013, the increase was approximately \$8.9 million.



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

Total operating expenses for fiscal year 2014 increased by approximately \$2.0 million, compared with an increase of approximately \$0.9 million in fiscal year 2013. The following explains the increase in operating expenses:

- The salaries and wages and employee benefits categories increased by approximately \$1.6 million primarily due to a 2.5% salary increase given to all employees and an increase in the number of total employees. Salary and wages made up approximately 51.83% of the operating expenses of WVSOM. Classified staff continued to be fully funded on the Mercer Schedule.
- Supplies and other services decreased by approximately \$.05 million and accounts for 26.07% of the operating expenses of WVSOM.
- All other operating expenses make up 22.10% of the total operating expenses as indicated on the pie chart.

**Statement of Cash Flows**

The Statement of Cash Flows presents detailed information about the cash activities of WVSOM during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WVSOM. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating gain or loss reflected in the SRECNP. Overall, cash and cash equivalents increased by approximately \$2.2 million in fiscal year 2014. This increase is primarily due to an overall increase in net position from nonoperating revenues.

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash provided by (used in):			
Operating activities	\$ (100)	\$ (4,186)	\$ 4,889
Noncapital financing activities	8,099	8,797	8,313
Capital financing activities	(5,884)	(3,163)	(4,965)
Investing activities	<u>94</u>	<u>96</u>	<u>60</u>
Increase in cash and cash equivalents	2,209	1,544	8,297
Cash and cash equivalents, beginning of year	<u>65,630</u>	<u>64,086</u>	<u>55,789</u>
Cash and cash equivalents, end of year	<u>\$ 67,839</u>	<u>\$ 65,630</u>	<u>\$ 64,086</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED JUNE 30, 2014**

**Capital Asset and Debt Administration**

During 2013-14, WVSOM replaced the roofs on the Science and Alumni buildings, installed a natural gas generator for the campus network, and completed the waterless fire suppressions systems in the campus server rooms.



In 2013-14, construction began on the 19,000-square-foot addition to the Clinical Evaluation Center and the new 58,000-square-foot Student Center. The anticipated completion dates are November 2014 and August 2016 respectively with an expected project cost of \$6.9 million for the Clinical Evaluation Center Addition and \$24.7 million for the Student Center.

As of June 30, 2014 and 2013, WVSOM had no existing capital debt and does not expect to have to incur debt to complete the capital projects planned in fiscal year 2014-15.



**Economic Outlook**

West Virginia State officials continue to be concerned about the general and lottery revenues due to the continuing recession. WVSOM's financial position is closely tied to the financial position of the State of West Virginia and WVSOM is always at some risk that State appropriations will be reallocated away from higher education and WVSOM. The State's appropriation is important to WVSOM's financial condition. WVSOM does not anticipate any change in the appropriation it receives in 2014-15.

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

For 2014-15 academic year, to maintain financial strength, an annual tuition increase of \$500 for Resident and \$250 for Non-residents is being implemented.

WVSOM anticipates the 2014-15 fiscal year will be much like the last and it will continue to maintain a close watch over institutional resources to maintain WVSOM's ability to react to unknown internal and external issues.

**Requests for Information**

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF NET POSITION**  
**JUNE 30, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>ASSETS AND DEFERRED OUTFLOWS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 67,838,915	\$ 65,630,059
Appropriations due from Primary Government	236,911	369,245
Accounts receivable	206,634	284,643
Due from Commission	7,032	3,119
Loans to students - current portion	574,118	538,191
Prepaid expenses	74,861	133,133
Inventories	191,837	158,252
Total current assets	<u>69,130,308</u>	<u>67,116,642</u>
<b>NONCURRENT ASSETS:</b>		
Cash and cash equivalents	46,000	46,000
Pledges receivable	489,485	310,760
Loans to students, net of allowance of \$410,668 and \$344,675 in 2014 and 2013, respectively	5,423,909	5,132,505
Capital assets, net of accumulated depreciation	57,047,546	54,522,790
Total noncurrent assets	<u>63,006,940</u>	<u>60,012,055</u>
<b>DEFERRED OUTFLOWS OF RESOURCES:</b>		
Total deferred outflows of resources	-	-
<b>TOTAL</b>	<u>\$ 132,137,248</u>	<u>\$ 127,128,697</u>
<b>LIABILITIES, DEFERRED INFLOWS, AND NET POSITION</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 1,670,420	\$ 2,875,560
Due to Commission	-	995
Accrued liabilities	882,057	795,871
Compensated absences - current portion	1,007,634	906,333
Unearned revenue	710,919	636,406
Total current liabilities	<u>4,271,030</u>	<u>5,215,165</u>
<b>NONCURRENT LIABILITIES:</b>		
Advances from federal sponsors	1,933,542	1,933,542
Compensated absences	737,855	697,995
Other post employment benefit liability	5,530,399	5,370,975
Total noncurrent liabilities	<u>8,201,796</u>	<u>8,002,512</u>
<b>DEFERRED INFLOWS OF RESOURCES:</b>		
Pledges	489,485	310,760
Total deferred inflows of resources	<u>489,485</u>	<u>310,760</u>
<b>NET POSITION</b>		
Net investment in capital assets	57,047,546	54,522,790
Restricted for - expendable - research	506,358	319,690
Restricted for - expendable - loans	5,344,444	5,212,735
Restricted for - expendable - capital projects	2,605,360	2,118,515
Restricted for - nonexpendable	46,000	46,000
Unrestricted	53,625,229	51,380,530
Total net position	<u>119,174,937</u>	<u>113,600,260</u>
<b>TOTAL</b>	<u>\$ 132,137,248</u>	<u>\$ 127,128,697</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES:</b>		
Student tuition and fees, net of scholarship allowance of \$966,646 and \$515,625 in 2014 and 2013, respectively	\$ 31,308,852	\$ 31,809,085
Contracts and grants:		
Federal	181,871	71,511
State	1,198,957	1,314,117
Private	269,163	203,675
Interest on student loans receivable	123,505	120,145
Auxiliary enterprise revenue	429,148	463,353
Miscellaneous, net	<u>1,132,843</u>	<u>1,028,551</u>
Total operating revenues	<u>34,644,339</u>	<u>35,010,437</u>
<b>OPERATING EXPENSES:</b>		
Salaries and wages	19,243,382	17,740,289
Benefits	4,422,335	4,289,566
Supplies and other services	9,679,890	9,726,000
Utilities	660,405	762,598
Student financial aid - scholarships and fellowships	64,750	4,750
Depreciation	2,760,108	2,379,366
Loan cancellations and write-offs	201,269	126,305
Fees assessed by the Commission for operations	<u>95,645</u>	<u>95,950</u>
Total operating expenses	<u>37,127,784</u>	<u>35,124,824</u>
<b>OPERATING LOSS</b>	<u>(2,483,445)</u>	<u>(114,387)</u>
<b>NONOPERATING REVENUES (EXPENSES):</b>		
State appropriations	7,966,274	8,835,635
Investment income	97,625	92,784
Loss on disposal of capital assets	<u>(5,777)</u>	<u>(23,739)</u>
Net nonoperating revenues	<u>8,058,122</u>	<u>8,904,680</u>
<b>INCREASE IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES</b>	5,574,677	8,790,293
<b>CAPITAL BOND PROCEEDS FROM THE STATE</b>	<u>-</u>	<u>115,597</u>
<b>INCREASE IN NET POSITION</b>	5,574,677	8,905,890
<b>NET POSITION - Beginning of year</b>	<u>113,600,260</u>	<u>104,694,370</u>
<b>NET POSITION - End of year</b>	<u>\$ 119,174,937</u>	<u>\$ 113,600,260</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Student tuition and fees	\$ 31,431,295	\$ 25,314,258
Contracts and grants	1,681,416	1,395,910
Payments to and on behalf of employees	(23,278,946)	(21,592,123)
Payments to suppliers	(10,255,511)	(9,747,243)
Payments to utilities	(673,333)	(726,005)
Payments for scholarships and fellowships	(64,750)	(4,750)
Loans issued to students	(1,315,782)	(1,211,051)
Collection of loans to students	787,182	861,875
Auxiliary enterprise charges	427,803	470,103
Operation service assessed by Commission	(95,645)	(95,950)
Other receipts, net	<u>1,256,347</u>	<u>1,148,692</u>
Net cash used in operating activities	<u>(99,924)</u>	<u>(4,186,284)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
State appropriations	8,098,608	8,797,066
Graduate Plus loan program receipts	12,625,770	12,739,175
Graduate Plus loan program payments	(12,625,770)	(12,739,175)
Federal Stafford loan program direct lending receipts	27,449,014	27,463,006
Federal Stafford loan program direct lending payments	<u>(27,449,014)</u>	<u>(27,463,006)</u>
Net cash provided by noncapital financing activities	<u>8,098,608</u>	<u>8,797,066</u>
<b>CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:</b>		
Capital bond proceeds from State	-	675,819
Purchases of capital assets	<u>(5,883,540)</u>	<u>(3,838,525)</u>
Net cash used in capital financing activities	<u>(5,883,540)</u>	<u>(3,162,706)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Interest on investments	<u>93,712</u>	<u>96,317</u>
Net cash provided by investing activities	<u>93,712</u>	<u>96,317</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>2,208,856</b>	<b>1,544,393</b>
<b>CASH AND CASH EQUIVALENTS - Beginning of year</b>	<b><u>65,630,059</u></b>	<b><u>64,085,666</u></b>
<b>CASH AND CASH EQUIVALENTS - End of year</b>	<b><u>\$ 67,838,915</u></b>	<b><u>\$ 65,630,059</u></b>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:</b>		
Operating loss	\$ (2,483,445)	\$ (114,387)
Adjustments to reconcile operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	2,760,108	2,379,366
Loan cancellations and write-offs	201,269	126,305
Changes in assets and liabilities:		
Accounts receivable, net	78,009	1,990,177
Loans to students, net	(528,599)	(349,176)
Prepaid expenses	58,272	(24,682)
Inventories	(33,585)	19,428
Accounts payable	(612,243)	26,678
Due to Commission	(995)	(6,075)
Accrued liabilities	86,186	122,565
Compensated absences	141,162	181,441
Unearned revenue	74,513	(8,671,648)
Other postemployment benefits liability	<u>159,424</u>	<u>133,724</u>
Net cash used in operating activities	<u>\$ (99,924)</u>	<u>\$ (4,186,284)</u>
<b>NONCASH TRANSACTIONS:</b>		
Loss on disposal of capital assets	<u>\$ 5,777</u>	<u>\$ 23,739</u>
Capital expenses in accounts payable	<u>\$ 1,271,601</u>	<u>\$ 1,864,357</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.**  
**A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2014 AND 2013**

<u>ASSETS</u>	<u>2014</u>	<u>2013</u>
Cash and equivalents	\$ 898,020	\$ 1,122,016
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$0	635	1,989
Unconditional promises to give, less allowance for doubtful amounts of \$10,812 and \$42,734	193,794	190,170
Loans receivable, net of allowance for loan losses of \$0 and \$0	19,472	12,570
Marketable investments	1,820,403	981,985
Beneficial interest in assets held by community foundation	770,635	675,044
Building, equipment and vehicles, net of accumulated depreciation of \$9,488 and \$8,883	<u>1,764</u>	<u>2,369</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 3,704,723</u></b>	<b><u>\$ 2,986,143</u></b>
<u>LIABILITIES AND NET ASSETS</u>		
<b><u>Liabilities</u></b>		
Accounts payable	\$ 1,162	\$ 726
Accrued expenses	9,000	9,000
Custodial liabilities	<u>316,718</u>	<u>278,389</u>
<b>Total Liabilities</b>	<b><u>326,880</u></b>	<b><u>288,115</u></b>
<b><u>Net Assets</u></b>		
Unrestricted	1,555,264	1,406,946
Temporarily restricted	879,920	621,532
Permanently restricted	<u>942,659</u>	<u>669,550</u>
<b>Total Net Assets</b>	<b><u>3,377,843</u></b>	<b><u>2,698,028</u></b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b><u>\$ 3,704,723</u></b>	<b><u>\$ 2,986,143</u></b>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.**  
**A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2014**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Public Support and Revenue</u></b>				
Contributed services and operational expenses revenue	\$ 204,493	\$ -	\$ -	\$ 204,493
Contributions	24,482	199,879	272,875	497,236
Facility rental and function revenue	28,979	-	-	28,979
Investment revenue (losses and expenses)				
Interest and dividends	34,149	21,602	234	55,985
Realized gains	43,177	7,521	-	50,698
Unrealized gains	111,896	77,691	-	189,587
Bank and administrative fees	(13,690)	(12,232)	-	(25,922)
Other revenue	2,238	-	-	2,238
Net assets released from restrictions due to expiration of spending purpose restrictions on contributions	36,073	(36,073)	-	-
<b>Total Public Support and Revenue</b>	<u>471,797</u>	<u>258,388</u>	<u>273,109</u>	<u>1,003,294</u>
<b><u>Expenses</u></b>				
School and student support and program activities	165,379	-	-	165,379
Management and general	70,207	-	-	70,207
Fundraising	87,893	-	-	87,893
<b>Total Expenses</b>	<u>323,479</u>	<u>-</u>	<u>-</u>	<u>323,479</u>
<b>Excess of (Expenses Over Public Support and Revenue) Public Support and Revenue Over Expenses</b>	148,318	258,388	273,109	679,815
<b>Net Assets, Beginning of Year</b>	<u>1,406,946</u>	<u>621,532</u>	<u>669,550</u>	<u>2,698,028</u>
<b>Net Assets, End of Year</b>	<u>\$ 1,555,264</u>	<u>\$ 879,920</u>	<u>\$ 942,659</u>	<u>\$ 3,377,843</u>



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION, INC.**  
**A COMPONENT UNIT OF WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**STATEMENTS OF ACTIVITY AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2013**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b><u>Public Support and Revenue</u></b>				
Contributed services and operational expenses revenue	\$ 165,758	\$ -	\$ -	\$ 165,758
Contributions	56,637	232,080	19,011	307,728
Facility rental and function revenue	26,493	-	-	26,493
Investment revenue (losses and expenses)				
Interest and dividends	19,144	19,226	249	38,619
Realized (losses) gains	11,255	2,713	-	13,968
Unrealized gains	74,984	30,977	-	105,961
Bank and administrative fees	(9,480)	(9,081)	-	(18,561)
Other revenue	1,197	-	-	1,197
Net assets released from restrictions due to expiration of spending purpose restrictions on contributions	28,567	(28,567)	-	-
<b>Total Public Support and Revenue</b>	<u>374,555</u>	<u>247,348</u>	<u>19,260</u>	<u>641,163</u>
<b><u>Expenses</u></b>				
School and student support and program activities	144,467	-	-	144,467
Management and general	57,766	-	-	57,766
Fundraising	66,189	-	-	66,189
<b>Total Expenses</b>	<u>268,422</u>	<u>-</u>	<u>-</u>	<u>268,422</u>
<b>Excess of (Expenses Over Public Support and Revenue) Public Support and Revenue Over Expenses</b>	106,133	247,348	19,260	372,741
<b>Net Assets, Beginning of Year</b>	1,300,813	374,184	650,290	2,325,287
<b>Net Assets, End of Year</b>	<u>\$ 1,406,946</u>	<u>\$ 621,532</u>	<u>\$ 669,550</u>	<u>\$ 2,698,028</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 1 - ORGANIZATION**

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

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

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

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

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

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

The audited financial statements of the Foundation are presented here as a discrete component unit with the WVSOM financial statements in accordance with GASB. The Foundation is a private non-profit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 12, 13 and 15).

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The West Virginia State Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education*, of the West Virginia State Code. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of WVSOM. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted net position - nonexpendable* - These include endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.
- *Unrestricted net position* - Unrestricted net position represents resources derived from student tuition and fees, State appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of WVSOM, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

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

***Cash and Cash Equivalents*** - For purposes of the statement of net position, WVSOM considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. Government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities (SLGS); and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the legislature.

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

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

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

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Capital Assets* - Capital assets include property, plant, equipment, and books and materials that are part of a catalogued library. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, 50 years for buildings and building improvements, 15 years for land improvements, 7 years for library books, and 4 to 12 years for furniture and equipment. WVSOM's capitalization thresholds are \$15,000 for land and building improvements and \$5,000 for equipment. There was no interest capitalized during 2014 and 2013. The accompanying financial statements reflect all adjustments required by GASB.

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

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. WVSOM's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

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

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

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

***Use of Restricted Net Position*** - WVSOM has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, WVSOM attempts to utilize restricted net position first, when practicable.

***Federal Financial Assistance Programs*** - WVSOM, through financial institutions, makes loans to students under the Federal Stafford Loan Program and Graduate Plus Loan Program. These loans are not included as receivable on WVSOM's statements of net position as the loans are repayable directly to the U.S. Department of Education. WVSOM has awarded \$27,449,014 and \$27,463,006 in 2014 and 2013, respectively, under the Federal Stafford Loan Program and \$12,625,770 and \$12,739,175 in 2014 and 2013, respectively, under the Graduate Plus Loan Program, which are not included as revenue and expense on the statements of revenues, expenses, and changes in net position. Both programs are from the U.S. Department of Education.



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

WVSOM also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Perkins Loan, Health Professions Student Loan, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2014 and 2013, WVSOM received and disbursed \$769,989 and \$686,461, respectively, under these federal student aid programs.

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

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

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

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

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

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

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**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

*Newly Adopted Statements Issued by the Governmental Accounting Standards Board*

WVSOM implemented Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have a material effect on the financial statements.

*Recent Statements Issued by the Governmental Accounting Standards Board*

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The GASB also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB has also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. WVSOM has not yet determined the effect that the adoption of GASB Statement No. 71 may have on its financial statements.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 - CASH AND CASH EQUIVALENTS**

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

	<b>2014</b>		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 66,966,918	\$ 46,000	\$ 67,012,918
Cash in bank	871,647	-	871,647
Cash on hand	350	-	350
	<u>\$ 67,838,915</u>	<u>\$ 46,000</u>	<u>\$ 67,884,915</u>
	<b>2013</b>		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer/BTI	\$ 64,596,995	\$ 46,000	\$ 64,642,995
Cash in bank	1,032,714	-	1,032,714
Cash on hand	350	-	350
	<u>\$ 65,630,059</u>	<u>\$ 46,000</u>	<u>\$ 65,676,059</u>

Cash held by the Treasurer includes \$3,569,470 and \$3,004,649 of restricted cash at June 30, 2014 and 2013, respectively.

The combined carrying amount of cash in the bank at June 30, 2014 and 2013, was \$871,647 and \$1,249,481, respectively, as compared with the combined bank balance of \$1,302,097 and \$1,420,337 for the years ended June 30, 2014 and 2013, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Non-interest bearing accounts are fully insured through December 31, 2014.

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
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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	2014		2013	
	Carrying Value (in Thousands)	S & P Rating	Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	\$ 1,959,590	AAAm	\$ 2,495,868	AAAm
WV Government Money Market Pool	\$ 238,954	AAAm	\$ 287,184	AAAm
WV Short Term Bond Pool	\$ 771,941	Not Rated	\$ 615,807	Not Rated

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

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

External Pool	2014		2013	
	Carrying Value (in Thousands)	WAM (Days)	Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	\$ 1,959,590	36	\$ 2,495,868	52
WV Government Money Market Pool	\$ 238,954	37	\$ 287,184	50

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

External Pool	2014		2013	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	\$ 771,941	407	\$ 615,807	358

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 3 - CASH AND CASH EQUIVALENTS (Continued)**

*Interest Rate Risk* - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. WVSOM's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

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

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable are as follows at June 30:

	<b>2014</b>	<b>2013</b>
Grants and contracts receivable	\$ 98,742	\$ 97,783
Other accounts receivable	107,892	186,860
	\$ 206,634	\$ 284,643

Pledges receivable were as follows at June 30:

	<b>2014</b>	<b>2013</b>
Noncurrent pledges	\$ 489,485	\$ 310,760
	\$ 489,485	\$ 310,760

The full balance of pledges receivable is considered noncurrent. WVSOM's pledges receivable relate to amounts pledged by donors to have newly renovated rooms dedicated in accordance with donor wishes. WVSOM does not anticipate receiving these pledges until fiscal year 2016.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 5 - CAPITAL ASSETS**

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

	<b>2014</b>			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	\$ 980,196	\$ 76,653	\$ -	\$ 1,056,849
Construction in progress	<u>1,392,344</u>	<u>4,978,864</u>	<u>(825,559)</u>	<u>5,545,649</u>
Total capital assets not being depreciated	<u>\$ 2,372,540</u>	<u>\$ 5,055,517</u>	<u>\$ (825,559)</u>	<u>\$ 6,602,498</u>
Other capital assets:				
Land improvements	\$ 2,725,581	\$ -	\$ -	\$ 2,725,581
Buildings	60,958,335	466,050	-	61,424,385
Equipment	6,269,081	583,180	(586,775)	6,265,486
Library books	<u>219,330</u>	<u>18,063</u>	<u>(25,749)</u>	<u>211,644</u>
Total other capital assets	<u>70,172,327</u>	<u>1,067,293</u>	<u>(612,524)</u>	<u>70,627,096</u>
Less accumulated depreciation for:				
Land improvements	(1,201,822)	(247,178)	-	(1,449,000)
Buildings	(13,139,328)	(1,870,454)	-	(15,009,782)
Equipment	(3,590,654)	(606,183)	574,388	(3,622,449)
Library books	<u>(90,273)</u>	<u>(36,293)</u>	<u>25,749</u>	<u>(100,817)</u>
Total accumulated depreciation	<u>(18,022,077)</u>	<u>(2,760,108)</u>	<u>600,137</u>	<u>(20,182,048)</u>
Other capital assets, net	<u>\$ 52,150,250</u>	<u>\$ (1,692,815)</u>	<u>\$ (12,387)</u>	<u>\$ 50,445,048</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 2,372,540	\$ 5,055,517	\$ (825,559)	\$ 6,602,498
Other capital assets	<u>70,172,327</u>	<u>1,067,293</u>	<u>(612,524)</u>	<u>70,627,096</u>
Total cost of capital assets	72,544,867	6,122,810	(1,438,083)	77,229,594
Less accumulated depreciation	<u>(18,022,077)</u>	<u>(2,760,108)</u>	<u>600,137</u>	<u>(20,182,048)</u>
Capital assets, net	<u>\$ 54,522,790</u>	<u>\$ 3,362,702</u>	<u>\$ (837,946)</u>	<u>\$ 57,047,546</u>

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEARS ENDED JUNE 30, 2014 AND 2013**

**NOTE 5 - CAPITAL ASSETS (Continued)**

	<b>2013</b>			
	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 980,196	\$ -	\$ -	\$ 980,196
Construction in progress	<u>4,151,997</u>	<u>4,581,802</u>	<u>(7,341,455)</u>	<u>1,392,344</u>
Total capital assets not being depreciated	<u>\$ 5,132,193</u>	<u>\$ 4,581,802</u>	<u>\$ (7,341,455)</u>	<u>\$ 2,372,540</u>
Other capital assets:				
Land improvements	\$ 2,700,638	\$ 24,943	\$ -	\$ 2,725,581
Buildings	54,800,500	6,177,835	(20,000)	60,958,335
Equipment	5,253,382	1,434,097	(418,398)	6,269,081
Library books	<u>229,299</u>	<u>28,937</u>	<u>(38,906)</u>	<u>219,330</u>
Total other capital assets	<u>62,983,819</u>	<u>7,665,812</u>	<u>(477,304)</u>	<u>70,172,327</u>
Less accumulated depreciation for:				
Land improvements	(954,321)	(247,501)	-	(1,201,822)
Buildings	(11,417,731)	(1,737,230)	15,633	(13,139,328)
Equipment	(3,626,112)	(360,920)	396,378	(3,590,654)
Library books	<u>(95,465)</u>	<u>(33,714)</u>	<u>38,906</u>	<u>(90,273)</u>
Total accumulated depreciation	<u>(16,093,629)</u>	<u>(2,379,365)</u>	<u>450,917</u>	<u>(18,022,077)</u>
Other capital assets, net	<u>\$ 46,890,190</u>	<u>\$ 5,286,447</u>	<u>\$ (26,387)</u>	<u>\$ 52,150,250</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 5,132,193	\$ 4,581,802	\$ (7,341,455)	\$ 2,372,540
Other capital assets	<u>62,983,819</u>	<u>7,665,812</u>	<u>(477,304)</u>	<u>70,172,327</u>
Total cost of capital assets	68,116,012	12,247,614	(7,818,759)	72,544,867
Less accumulated depreciation	<u>(16,093,629)</u>	<u>(2,379,365)</u>	<u>450,917</u>	<u>(18,022,077)</u>
Capital assets, net	<u>\$ 52,022,383</u>	<u>\$ 9,868,249</u>	<u>\$ (7,367,842)</u>	<u>\$ 54,522,790</u>

WVSOM maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections were neither disposed of for financial gain nor encumbered in any means.

At June 30, 2014, WVSOM had outstanding contractual commitments of \$1,271,601 for property, plant, and equipment expenditures.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
**NOTES TO FINANCIAL STATEMENTS**  
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**NOTE 6 - LONG-TERM LIABILITIES**

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

	<b>2014</b>				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,604,328	141,161	-	1,745,489	1,007,634
Other postemployment benefits liability	<u>5,370,975</u>	<u>672,627</u>	<u>(513,203)</u>	<u>5,530,399</u>	<u>-</u>
Total long-term liabilities	<u>\$ 8,908,845</u>	<u>\$ 813,788</u>	<u>\$ (513,203)</u>	<u>\$ 9,209,430</u>	<u>\$1,007,634</u>
	<b>2013</b>				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Advances from federal sponsors	\$ 1,933,542	\$ -	\$ -	\$ 1,933,542	\$ -
Compensated absences	1,422,887	181,441	-	1,604,328	906,333
Other postemployment benefits liability	<u>5,237,251</u>	<u>627,082</u>	<u>(493,358)</u>	<u>5,370,975</u>	<u>-</u>
Total long-term liabilities	<u>\$ 8,593,680</u>	<u>\$ 808,523</u>	<u>\$ (493,358)</u>	<u>\$ 8,908,845</u>	<u>\$ 906,333</u>

**NOTE 7 - OTHER POSTEMPLOYMENT BENEFITS**

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2014, 2013, and 2012, the noncurrent liability related to OPEB costs was \$5,530,399, \$5,370,975, and \$5,237,251, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$672,627 and \$23,158, respectively, during 2014, or 3%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$627,082 and \$28,066, respectively, during 2013, or 4%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$2,104,650 and \$35,809, respectively, during 2012, or 2%. As of the years ended June 30, 2014, 2013, and 2012 there were 16, 17, and 15 retirees, respectively, retirees receiving these benefits. During the 2012 Legislative session, the State took proactive measures to address the unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037.



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
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**NOTE 8 - LEASES**

WVSOM leases various equipment under agreements reported as operating leases. WVSOM has no non-cancelable leases. As of June 30, 2014, the future annual minimum lease payments are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 57,449
2016	26,809
2017	<u>16,831</u>
	<u>\$ 101,089</u>

The total rent expense for this equipment for the years ended June 30, 2014 and 2013 was \$218,597 and \$128,866 respectively.

**NOTE 9 - STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS**

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

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

The Municipal Bond Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System (the System) are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. No amount of the System debt has been assessed by the Commission to WVSOM as of June 30, 2014 and 2013.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
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**NOTE 10 - UNRESTRICTED NET POSITION**

WVSOM's unrestricted net position at June 30, 2014 and 2013 includes certain designated net position, as follows:

	<u>2014</u>	<u>2013</u>
Designated for auxiliaries	\$ 194,528	\$ 170,648
Undesignated	<u>58,961,100</u>	<u>56,580,857</u>
Total unrestricted net position before OPEB liability	59,155,628	56,751,505
Less: OPEB liability	<u>(5,530,399)</u>	<u>(5,370,975)</u>
Total unrestricted net position	<u>\$ 53,625,229</u>	<u>\$ 51,380,530</u>

**NOTE 11 - RETIREMENT PLANS**

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan. As of June 30, 2014, one employee was enrolled in the Educators Money 401(a) basic retirement plan.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. WVSOM accrued and paid its contribution to the STRS at the rate of 15 percent of each enrolled employee's total annual salary for the years ended June 30, 2014 and 2013. Required employee contributions were at the rate of six percent of total annual salary for the years ended June 30, 2014 and 2013. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Annual pension benefits are based upon two percent of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to STRS for the years ended June 30, 2014, 2013, and 2011 were \$0.

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
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**NOTE 11 - RETIREMENT PLANS (Continued)**

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

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

Total contributions to the TIAA-CREF for the years ended June 30, 2014, 2013, and 2012 were \$2,175,049, \$1,991,372, and \$1,883,706, respectively, which consisted of equal contributions from WVSOM and covered employees of \$1,087,524, \$995,686, and \$941,853, in 2014, 2013, and 2012, respectively.

WVSOM's total benefits-eligible payroll for the years ended June 30, 2014, 2013, and 2012 was \$17,503,182, \$16,880,212, and \$15,920,298, respectively; total covered employees' salaries in the STRS and TIAA-CREF were \$0 and \$17,503,182 in 2014, \$0 and \$16,880,212 in 2013, and \$0 and \$15,920,298 in 2012, respectively.

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

The Educators Money is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. WVSOM matches the employees' 6% contributions. Contributions are immediately and fully vested. Employees may elect to make additional contributions to the Educators Money, which are not matched by WVSOM.

Total contributions to the Educators Money for each of the years ended June 30, 2014, 2013, and 2012, were approximately \$240, which consisted of approximately \$0 from WVSOM and approximately \$240 from covered employees in each year.

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**NOTE 12 - FOUNDATION**

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

Gifts, grants, pledges, bequests, and other revenue contributed to the Foundation totaled \$497,236 and \$307,728 for the years ended June 30, 2014 and 2013, respectively.

WVSOM provided direct financial support of \$165,379 and \$144,467 for the years ended June 30, 2014 and 2013, respectively.

**NOTE 13 - AFFILIATED ORGANIZATIONS (UNAUDITED)**

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

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

**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE**  
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**NOTE 13 - AFFILIATED ORGANIZATIONS (UNAUDITED) (Continued)**

In addition, WVSOM and the Clinic have agreements whereby WVSOM pays the Clinic for medical education services for students of WVSOM, certain office expenses and equipment rentals, and health services for students enrolled at WVSOM. For each of the years ended June 30, 2014 and 2013, the amount paid by WVSOM for instruction, office expenses, and equipment rental totaled approximately \$500,000 and approximately \$500,000, respectively. WVSOM made payments totaling approximately \$100,000 and approximately \$100,000 for the years ended June 30, 2014 and 2013, respectively, to the Clinic for providing health services to WVSOM students. The financial statements of the Clinic are available at [www.guidestar.org](http://www.guidestar.org).

The Mountain State Osteopathic Postdoctoral Training Institutions System, Inc. (MSOPTI) is a medical education consortium formed in 1998 through affiliation agreements among MSOPTI, WVSOM (central partner), and partner training institutions (hospitals, teaching health centers) in the States of West Virginia, Ohio and Kentucky which provides postdoctoral training to osteopathic interns, residents and fellows. The affiliation agreements are renewed annually and are executed among each training institution, WVSOM and MSOPTI. As of June 30, 2014, MSOPTI had eleven Full Partner members, paying Full Partner membership dues, in addition to the Central Partner. MSOPTI membership also includes three (3) Affiliates: The Beckley (WV) VA Hospital, Mon General Hospital, and the Southeastern Area Health Education Center (SEAHEC) which do not pay membership fees. MSOPTI serves as the grants administrator for SEAHEC. Only Full Partners and the Central Partner have voting privileges on the MSOPTI Governing Board of Directors.

Although MSOPTI is a consortium created for the purpose of assisting WVSOM in achieving its mission, it is a separate 501(c) (3) non-profit organization incorporated in the State of West Virginia. Oversight of MSOPTI is the responsibility of a Governing Board of Directors, as specified in the MSOPTI by-laws. The MSOPTI Governing Board of Directors is made up of three voting members from WVSOM and one voting member from each of the eleven Full Partner training institutions. In carrying out its responsibilities, the MSOPTI Governing Board of Directors directs management, forms policy, and maintains fiscal accountability over funds administered by MSOPTI. MSOPTI (and SEAHEC) are audited annually by an independent CPA through a written letter of engagement. Accordingly, the financials statements of MSOPTI and SEAHEC are not included in the accompanying financial statements. For each of the years ended June 30, 2014 and 2013, WVSOM contributed \$50,000 to MSOPTI. In addition, WVSOM incurred \$243,500 and \$244,689 of personnel costs on MSOPTI's behalf and was reimbursed for these costs in the years ended June 30, 2014 and 2013, respectively.

**NOTE 14 - CONTINGENCIES**

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

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

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

**NOTE 15 - COMPONENT UNIT DISCLOSURES**

On the following pages are the notes taken directly from the audited financial statements of the Foundation:

**Note 1 — Description of the Organization**

The West Virginia School of Osteopathic Medicine Foundation, Incorporated (**“the Organization”**) is a non-profit West Virginia corporation organized to promote educational and fraternal opportunities for current students, faculty, staff, and alumni of the West Virginia School of Osteopathic Medicine (**“WVSOM”**), located in Lewisburg, West Virginia. The mission statement of the Organization states, “the mission of the Organization is to serve WVSOM, its faculty, staff, students and alumni as an additional financing source through fundraising, managing funds, and overseeing the distribution of these funds.” The Organization accomplishes this by engaging in the following principal activities:

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

NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013**Note 2 — Summary of Significant Accounting Policies**

**Basis of Accounting:** The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

**Financial Statement Presentation:** The Organization has implemented the financial statement presentation required by the Financial Accounting Standards Board Codification of Accounting Standard No. 958. The Organization is required to report information regarding its financial position and activities according to three classes of net assets; unrestricted, temporarily restricted, and permanently restricted, described as follows:

- **Unrestricted:** Resources over which the Board of Directors has discretionary control as a result of not being restricted by donors or for which the restrictions have been satisfied or expired.
- **Temporarily Restricted:** Resources resulting from contributions whose use is limited by donor-imposed stipulations that either expire by the passage of time or by actions of the Organization. Temporarily restricted net assets consist principally of donor-imposed stipulations related to student financial aid or capital projects.
- **Permanently restricted:** Resources resulting from contributions whose use is limited by donor stipulations that neither expire through the passage of time nor by actions of the Organization. Such net assets consist of endowments which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity; spending of the related investment income is limited to the actual income earned.

Contributions of cash and other assets are presented as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the net assets released from restrictions.

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

**Cash and Equivalents:** Cash and equivalents include cash, demand deposits with a financial institution and other short-term investments with original maturities of three months or less.

**Unconditional Promises to Give:** Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional (**See Note 3**).

**Loans Receivable:** Loans receivable amounting to \$19,472 and \$12,570 at June 30, 2014 and 2013, respectively represent loans made to current students, faculty and staff of WVSOM which are payable within 90 days of their issuance and accrue interest at the rate of 6 percent per annum. If the loans remain unpaid in excess of 90 days, the rate of interest payable on the loan increases to 10 percent per annum. The majority of these loans are typically made in order to provide certain students with a “funding bridge” until such time as their respective long-term tuition or other living expenses funding becomes available. No interest accrual has been reflected in the accompanying financial statements as it is undeterminable as to the ultimate amount collectible.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2014 AND 2013

**Note 2 — Summary of Significant Accounting Policies (continued)**

**Marketable Investments:** Marketable investments at June 30, 2014 and 2013, which are readily tradable in active markets are stated at their respective fair values and are comprised of the following:

<u>As of June 30, 2014</u>	Fair Market Value	Cost	Unrealized Gain (Loss)
Common stocks	\$ 809,285	\$ 619,614	\$ 189,671
Federal government and agency securities	175,762	179,506	(3,744)
Mutual funds	<u>835,356</u>	<u>822,245</u>	<u>13,111</u>
Totals	<u>\$ 1,820,403</u>	<u>\$ 1,621,365</u>	<u>\$ 199,038</u>

<u>As of June 30, 2013</u>	Fair Market Value	Cost	Unrealized Gain (Loss)
Common stocks	\$ 661,723	\$ 577,165	\$ 84,558
Federal government and agency securities	184,149	193,512	(9,363)
Mutual funds	<u>136,113</u>	<u>144,027</u>	<u>(7,914)</u>
Totals	<u>\$ 981,985</u>	<u>\$ 914,704</u>	<u>\$ 67,281</u>

**Beneficial Interest In Assets Held By Community Foundation:** The Organization has placed with The Greater Greenbrier Valley Community Foundation, Inc. (“GGVCF”) certain restricted assets in the form of a “Donor Designated Sub-Fund Agreements” (“the Agreements”). The substance of these agreements provides for the investment returns resulting from the investment of the assets to be distributed to the Organization. It further provides for the Organization to have at its discretion the ability to invade 100% of the principal (corpus) placed with GGCF. Notwithstanding this, GGVCF does have variance power with respect to these funds whereby the Board of GGVCF by majority vote has the power to modify any restriction or condition on the distribution of funds for any specified charitable purposes or to specified organizations, if in the sole judgment of this Board (without the approval of any trustee, custodian or agent), such restriction or condition becomes, in effect, unnecessary, incapable of fulfillment or inconsistent with charitable needs of the area served by the GGVCF.

Applicable accounting standards require that if a community foundation accepts a contribution from an Agency and agrees to transfer those assets, the return on investment of those assets or both back to the Agency, then these contributions are presented as an asset in financial statements of the agency (in this case the Organization). Accordingly, the value of the assets held by GGVCF as of June 30, 2014 and 2013 is presented in the accompanying statement of financial position in the amount of \$770,635 and \$675,044, respectively.



WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
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**Note 2 — Summary of Significant Accounting Policies (continued)**

As of December 31, 2013, the latest reviewed financial statements of GGVCF reflect total investment assets, at market value of \$6,093,450 comprised of the following:

	Market Value
Fixed income securities	\$ 2,800,088
Fixed income mutual funds	125,313
Common stocks	2,941,687
Preferred stocks	31,524
Equity mutual funds	194,838
	\$ 6,093,450

A condensed statement of financial position as of December 31, 2013, the most recent reviewed financial statements of GGVCF is as follows:

<u>Assets</u>	
Cash and equivalents	\$ 325,538
Accrued interest and dividends	19,956
Marketable securities	6,093,450
Total Assets	\$ 6,438,944
 <u>Liabilities and Net Assets</u>	
Funds held for benefit of others	\$ 4,624,424
Accounts payable and accrued expenses	8,748
Net assets	1,805,772
Total Liabilities and Net Assets	\$ 6,438,944

These assets essentially represent the fair value of the underlying assets held by GGVCF for the benefit of the Organization.

**Note 2 — Summary of Significant Accounting Policies (continued)**

**Equipment:** Equipment is carried at cost, or if donated, at estimated fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful live of the respective assets ranging from five to forty years using the straight-line method. The significant components of recorded value of these assets are as follows at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Equipment, at cost	\$ 11,252	\$ 11,252
Total Cost or Donated Value	11,252	11,252
Less Accumulated Depreciation	<u>(9,488)</u>	<u>(8,883)</u>
Equipment and vehicle, Net	<u>\$ 1,764</u>	<u>\$ 2,369</u>

Depreciation expense for the years ended June 30, 2013 and 2012 amounted to \$956 and \$20,350, respectively.

**Donated Goods, Facilities and Services:** Contributions of donated services that create or enhance non-financial assets, or that require specialized skills and would typically need to be purchased, if not provided by donation, are recorded at their fair values in the period received as donations revenues with a corresponding expense (**See Note 5**).

**Income Taxes:** There is no provision for federal or state income taxes on income since the Organization is an exempt nonprofit association under Internal Revenue Code Section 501(c)(3). Management believes there is no unrelated business taxable income associated with the Organization. The Organization adopted Financial Accounting Standards Codification Topic “Accounting for Uncertainty in Income Taxes”, which addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under this guidance, the Organization may recognize the tax benefit from an uncertain tax position only if it is more-likely-than-not that the tax position will be sustained on examination by taxing authorities, based on the technical merits of the position. The tax benefits recognized in the financial statements from such a position are measured based on the largest benefit that has greater than 50% likelihood of being realized upon ultimate settlement.

The Organization is generally no longer subject to examination by income taxing authorities for years ending prior to June 30, 2010.

**Concentrations:** The Organization places its cash and cash equivalents with high credit quality financial institutions and brokerage firms. Deposits with these financial institutions may exceed the amount of insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore bear minimal risk.

**Investment Risk:** The Organization’s investments subject it to various levels of risk associated with economic, operating, and political events beyond management’s control. Consequently, management’s judgment as to the level of losses that currently exist or may develop in the future involves the consideration of current and anticipated conditions and their potential effects on the Organization’s investments. Due to the level of risk associated with investments and the level of uncertainty related to changes in the value of investments, it is possible that changes in risks could materially impact the amounts reflected in the accompanying financial statements.

**Note 2 — Summary of Significant Accounting Policies (continued)**

**Economic, Geographic and Other Dependencies:** The Organization generates a significant amount of its support and revenue (including fundraising activities) from the state of West Virginia. Its economy is largely dependent upon the mineral extraction (coal), timbering, farming, and recreation/resort industries. Changes in economies of these industries could significantly influence the Organization's ability to provide its services.

The Organization is also dependent upon significant amounts of support in the form of salaries, wages and employee benefits and other operating costs provided by WVSOM. The ability or desire of WVSOM to continue to provide this support could significantly influence the Organization's ability to provide its services (**See Note 5**).

**Functional Reporting:** The costs of providing various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated based on management's estimates among program services and supporting services benefited. A brief description of each of the functional classifications is as follows:

- School and Student Support and Program Activities – Funds expended primarily to provide support services for West Virginia School of Osteopathic Medicine. It includes scholarships awarded to the students and the provision of services that directly assist the academic functions, such as faculty development, as well a capital projects.
- Management and General – Expenses incurred principally for (1) central executive-level activities concerned with management of day-to-day operations and long-range planning, (2) legal and fiscal operations, and administrative data processing.
- Fundraising – Expenses related to community and alumni relations, including development and fundraising.

**Custodial Liabilities:** Custodial liabilities represent funds held for and disbursed at the discretion of various WVSOM student, faculty and alumni organizations. These liabilities amounted to \$316,718 and \$278,389 at June 30, 2014 and 2013, respectively.

**Risks and Uncertainties:** A substantial portion of the Organization's assets consist of beneficial interest in assets held by community foundation, which is supported by investment securities of the respective community foundation (**See Note 2**) and to a lesser degree investment securities which are exposed to various risks such as interest rate, market, and credit risks. Due to the level of risk associated with investment securities, it is reasonably possible that changes in the values of investment securities will occur in the near term and those changes could materially affect investments reported in the statements of financial position, and the realized and unrealized losses in the statements of activities.

**Compensated Absences:** Compensated absences are not provided for in the accompanying statement of financial position as WVSOM provides all compensation and benefits for employees who serve/operate the Organization (**See Note 5**).

**Date of Management Review:** Subsequent events (events or transactions that have occurred which may have a material effect on the financial statements and that require adjustment to or disclosure in the financial statements) have been evaluated through September 10, 2014 which is the date the financial statements were available to be issued.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION  
 NOTES TO FINANCIAL STATEMENTS  
 YEARS ENDED JUNE 30, 2014 AND 2013

**Note 3 — Unconditional Promises to Give**

Unconditional promises to give at June 30, 2014 and 2013 were comprised of the following:

	<u>2014</u>	<u>2013</u>
Gross unconditional promises to give	\$ 218,322	\$ 242,932
Less gross allowance for doubtful accounts	(11,833)	(44,246)
Less unamortized discounts	<u>(12,695)</u>	<u>(8,516)</u>
Net unconditional promises to give	<u>\$ 193,794</u>	<u>\$ 190,170</u>

These gross amounts are expected to be collected as follows:

<u>Year ended June 30th</u>	
2015	\$ 131,036
2016	45,685
2017	29,685
2018	7,900
2019 and thereafter	<u>4,016</u>
Totals	<u>\$ 218,322</u>

An annual rate of four percent was used to discount unconditional promises to give expected to be collected at June 30, 2014.

**Note 4 — Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following or are available for the following purposes as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Unconditional promises to give	\$ 193,794	\$ 190,170
Capital campaign	502,837	301,074
Current scholarships	10,954	10,404
Endowments	140,416	86,330
School accounts	<u>31,919</u>	<u>33,554</u>
Totals	<u>\$ 879,920</u>	<u>\$ 621,532</u>

**Note 5 — Related Party Transactions**

WVSOM provides all the pay and employee benefits for the personnel who operate the Organization as well as assistance with certain operating costs and since November 12, 2011 provision of office space. These are recorded as contributed services and operational expenses revenue and applicable expenses in the accompanying statement of activities. The total amount of the services and operating costs provided were \$204,493 and \$165,758 for the years ended June 30, 2014 and 2013, respectively. In addition, as a result of the sale of the building to WVSOM and as a part of a Memorandum of Understanding with WVSOM signed concurrent with the sale of the building, the Organization will be able to continue to collect revenues from the rental of conference/meeting facility contained in the facility sold. As the fair value of this arrangement is not readily determinable, no reflection of it has been recorded in the accompanying financial statements.

**Note 6 — Endowments**

Permanent endowments consist of fourteen individual funds established for a variety of specific purposes. Endowments include donor-restricted endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

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

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

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

These permanently restricted scholarship funds are largely held and invested by the Greater Greenbrier Valley Community Foundation, Inc. in the form of Donor Designated Sub-Fund Agreements (**See Note 2**). Only the distributions/disbursements received from GGVCF for these funds have been used to pay scholarships/grants during the year, which management believes have been determined in accordance with the provisions of the WVUPMIFA.

WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE FOUNDATION  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED JUNE 30, 2014 AND 2013

**Note 6 — Endowments (continued)**

The endowment net assets consisted of the following types of funds as of June 30, 2014 and 2013:

<u>June 30, 2014</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor restricted endowment funds	<u>\$ 140,416</u>	<u>\$ 916,543</u>
<u>June 30, 2013</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Donor restricted endowment funds	<u>\$ 86,330</u>	<u>\$ 643,669</u>

Changes in endowment net assets for the years ended June 30, 2014 and 2013 were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Endowment net assets, June 30, 2012	<u>\$ 48,711</u>	<u>\$ 624,658</u>
Contributions	-	19,011
Investment return:		
Interest and dividends	21,939	-
Net realized and unrealized gains	<u>35,761</u>	<u>-</u>
Total additions	<u>57,700</u>	<u>19,011</u>
Scholarship awards	11,000	-
Administrative fees	<u>9,081</u>	<u>-</u>
Total reductions	<u>20,081</u>	<u>-</u>
Endowment net assets, June 30, 2013	<u>\$ 86,330</u>	<u>\$ 643,669</u>
Contributions	-	272,874
Investment return:		
Interest and dividends, net of fees	19,448	-
Net realized and unrealized gains	<u>62,638</u>	<u>-</u>
Total additions	<u>82,086</u>	<u>272,874</u>
Scholarship awards	17,300	-
Administrative fees	<u>10,700</u>	<u>-</u>
Total reductions	<u>28,000</u>	<u>-</u>
Endowment net assets, June 30, 2014	<u>\$ 140,416</u>	<u>\$ 916,543</u>

From time to time and more specifically during recent years, the fair value of assets associated with individual donor restricted endowment funds have fallen below the level that the individual donor or WVUPMIFA requires the Organization to retain as a fund of perpetual duration. These deficiencies generally have resulted from unfavorable market fluctuations in recent years.

**Note 7 — Fair Value Measurements**

Fair value is the price that would be received to sell an asset or paid to transfer as liability in an orderly transaction between market participants at the measurement date. Generally Accepted Accounting Principles (**GAAP**) require the Organization to disclose fair value of all financial instruments for which it is practicable to estimate fair value, including those which are not reported at fair value in the statements of financial position. At June 30, 2014 and 2013, the fair values of all financial instruments were substantially equal to the carrying values.

The carrying value of certain financial assets and liabilities such as cash, cash equivalents, loans receivable, accounts payable, accrued expenses, custodial liabilities is a reasonable estimate of fair value due to the short term nature of these instruments. Following is a description of the techniques used for the fair values of all other financial instruments. There have been no changes in the techniques used during the year ended June 30, 2014 and 2013.

**Marketable Investments:** The fair value of equity and fixed income investments is determined by the investment custodian based on recent sales in the open market of same or similar investments,

**Beneficial Interest in Assets Held by Community Foundation:** This is determined by the community foundation based on the Organization's representative share of the underlying investment assets of the community foundation (**See Note 2**).

*Financial Instruments Recorded at Fair Value*

For financial instruments recorded at fair value on a recurring basis, GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements.

The inputs are summarized in the three broad levels listed below:

- **Level 1:** Unadjusted quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- **Level 2:** Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets and liabilities.
- **Level 3:** Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

NOTES TO FINANCIAL STATEMENTS  
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**Note 7 — Fair Value Measurements (continued)**

The estimated fair value amounts of financial instruments have been determined by the Organization using available market information and appropriate valuation methodologies. However, considerable judgment is required to interpret data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Organization could realize in current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The following table presents the Organization's fair value hierarchy for the financial assets measured at fair value on a recurring basis:

**Fair Value Measurement at Reporting  
Date of June 30, 2014 Using**

Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Beneficial interest in assets held by community foundation	<u>\$ 770,635</u>	<u>\$ 770,635</u>
Marketable investments	<u>\$ 1,820,403</u>	<u>\$ -</u>

**Fair Value Measurement at Reporting  
Date of June 30, 2013 Using**

Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)
Beneficial interest in assets held by community foundation	<u>\$ 675,044</u>	<u>\$ 675,044</u>
Marketable investments	<u>\$ 981,985</u>	<u>\$ -</u>



**WEST VIRGINIA SCHOOL OF OSTEOPATHIC MEDICINE  
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**NOTE 16 - NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS**

	2014						Fees Assessed by the Commissions	Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciations		
Instruction	\$ 10,465,192	\$ 2,071,445	\$ 3,635,572	\$ -	\$ -	\$ -	\$ -	\$ 16,172,209
Research	116,625	43,326	270,368	6,029	-	-	-	436,348
Public service	79,505	7,335	132,685	-	-	-	-	219,525
Academic support	2,119,948	545,239	1,195,417	-	-	-	-	3,860,604
Student services	1,330,283	331,727	826,718	5,394	-	-	-	2,494,122
General institutional support	3,886,827	938,697	1,781,219	-	-	-	-	6,606,743
Operations and maintenance of plant	1,172,067	473,585	1,394,994	648,982	-	-	-	3,689,628
Student financial aid	-	-	-	-	64,750	-	-	64,750
Auxiliary enterprises	72,935	10,981	339,542	-	-	-	-	423,458
Depreciation	-	-	-	-	-	2,760,108	-	2,760,108
Other	-	-	103,375	-	-	-	201,269	400,289
<b>Total</b>	<b>\$ 19,243,382</b>	<b>\$ 4,422,335</b>	<b>\$ 9,679,890</b>	<b>\$ 660,405</b>	<b>\$ 64,750</b>	<b>\$ 2,760,108</b>	<b>\$ 201,269</b>	<b>\$ 37,127,784</b>

	2013						Fees Assessed by the Commissions	Total
	Salaries And Wages	Benefits	Supplies and Other Services	Utilities	Scholarships And Fellowships	Depreciations		
Instruction	\$ 9,083,238	\$ 1,948,977	\$ 3,518,856	\$ -	\$ -	\$ -	\$ -	\$ 14,551,071
Research	389,348	92,656	235,549	11,391	-	-	-	728,944
Public service	123,911	32,157	190,908	-	-	-	-	346,976
Academic support	1,930,646	468,472	1,074,214	-	-	-	-	3,473,332
Student services	1,285,973	320,906	1,091,403	3,836	-	-	-	2,702,118
General institutional support	3,677,940	921,225	1,814,836	-	-	-	-	6,414,001
Operations and maintenance of plant	1,177,079	492,587	1,364,230	747,371	-	-	-	3,781,267
Student financial aid	-	-	-	-	4,750	-	-	4,750
Auxiliary enterprises	72,154	12,586	376,815	-	-	-	-	461,555
Depreciation	-	-	-	-	-	2,379,366	-	2,379,366
Other	-	-	59,189	-	-	-	126,305	281,444
<b>Total</b>	<b>\$ 17,740,289</b>	<b>\$ 4,289,566</b>	<b>\$ 9,726,000</b>	<b>\$ 762,598</b>	<b>\$ 4,750</b>	<b>\$ 2,379,366</b>	<b>\$ 126,305</b>	<b>\$ 35,124,824</b>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and aggregate discretely presented component units of the West Virginia School of Osteopathic Medicine (WVSOM), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise WVSOM's basic financial statements, and have issued our report thereon dated October 22, 2014, which states reliance on another auditor for the discretely presented component unit. Our report includes a reference to another auditor who audited the financial statements of the West Virginia School of Osteopathic Medicine Foundation, Inc. (the Foundation), as described in our report on WVSOM's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by that auditor. The financial statements of the Foundation were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

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

Charleston, West Virginia  
October 22, 2014