WEST VIRGINIA UNIVERSITY

Financial Statements
for the Years Ended June 30, 2016 and 2015
and Independent Auditors' Reports

WEST VIRGINIA UNIVERSITY

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CliftonLarsonAllen LLP
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INDEPENDENT AUDITORS' REPORT

Board of Governors
West Virginia University & Divisions
Morgantown, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of West Virginia University (the University), a campus of the West Virginia Higher Education Policy Commission as of and for the years ended June 30, 2016 and 2015, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2016 and 2015, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 1, the financial statements present only West Virginia University and do not purport to, and do not present fairly the financial position of the West Virginia Higher Education Policy Commission as of June 30, 2016 and 2015, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis, schedule of proportionate share of net pension liability and contributions, as listed in the table of contents be presented to supplement the financial statements as listed in the table of contents. 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 January 23, 2017, on our consideration of West Virginia University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Virginia University's internal control over financial reporting and compliance.

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
January 23, 2017

Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2016

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (“GASB”). This section of West Virginia University’s (the “University” or “WVU”) annual financial report provides an overview of the University’s financial performance during the fiscal year ended June 30, 2016 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2015 compared to fiscal year 2014.

The University's annual report consists of three basic financial statements: the statement of net position, the statement of revenues, expenses and changes in net position, and the statement of cash flows. These statements focus on the financial condition of the University, the results of operations, and cash flows of the University as a whole. Each of these statements is discussed below.

Financial Highlights

At June 30, 2016, the University’s total net position increased from the previous year-end by $103.1 million. The increase in net position is primarily attributable to significant increases in capital assets, net of depreciation, amounts receivable at year-end from public-private partners, students and grantors, as well as decreases in bonds payable and debt service assessment payable to the Higher Education Policy Commission (“Commission”). This increase in net position was partially offset by increases in accounts payable, notes payable, other post-employment benefits (“OPEB”) liability, accrued payroll as well as a decrease in cash balances and investments.

Total revenues in fiscal year 2016 were $1.2 billion, a 9.8% increase over prior year, primarily due to an increase in capital grants and gifts revenues. Excluding capital grants and gifts revenues, total revenues were $1.0 billion, an increase of 4.0% compared to last year. During fiscal year 2016 increases in net tuition and fee revenues, non-capital grants and contracts revenues, auxiliary revenues and gift revenues were partially offset by increases in several categories of expenses such as: salaries and wages, benefits, supplies and other services, depreciation and scholarship and fellowship expense. Total expenses increased 5.1% from prior year.

Total net position had increased from fiscal year 2014 to fiscal year 2015 by $49.6 million attributable to significant increases in net capital assets, investments and accounts receivable.

Net Position

The statement of net position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources and net position of the University as of the end of the fiscal years. Assets denote the resources available to continue the operations of the University. Deferred outflows of resources is defined as a consumption of resources applicable to a future reporting period. Liabilities indicate how much the University owes vendors, employees and lenders. Deferred inflows of resources is defined as an acquisition of net assets applicable to a future reporting period. Net position is the residual of all other elements presented in a statement of net position.

Net Position is displayed in three components:

Net investment in capital assets. This component consists of capital assets, net of accumulated depreciation reduced by the outstanding balance of debt obligations related to those capital assets. Deferred inflows and outflows of resources related to these capital assets or debt are also included in this component of net position.

Restricted. This category includes assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. Restricted assets are reduced by liabilities and deferred inflows of resources related to those assets. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted component** includes endowment and similar type funds for 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. **Expendable restricted component** includes resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

Unrestricted. This component includes resources that are not subject to externally imposed stipulations. Such resources are derived primarily from tuition and fees (not restricted as to use), State appropriations, sales and services of educational activities, and auxiliary enterprises. The unrestricted component of net position is used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the University's management or the Board of Governors.

Condensed Schedule of Net Position (in thousands)

	As of June 30		
	2016	**2015**	**2014**
Assets			
Current Assets	$ 259,738	$ 283,602	$ 193,429
Capital Assets, Net	1,760,116	1,531,269	1,351,814
Other Noncurrent Assets	173,002	257,153	265,883
Total Assets	2,192,856	2,072,024	1,811,126
Deferred Outflows of Resources	14,645	15,336	14,480
TOTAL	$ 2,207,501	$ 2,087,360	$ 1,825,606
Liabilities			
Current Liabilities	$ 211,940	$ 177,775	$ 147,186
Noncurrent Liabilities	960,107	980,503	822,122
Total Liabilities	1,172,047	1,158,278	969,308
Deferred Inflows of Resources	40,835	37,604	642
TOTAL	$ 1,212,882	$ 1,195,882	$ 969,950
Net Position			
Net Investment in Capital Assets	$ 1,085,219	$ 943,937	$ 867,614
Restricted for:			
Nonexpendable	16,836	17,398	7,045
Expendable	7,743	7,707	23,586
Unrestricted Net (Deficit)	(115,179)	(77,564)	(42,589)
TOTAL NET POSITION	$ 994,619	$ 891,478	$ 855,656

Total assets of the University increased by about $120.8 million, or 5.8%, to a total of $2.2 billion as of June 30, 2016. The increase was primarily due to increases in net capital assets, accounts receivable from students, grantors and employees, and amounts receivable from public private partnerships. These increases were partially offset by decreases in investments, cash and cash equivalents, amounts due from the Commission and appropriations due from primary government (State of WV).

- Cash and cash equivalents (including restricted cash) decreased by $39.2 million primarily due to: reduction in State appropriations as a result of base budget reduction in fiscal year 2016 as well as a mid-year budget cut; a significant increase in operating costs; an increase in amounts receivable from the public private partners; and bond proceeds on deposit with the Trustees used for construction and renovation of campus facilities. This decrease was partially offset by loan proceeds received from a short-term unsecured note, in the amount of $12 million, to defray the cost of acquisition of the WVU Beckley Campus and associated start-up costs. Cash and cash equivalents had experienced a similar but larger decline of $61.7 million from fiscal year 2014 to fiscal year 2015 primarily because cash on deposits with trustees was used to purchase investments.

- Appropriations due from primary government represent both unspent appropriations in the State General funds at fiscal year-end and re-appropriated funds. Such unspent funds at June 30, 2016 were $2.2 million lower than appropriations due from primary government, in the amount of $3.0 million, recorded at the end of fiscal year 2015.

- Accounts receivable, net (both current and noncurrent), experienced an increase of $8.9 million over fiscal year 2015 balances. Increases occurred in several areas as follows:
  - Amounts receivable from grants sponsoring agencies. other State agencies as well as private sponsors such as the WVU Foundation, University Healthcare Physicians, Department of Veteran Affairs and Oman Medical College, increased by $6.9 million;
  - Tuition and fees due from students increased by $3.7 million mainly due to timing of payments expected from third party sponsors on behalf of the students.
  - A decrease of $1.6 million in allowance for doubtful accounts mainly as a result of accounts past due over three years being deemed uncollectible and written off.

  These increases were partially offset by decreases in accounts receivable related to auxiliaries and other entities. Net accounts receivable had experienced an increase of $17.5 million from fiscal year 2014 to fiscal year 2015 mainly as a result of an increase in amounts receivable from grantors, students and employees for no hardship payments.

- Accounts receivable from public private partnerships increased by $2.1 million representing amounts due from the University's private student housing partners for reimbursable expenses, management fees and additional rent related to fiscal year 2016. Accounts receivable from public private partnerships had increased by $6.2 million from fiscal year 2014 to fiscal year 2015.

- Investments decreased by $74.1 million primarily due to sale of U.S. Treasury notes and bonds to fund construction activity on campus. Investments had increased by $118.3 million from fiscal year 2014 to fiscal year 2015 the purchase of U.S. Government securities, U.S. Government-backed money market funds, and FDIC insured certificate of deposits from proceeds of the WVU 2014 Improvement Revenue bonds.

- Capital assets, net increased by $228.9 million primarily due to acquisition of land and buildings, completion of improvements to land, building and infrastructure, and ongoing construction of buildings.

  - During fiscal year 2016, ownership of University Park, Evansdale Crossing, and the Garage at University Place – in the amount of $89.1 million, $25.1 million and $17.9 million respectively – was transferred to the University by its public-private partners, University Park at Evansdale LLC, Fresh Capital LLC and Downtown Campus Parking Associates LLC. University Park is a mixed use retail and residential facility including student housing, Evansdale Crossing provides student-centered space near the Engineering PRT station, and the Garage at University Place provides parking for the residents and retail customers of University Place. Additionally, West Virginia Campus Housing, LLC, a public-private partner in the University Place project, transferred the ownership of assets in the amount of $14.6 million during fiscal year 2016 to the University.

- During fiscal year 2016, the University received a donation of a 364-acre farm, including buildings and structures, in Keyser, West Virginia valued at $1.3 million.
- Improvements to the following buildings were completed during the fiscal year: the Advanced Engineering Research Building, Evansdale Crossing, classrooms and labs at the Main Campus, the Multiple Sclerosis Research Center, the Animal Facility Annex, the Simulation Center at the Health Sciences Center, and the football practice field. The University also completed energy performance projects at the Main Campus residence halls and academic buildings as well as at the Health Sciences Center and Potomac State College.
- Major construction-in-process projects included: Agricultural Sciences Building II; renovations to the Milan Puskar Stadium, the Coliseum, Law Center, and the Engineering Sciences Building; Evansdale traffic flow; upgrades to the PRT; energy performance projects; and several internally developed software projects.

The increase in capital assets during fiscal year 2016 is consistent with but higher than the increase of $179.5 million noted in this category from fiscal year 2014 to fiscal year 2015.

In accordance with the provisions of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*", the University reported deferred outflows related to pensions, in the amount of $1.2 million, at June 30, 2016.

Total liabilities for the year increased by $13.8 million (or 1.2%). This increase in total liabilities is primarily attributable to increases in notes payable, OPEB liability, accounts payable, and accrued payroll. This increase was partially offset by decreases in bonds payable, the reported debt service assessment payable to the Commission, Advances from the Federal Government, other noncurrent liabilities, and real estate purchase agreements payable.

- Accounts payable increased by $13.0 million primarily due to large unpaid invoices at year-end related to the renovations of the Law School, Coliseum, the Milan Puskar Stadium and upgrades to the PRT system. Additional increases were caused by actuarially estimated amounts due for worker's compensation claims, financial aid due to be disbursed to students, and amounts due to Public Private Partners for miscellaneous fees, at year-end. A similar, but higher, increase of $10.3 million was noted in accounts payable from fiscal year 2014 to fiscal year 2015.

- Accrued payroll increased by $1.2 million mainly due to payroll and fringes incurred (services performed) in the second pay cycle in June 2016 that were not paid in the next fiscal year. A higher increase of $6.5 million was noted in this category from fiscal year 2014 to fiscal year 2015 due to conversion of employees to arrears payroll during fiscal year 2015.

- Real estate purchase agreement payable decreased by $1.2 million primarily due to annual payments on prior purchase agreements payable as well as B&O tax credit received from the City of Morgantown against a purchase agreement recorded previously for the Square at Falling Run property. An increase of $10.4 million was noted in this category from fiscal year 2014 to fiscal year 2015 due to a lease purchase agreement executed last year to finance cost of land acquisitions in the Evansdale Campus.

- Debt service assessment payable to the Commission decreased by $4.6 million due to scheduled debt service (principal) payments in fiscal year 2016. This decrease is consistent with the decrease in such liability from fiscal year 2014 to fiscal year 2015 of $4.7 million.

- Bonds payable decreased by $13.9 million mainly due to scheduled bond principal payments during the year. Bonds payable had experienced an increase of $130.8 million from fiscal year 2014 to fiscal year 2015 due to the issuance of improvement revenue and refunding bonds during fiscal year 2015.

- Notes payable increased by $11.3 million primarily due to a short-term bridge loan received by the Research Corporation during fiscal year 2016 to defray the acquisition and start-up costs of the new campus in Beckley, WV. No significant change was noted in notes payable from fiscal year 2014 to fiscal year 2015.

- OPEB liability increased by $10.0 million due to the accrual of fiscal year 2016 annual required contribution ("ARC") allocated to WVU by the WV Retiree Health Benefit Trust. The OPEB liability represents WVU's accumulated unpaid ARC to the Trust. The ARC remains unpaid because State higher education institutions have been instructed not to pay the ARC since the issue is being addressed at the State level. OPEB liability had increased by $9.1 million from fiscal year 2014 to fiscal year 2015.

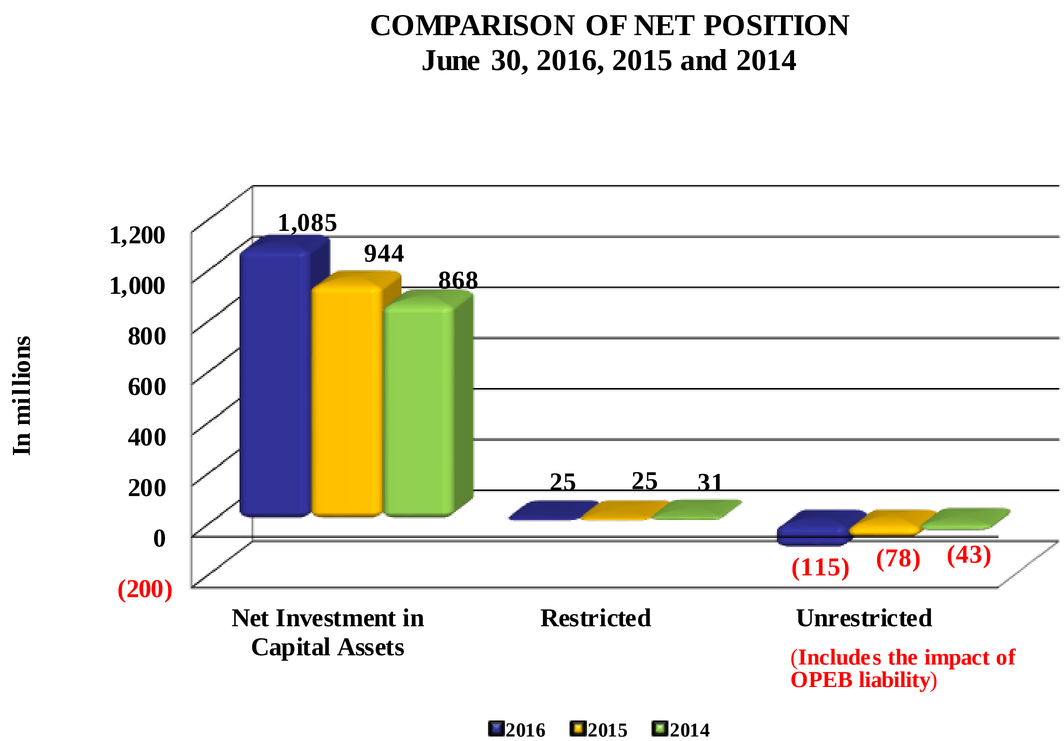
- Advances from the federal government decreased by $1.6 million primarily due to the return of $2.4 million of the University's federal share of excess liquid capital in the WVU Perkins Loan Revolving Fund to the U.S. Department of Education, during fiscal year 2016. This decrease was partially offset by an increase in the amounts owed to the federal government under the Perkins, Dental and Health Professions Pharmacy loan programs. Advances from federal government had increased by $4.9 million from fiscal year 2014 to fiscal year 2015 due to a revised methodology used to calculate the liability for all federal loans, including Perkins loans, issued to students.

- Other non-current liabilities decreased by $1.3 million mainly because of a $1.0 million payment to the Big 12 Athletics Conference, in the form of withholding of the University's share of Big 12 Conference revenue, of the liability related to the University's exit from the Big East Athletics Conference in fiscal year 2012. An additional decrease was due to a reduction in the amount of liability for medical malpractice claims. No significant change was noted in this category from fiscal year 2014 to fiscal year 2015.

In accordance with the provisions of GASB Statement No. 68, "*Accounting and Financial Reporting for Pensions*," and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date*," during fiscal year 2016, the University recorded deferred inflows related to pensions in the amount of $2.4 million. These deferred inflows represent the University's proportionate share of net difference between projected and actual investment earnings on TRS investments, difference between employer contributions and proportionate share of contributions, as well as changes in proportion. During fiscal year 2015, the University entered into an agreement with ACC OP (College Park, WV) LLC to operate College Park, a multi-use facility including student housing, owned by WVU. The agreement met the definition of a service concession arrangement ("SCA") under the provisions of GASB Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements."* Accordingly, in fiscal year 2015, the University recorded a capital asset (buildings) and a corresponding deferred service concession arrangement for $34.9 million. During fiscal year 2016, an additional $4.8 million was added in capital assets improvements and to the service concession arrangement. This increase was partially offset by amortization of the deferred SCA over the lease term of forty years to auxiliary enterprise revenue. The University also recorded Pell grant monies provided for financially eligible students before the start of the semester as well as reclassified gain on refunding of HSC loans in FY 2013 as deferred inflows of resources.

The University's current assets of $259.7 million were sufficient to cover current liabilities of $211.9 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2016.

The following is a comparative illustration of net position.



Net investment in capital assets increased by $141.3 million mainly due to an increase in capital assets, net, and decreases in debt service assessment payable to the Commission, leases payable and bonds payable. This increase was partially offset by decreases in cash, investments with the bond trustee, as well as increases in notes payable. Net investment in capital assets had increased by $76.3 million from fiscal year 2014 to fiscal year 2015 primarily due to a significant increase in net capital assets and investments with the bond trustees.

No significant change was noted in the restricted component of the net position during fiscal year 2016. This category had experienced an increase of $5.5 million from fiscal year 2014 to fiscal year 2015 due to an increase in liability associated with Perkins and other federal loans, as well as a reduction in the net loans receivable from students.

The unrestricted component of the net position decreased by approximately $37.6 million primarily due to decreases in cash and cash equivalents and appropriations due from the State, as well as an increase in the OPEB liability. This decrease was partially offset by an increase in accounts receivable from vendors, sponsors and students. This component of net position had experienced a decrease of $34.9 million from fiscal year 2014 to fiscal year 2015 primarily due to increases in investments with the Foundation and appropriations due from the primary government, as well as a decrease in vouchers payable balance at year end.

Revenues, Expenses and Changes in Net Position

The statement of revenues, expenses and changes in net position presents the operating revenues, operating expenses, non-operating revenues and expenses and other revenues, expenses, gains or losses of the University for the fiscal years.

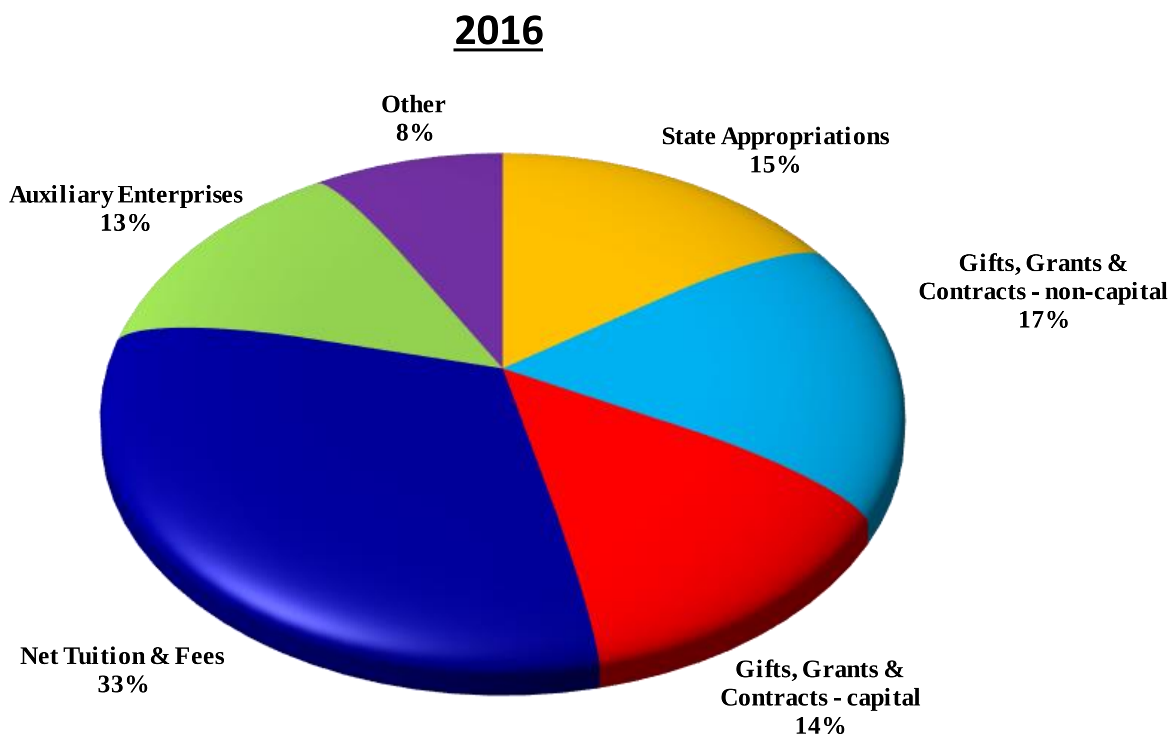
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the "Legislature") to the University without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as non-operating, because of specific guidance in the AICPA industry audit guide. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the NACUBO alternative method. Under this method certain aid, such as loans and federal direct lending, is accounted for as a third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

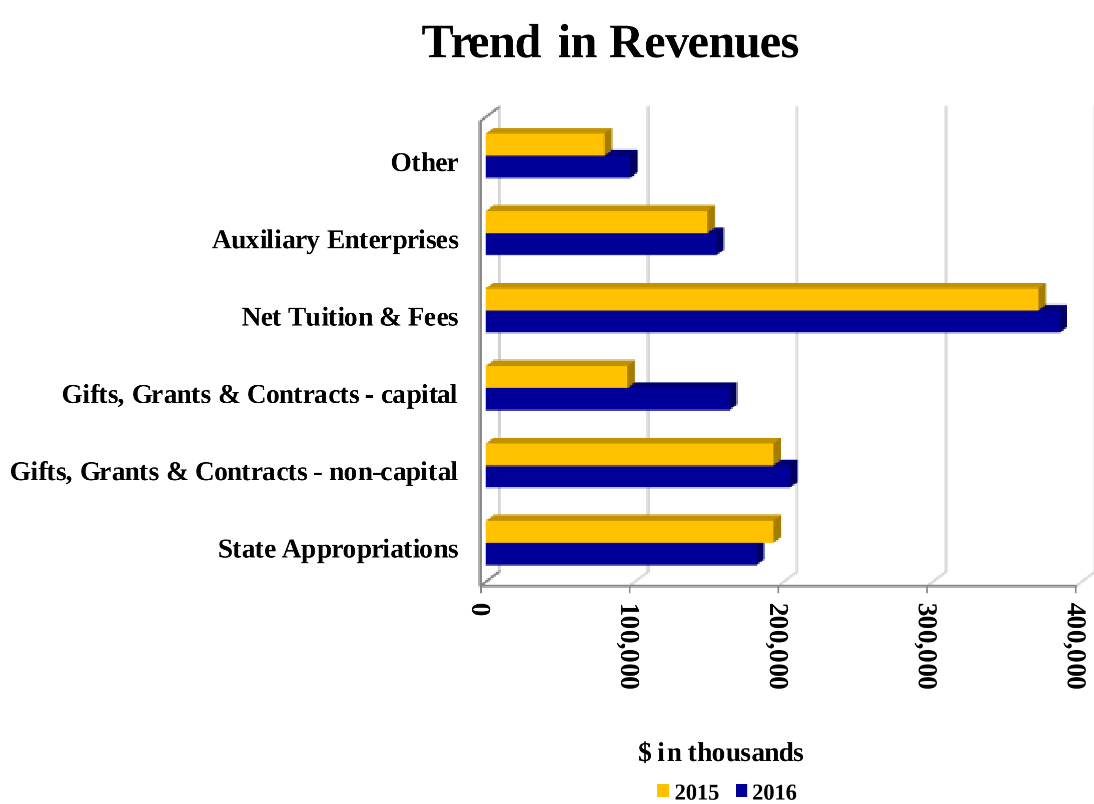
Condensed Schedules of Revenues, Expenses and Changes in Net Position (in thousands)

	Years Ended June 30		
	2016	**2015**	**2014**
Operating Revenues	$ 752,511	$ 717,938	$ 706,075
Operating Expenses	1,054,048	1,001,523	955,091
Operating Loss	(301,537)	(283,585)	(249,016)
Net Nonoperating Revenues	241,050	236,636	245,828
Loss before Other Revenues, Expenses, Gains or Losses	(60,487)	(46,949)	(3,188)
Capital grants and gifts	163,272	94,946	24,150
Capital grants (federal)	-	-	2,255
Capital bond proceeds from the State	-	6	158
Bond/capital projects proceeds from the Commission	356	1,646	274
Other expenses	-	-	(592)
Increase in Net Position	103,141	49,649	23,057
Net Position - Beginning of Year	891,478	855,656	832,599
Cumulative Effect of Change in Accounting Principle	-	(13,827)	-
Net Position - Beginning of Year, As Restated	891,478	841,829	832,599
Net Position - End of Year	$ 994,619	$ 891,478	$ 855,656

Revenues:

The following charts illustrate the composition of revenues by source for fiscal year 2016 and the trend in revenues by category.





Total fiscal year 2016 revenues were $1.2 billion, an increase of $105.9 million or 9.8% over fiscal year 2015. Excluding capital grants and gifts revenues, the total revenues were $1.0 billion and increased by only 4.0% over last year. The University experienced growth in several categories of revenue sources, most notably in revenues from capital grants and gifts, non-capital grants and contracts, tuition and fees, auxiliary enterprises and other gifts. These increases were partially offset by a decline in State appropriations. Some highlights of the information presented on the statement of revenues, expenses, and changes in net position are as follows:

- Tuition and fees, net increased by $14.3 million primarily due to an average increase in the fee rate of 5% for both resident and non-resident students. This increase was partially offset by a slight decline in enrollment and an increase in the scholarship allowance of $4.5 million due to more institutional resources used for awarding financial aid. This net increase in tuition and fees revenue is consistent with but higher than the net increase of $6.9 million in the prior year.

- Grants and contracts revenue (non-capital related) increased by $11.7 million mainly due to increased revenues from existing federal and non-governmental awards during fiscal year 2015 as well as increased mission support payments from the WVU Hospitals and affiliated entities. An additional increase was due to revenues from new federal and commercial contracts received by the West Virginia University Innovation Corporation, a newly formed blended component unit of the University. A decrease of $4.4 million was noted in this revenue category from fiscal year 2014 to fiscal year 2015.

- Revenues from sales and services of educational activities increased by $1.2 million from the previous year mainly as a result of increases in registration and conference fees, student activities and programs, trademark licensing royalties and other services provided by departments across campus. No such change was noted in this category from fiscal year 2014 to fiscal year 2015.

- Auxiliary revenue, net increased by $6.0 million primarily due to an increase in athletics revenue, auxiliary fee revenue and revenue from public private partnerships. This increase was partially offset by a decrease in room and board revenue. Athletics revenue increased mainly because of increase in revenues from the Big 12 Athletic Conference, corporate sponsorships, parking receipts, and season ticket sales for both men's basketball and football games. This increase in Athletics revenue was partially offset by decreases in football guarantees, football camp registration fees, and away game ticket sales. Auxiliary fee revenue increased due to an increase in Personal Rapid Transit ("PRT") fees. Revenue from public private partnerships includes management fees received and due from the University's private developer-partners as well as the University's share of net revenues from the operation of College Park and University Park. Room revenue decreased primarily due to a decrease in occupancy in residence halls. This increase in auxiliary revenue is consistent with but lower than the increase of $9.4 million in this category from fiscal year 2014 to fiscal year 2015.

- Other operating revenue increased by $1.6 million from the previous year primarily due to settlement proceeds of $1.3 million received with regard to the White Hall renovation project. No significant change was noted in this category from fiscal year 2014 to fiscal year 2015.

- Total State support decreased by approximately $11.3 million from the previous year primarily as a result of permanent base budget reductions in general appropriations from the State, a mid-year budget cut, as well as lower soft drink tax revenues. State support had experienced a decrease of $1.1 million from fiscal year 2014 to fiscal year 2015 due to reduced general appropriations from the State.

- Payments on behalf of the University decreased by $1.3 million from last year. During fiscal year 2015, B&O tax credits were received from the City of Morgantown against a purchase agreement recorded previously for the acquisition of the Square at Falling Run property. No such credits were received in fiscal year 2016. This decrease was partially offset by the recognition of the University's proportionate share of contributions made by the State to the Teacher's Retirement System on behalf of participating employers. This revenue category had increased by $3.8 million from fiscal year 2014 to fiscal year 2015.

- Gift revenues increased by $16.5 million primarily attributable to non-capital donations from ACC OP (College Park, WV) LLC and University Park at Evansdale, LLC, as well as an increase in activity in the WVU Foundation back bill accounts. The WVU Foundation accounts, including the Research Trust Fund awards, reimburse the University for various expenses incurred, including salaries and supplies. Such reimbursement is recorded as gift revenue to the University. An additional increase is due to an increase in WVU Foundation funds used to pay for academic scholarships. Gift revenues had experienced an increase of $7.4 million from fiscal year 2014 to fiscal year 2015 due to an increase in activity in the WVU Foundation back bill accounts.

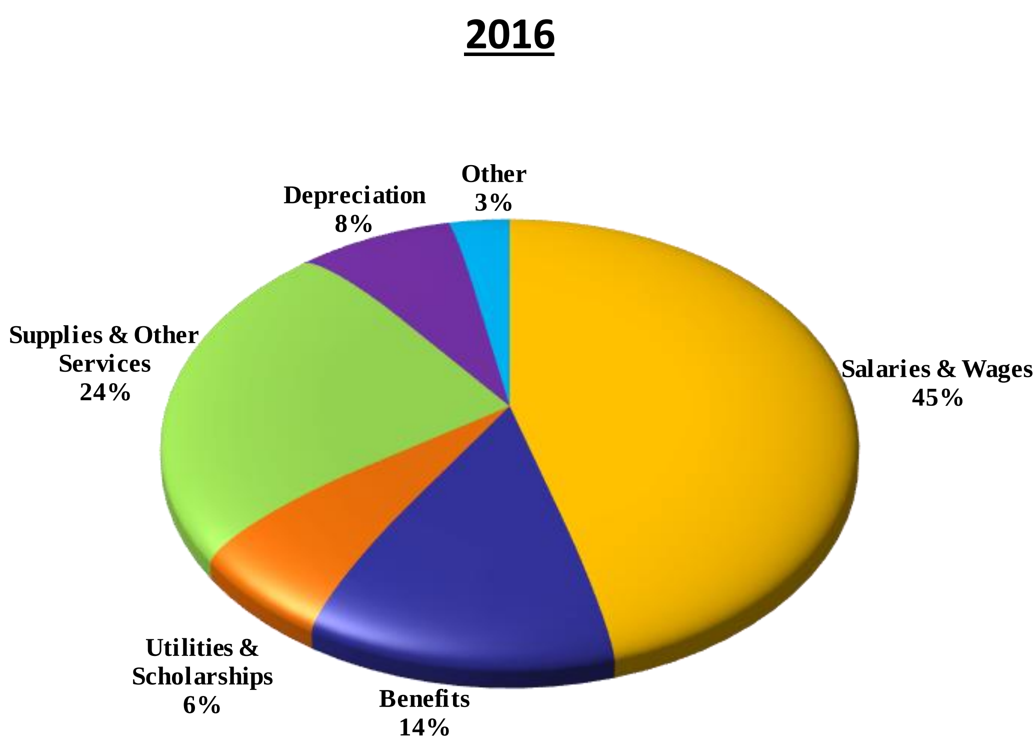
- Other net non-operating (expenses) revenues changed by $2.1 million compared to prior year mainly because of proceeds from the sale of a farm at the WVU Potomac State College. Other net non-operating revenues had changed by $3.1 million from fiscal year 2014 to fiscal year 2015 due to revenue received from the sale of property located at the WVU Research Park.

- Capital grants and gifts increased by $68.3 million primarily due to the transfer of buildings (University Park at Evansdale, Evansdale Crossing and the Garage at University Place) to WVU from its public private partners for a total value of $132.1 million, as well as additional transfers from the West Virginia Campus Housing, LLC in the amount of $14.6 million. Capital grants and gifts had experienced an increase of $69.3 million from fiscal year 2014 to fiscal year 2015 due to the transfer of University Place from West Virginia Campus Housing, LLC, to WVU.

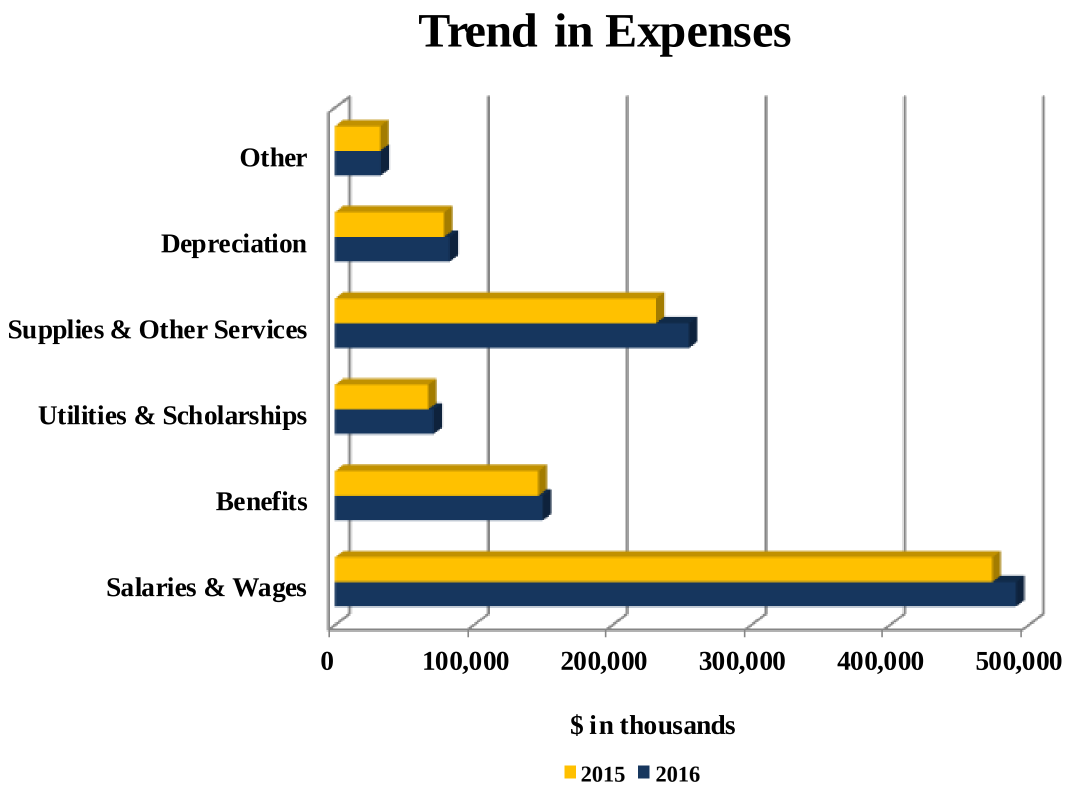
- Capital projects proceeds from the Commission decreased by $1.3 million mainly because last year the University recorded reimbursement from the bond proceeds of the WV HEPC 2012 Bonds for capital projects on the Morgantown, Potomac State College and WVU Institute of Technology campuses. No such capital payments on behalf of the University were made during fiscal year 2016.

Expenses:

The following graph shows the composition of total expenses by category for fiscal year 2016.



The following chart provides a comparison of expenses by significant category between fiscal years 2016 and 2015.



Total fiscal year 2016 expenses of $1.1 billion exceeded those of the prior year by $52.4 million (or 5.1%). Changes in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by $17.1 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty, faculty equivalent and non-classified staff salaries, as well as a pay raise effective October 1, 2015. An increase of $11.2 million was noted in salaries and wages from fiscal year 2014 to fiscal year 2015.

- Benefits expense increased by $3.2 million mainly due to an increase in the salary-related benefits, OPEB expense caused by an increase in the annual required contribution rate, higher cost of both incurred and paid worker's compensation benefit claims, an increase in compensated absences expense resulting from higher annual leave balances at year end, as well as an increase in pension expense resulting from implementation of GASB 68. Benefits expense had experienced an increase of $8.1 million from fiscal year 2014 to fiscal year 2015.

- Scholarship and fellowship expense increased by $4.7 million from the prior year mainly as a result of an increase in institutional resources awarded as financial aid, institutional waivers and Foundation scholarships. No significant change was noted in this category from fiscal year 2014 to fiscal year 2015.

- Supplies and other services increased by $23.8 million attributable to increases in several areas including: non-capitalizable equipment and furnishings transferred to WVU by its public private partners; football guarantees; contracted dining meal plans related to new dining locations at the Evansdale Crossing building; lease rentals; asbestos abatement at the Law School and floor remediation at White Hall; travel; sub-contracts; insurance; and legal services. Supplies and other services had experienced an increase of $23.7 million from fiscal year 2014 to fiscal year 2015.

- Depreciation and amortization expense increased by $4.0 million over prior year primarily due to depreciation on University Park, Evansdale Crossing, and the Garage at University Place transferred to WVU and placed in operation in during fiscal year 2016. An additional increase was caused by depreciation on construction projects completed and placed in service during fiscal year 2016. This increase was partially offset by a decrease in annual amortization expense related to right-to-use software donated by Landmark Graphics and Schlumberger Corporation. This category had experienced a similar increase of $3.3 million from fiscal year 2014 to fiscal year 2015.

Cash Flows

The statements of cash flows provide information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities (capital and noncapital) of the University during the year. This statement helps users assess the University's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The statement of cash flows is divided into five sections:

Cash flows from operating activities. This section shows the net cash used by the operating activities of the University.

Cash flows from noncapital financing activities. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.

Cash flows from capital financing activities. This section includes cash used for the acquisition and construction of capital and related items.

Cash flows from investing activities. This section shows the purchases, proceeds, and interest received from investing activities.

Reconciliation of operating loss to net cash used in operating activities. This section provides a schedule that reconciles the accrual-based operating loss and net cash used in operating activities.

Condensed Schedule of Cash Flows (in thousands)

	Years Ended June 30		
	2016	**2015**	**2014**
Cash Provided By (Used In):			
Operating Activities	$ (204,533)	$ (192,819)	$ (164,103)
Noncapital Financing Activities	261,455	258,319	246,967
Capital Financing Activities	(172,181)	(11,719)	(148,355)
Investing Activities	76,097	(115,434)	84,603
Increase (Decrease) in Cash and Cash Equivalents	(39,162)	(61,653)	19,112
Cash and Cash Equivalents, Beginning of Year	185,927	247,580	228,468
Cash and Cash Equivalents, End of Year	$ 146,765	$ 185,927	$ 247,580

Total cash and cash equivalents decreased by $39.2 million during fiscal year 2016 to $146.8 million.

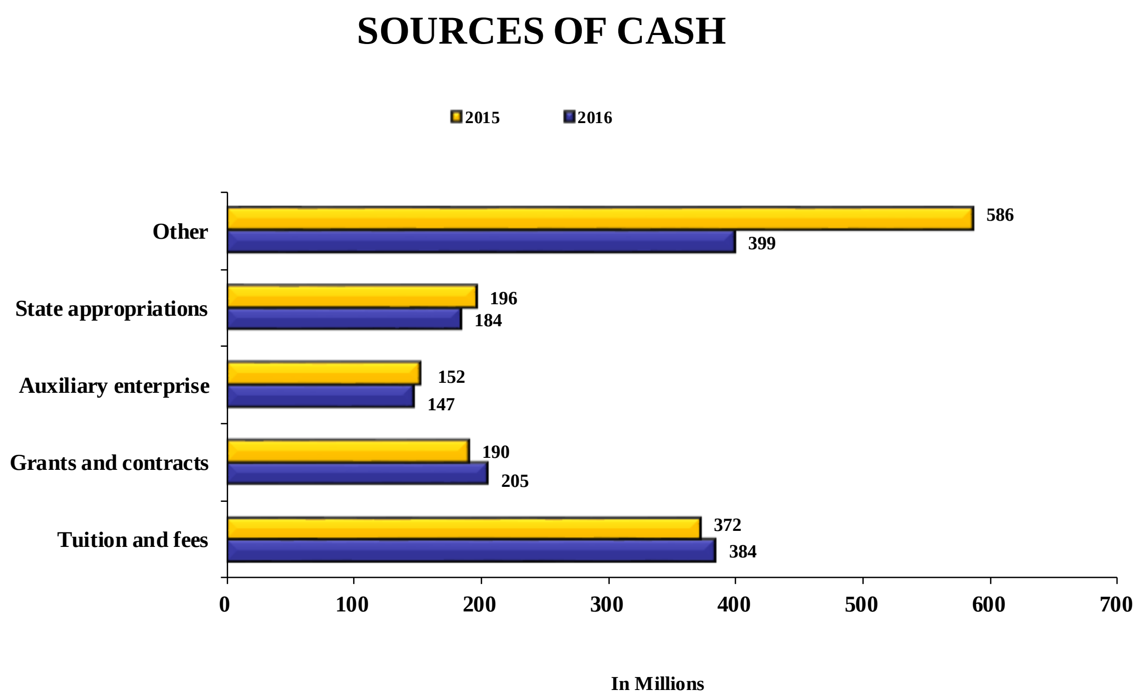
- Net cash used in operating activities increased by $11.7 million primarily due to an increase in payments to suppliers, payments to employees and for scholarships and fellowships, as well as a decrease in cash inflows from auxiliary enterprise. This increase in cash outflows was partially offset by an increase in cash inflows from tuition and fees and grants and contracts. Cash used in operating activities had experienced an increase of $29.0 million from fiscal year 2014 to fiscal year 2015.

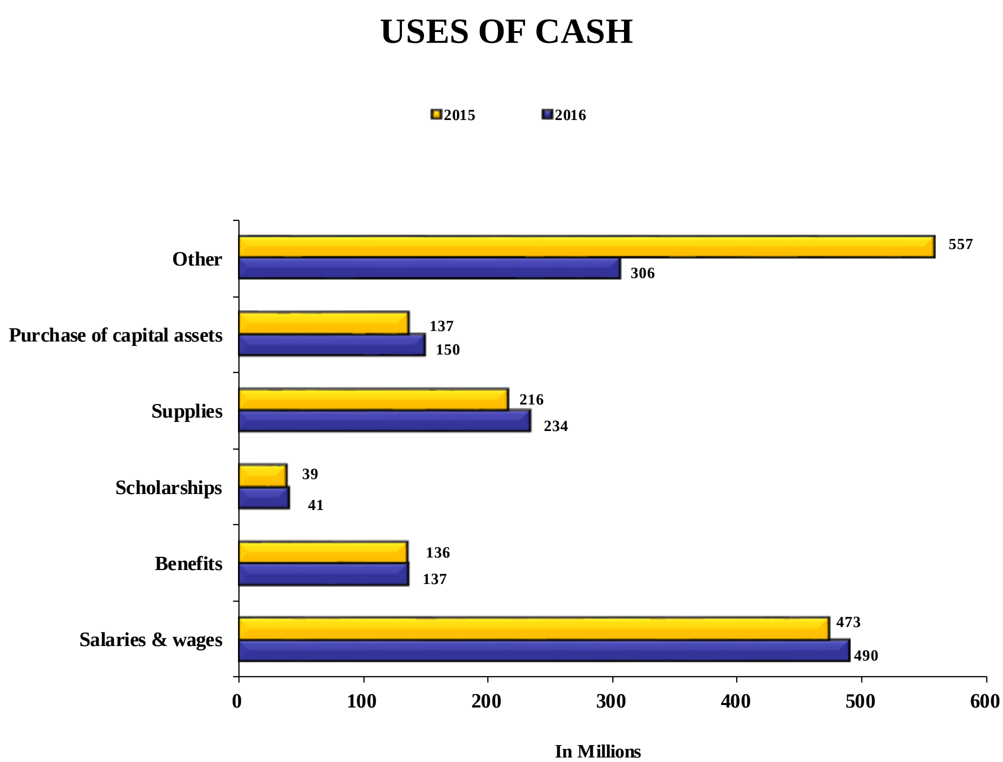
- Net cash provided by noncapital financing activities increased by $3.1 million primarily due to an increase in cash inflows from gifts and other non-operating receipts. This increase was partially offset by decreased cash inflow from State appropriations. This category had experienced an increase of $11.3 million from fiscal year 2014 to fiscal year 2015.

- Net cash used in capital financing activities changed by $160.4 million primarily because there was no cash inflow from the issuance of bonds and reimbursements from the County Commission in fiscal year 2016 and also because of an increase in the cash outflow for the purchase of capital assets. The decrease in cash inflows was partially offset by decreased cash outflows for payment of principal and Ballpark construction costs. Capital financing activities had changed by $136.6 million in fiscal year 2015.

- Net cash provided by (used in) investing activities changed by approximately $191.5 million primarily due to a significant decrease in cash outflows for purchase of investments as well as an increase in cash inflow from the redemption of matured bond investments. In contrast, investing activities had changed by $200.0 million in fiscal year 2015.

The following graphs illustrate the sources and uses of cash –





Capital Asset and Long Term Debt Activity

The University, including the Health Sciences Center and its regional campuses, has a multi-year capital budget including planned capital expenditures of approximately $380.0 million. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University's campuses. These capital projects are being financed through bond proceeds, grants, and other sources of revenues available to the University including internal financing, operational revenue and gifts.

Significant construction, capital and debt activity in fiscal year 2016 was as follows:

- The University completed improvements to buildings, infrastructure and land as follows: the Advanced Engineering Research Building, Evansdale Crossing, classrooms and labs at the Main Campus, the Multiple Sclerosis Research Center, the Animal Facility Annex, the Simulation Center at the Health Sciences Center, and the football practice field. The University also completed energy performance projects at the Main Campus residence halls and academic buildings as well as at the Health Sciences Center and Potomac State College. Other on-going capital activity included: Agricultural Sciences Building II; renovations to the Milan Puskar Stadium, the Coliseum, Law Center, and the Engineering Sciences Building; Evansdale traffic flow; upgrades to the PRT; energy performance projects; and several internally developed software projects.

- During fiscal year 2016, the University executed the following real estate transactions:

  - Took ownership of University Park, Evansdale Crossing, and the Garage at University Place – in the amount of $89.1 million, $25.1 million and $17.9 million respectively – from its public-private partners, University Park at Evansdale LLC, Fresh Capital LLC and Downtown Campus Parking Associates LLC. University Park is a mixed use retail and residential facility including student housing, Evansdale Crossing provides student-centered space near the Engineering PRT station, and the Garage at University Place provides parking for the residents and retail customers of University Place. The University also received transfer of $14.6 million of assets from the West Virginia Campus Housing, LLC in the amount of $14.6 million during fiscal year 2016.

  - The University sold 13.17 acres of land in its Research Park to the WVU Hospitals, Inc. in the amount of $2.6 million. The University also sold 386 acres of land in Mineral County, WV to High Rock Land Company for $1.1 million.

  - During fiscal year 2016, the University received a donation of a 364-acre farm, including buildings and structures, in Keyser, West Virginia valued at $1.3 million.

  - The University entered into a lease and development agreement with HSC Fresh Kitchen, LLC to renovate and improve, as well as operate and maintain 12,680 square feet of space in the WVU Health Sciences Cafeteria building.

- In June 2016, the WVU Research Corporation received a short-term (90-day note) loan in the principal amount of $12.0 million from United Bank, Inc. The loan proceeds were used to reimburse the University for the acquisition and start-up costs of the new campus in Beckley, WV.

- In June 2016, the University also issued improvement revenue bonds – 2016 Series A – in the principal amount of $20.0 million to finance infrastructure improvements to the WVU Health Sciences Center. However, at June 30, 2016, only $326,666 was received in bond proceeds from the bond trustee as reimbursement of costs previously incurred and is reported as a bond payable by the University.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however $58.0 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2016.

At June 30, 2016, the University's bonds were rated as Aa3 and A/Stable by Moody's and Standard and Poor's respectively.

Economic Outlook

WVU is a strong, vibrant and vital part of the state of West Virginia and the region. However, like many other institutions of higher education, WVU is facing an increasingly challenging operating and financial environment due to declining State support, an increasingly competitive enrollment environment, higher tuition discounting to keep tuition affordable, increasing operating costs, and reductions in federal support. The University administration is taking active steps to meet these challenges through prudent financial planning and management practices designed to reduce costs, improve the efficiency and effectiveness of its operations and contracts, and maximize revenue opportunities.

As a public institution, the University's financial position is closely tied to that of the State of West Virginia and is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. During FY 2016, the State experienced a budget deficit of $203.0 million in its general revenue funds as a result of significant decline in severance tax collections due to lower energy prices. While the State achieved a healthy balance of $778.7 million in its Revenue Shortfall Reserve Fund (Rainy Day Fund), declining revenues, increases in state appropriations for the Medicaid program and the expanding federal deficits have stressed the State's budget. These budget challenges prompted a mid-year budget reduction, in addition to a base budget reduction in fiscal year 2016.

The University's federally supported research programs represent an important component of its mission. Lately, this support has been challenged by increasing federal budget deficits. The University has been actively addressing this challenge by strengthening the competitiveness of its faculty in seeking grants through a combination of faculty training programs, proposal development assistance, and corporate infrastructure enhancements. This, combined with internal investments being made in emerging researchers and techniques help provide a simple, user friendly process that facilitates the identification of external funding opportunities.

As a result, WVU has been successful in increasing its research capacity and activity, and earning the highest research activity - R1 research institution – Carnegie classification during fiscal year 2016. Some of the results of that highest level of research are exemplified by the accomplishments of WVU researchers engaged in gravitational wave research and uncovering the Volkswagen emissions scandal. WVU prides itself in utilizing and implementing its research not only in the classroom but also to tackle and solve problems facing the State.

Although challenging, the University continues to target strategic federal opportunities. One example is through the creation of the University Innovation Corporation (UIC), a tool to enable us to increase the amount of contract-based testing and evaluation that the University performs for industry and government agencies, with a special focus on increasing our funding from the Department of Defense. UIC will also allow the University to build strong service-based relationships with industry, as is evident from its testing and evaluation arm of the Center for Alternative Fuels, Engines and Emissions ("CAFEE"). In addition to the UIC, the newly created WVU Energy Institute serves as the principal route to secure research energy related funding.

The University is also developing a strong support system to encourage entrepreneurial activities that will boost the economy of our community and our state. The University has established a LaunchLab, MakerLab and CodeLab, which provide advice and assistance to students in the areas of start-up business strategy, prototyping and mobile app development. The University also launched a Health Sciences Innovation Center that provides fully functional biomedical lab space and infrastructure for emerging life science start-ups and connections to industry, capital and start-up mentoring. Moving forward, the University will need to continue expanding its base of funding for the research enterprise and to develop and implement innovative strategies to secure and maintain external funding.

Despite the funding shortfalls and external economic challenges, the University is committed to strategically investing in its core mission and long-term quality, and positioning itself for financial stability well into the future. Examples of these initiatives include:

- Three Critical Pillars:
  The University is committed to transforming itself and the State by strengthening three critical pillars: education, healthcare and broad-based prosperity. Priorities within the area of education include increasing enrollment, increasing retention and improving K-12 education through initiatives such as online programming, student success initiatives such as project 168 and Teaching Learning Commons, and partnering with WV's pre-K-12 educators through programs such as WVU Extension's Energy Express, and training more secondary and Math teachers through the UTeach program. In order to bring higher education to more people in southern WV, the University made a strategic acquisition of property in Raleigh County, WV, which was formerly owned and operated by Mountain State University, to form a new WVU Beckley campus that welcomed students for the first time in fall 2016.

  The University is pursuing the transformation of healthcare in WV by focusing on translational and clinical cardiac, cancer and critical care, directing WVU Medicine's research and outreach efforts to prevent and treat opiate and opioid abuse, addiction and obesity and addressing the health needs of the State's residents. In line with its goal of advancing knowledge and applying it to solve problems facing the State, in October 2016, the University acquired certain assets of the Blanchette Rockefeller Neurosciences Institute to form a center for brain research at the University and create solutions for brain disorders and diseases like Alzheimer's.

  The University is also focusing on the priority of helping the State thrive and bringing broad-based prosperity to its citizens by serving as an economic engine for WV and by leveraging its internal expertise with external resources, its fundamental research capabilities, and its entrepreneurial activities, as well as partnering with the federal government, businesses, community and the State. WVU's Center for Big Ideas is gearing up to study how state government can be restructured to make it effective, efficient and forward-thinking and engaging in a project with Gallup to study how one reinvents a University to lead reinvention of a state. As OneWVU, the University will work together to transform the University, and in turn, the lives of its students and all West Virginians.

- Effective Financial Management:
  In order to meet its strategic financial goals of achieving a positive adjusted operating margin, preserving cash position, maintaining bond rating and continuing investments for future growth, the University embarked on a transformational budget program in fiscal year 2017. The goal of the program is to reduce spending by $45 million by the fiscal year 2020 by reducing centrally allocated budgets, establishing expense limit on non-central spending and setting revenue targets.

  The University has established a Bureaucracy SWOT Committee (http://bureaucracybusters.wvu.edu/) with the sole mission of cutting bureaucracy to create savings, which can then be directed into the core mission of the University. As a result, many business processes and systems have been streamlined, and several others are under evaluation for simplification. The University has implemented strategies such as merging or eliminating departments; changing and streamlining business processes; evaluating hiring strategies; reducing workforce through attrition, retirements and separation; reducing the scope of certain services; charging for optional services; and making new local, regional and global affiliations.

- Maintaining Student Demand:
  Preliminary fall 2016 enrollment numbers suggest an increase in the incoming freshman class (5,183), and a slight increase in the student headcount (31,499). Additionally, the academic profile of the incoming freshman

class continues to improve in terms of the average grade point average. The University has also increased its need-based aid to help students and their families with educational costs. President E. Gordon Gee has expressed a desire to increase the number of students enrolled to 40,000 students system-wide, and at the same time increase the number and quality of the academic profile of the freshman class.

- Value/Price Competitiveness:
  For the fiscal year 2016, WVU-Main Campus tuition and fees were increased by 5% for resident and non-resident students. Despite the increases, WVU's current tuition levels remain competitive in the higher education marketplace and WVU is consistently recognized as one of the best buys in the nation.

- Building for the Future:
  The University has engaged in several public-private partnerships to develop safe, modern, and affordable residential and retail facilities. During fiscal year 2016, University Park, and Evansdale Crossing became operational. In August 2016, The Market at the Health Sciences Center was opened. University Park includes residence hall style and apartment style beds and townhomes; Evansdale Crossing provides not only a new one-stop shop for student services but also has an innovation launch pad, classrooms, restaurants, study spaces and other student-centered amenities; and The Market at HSC is a new cafeteria offering dining and other meeting space as well as new food and beverage options to the campus.

- Solving Long Term Liabilities:
  The State legislature has addressed one of the most significant financial challenges facing state agencies with positive results. In FY 2012 the legislature and Public Employees Insurance Agency implemented a series of actions to significantly reduce the OPEB Annual Required Contribution (from State agencies) and, in turn, the total OPEB liability. These actions included limiting the annual increase on the employer's share of the retiree's premium and allocating $30 million of annual funding to the OPEB Trust Fund beginning in FY 2016 and a change in the applied discount rate. These steps will have a significant positive impact on WVU's financial position and performance. Over time, as the State funds the OPEB trust, this accrual will become a credit and gradually reverse the current liability of $186.4 million to zero.

Despite the challenges facing the University, administration remains committed to expanding its current efforts to maintain a sound financial position through diversification of revenue sources, managing costs and using innovation and technology to gain operational efficiencies. This sound financial position will allow the University to fulfill its mission as the State's flagship institution. University administration also believes that WVU represents an unparalleled value for a quality educational experience. WVU's continued significant growth in non-resident freshmen, in this time of continuing economic uncertainty, demonstrates that students and parents from beyond West Virginia also share this perspective.

WEST VIRGINIA UNIVERSITY

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
Current Assets:		
Cash and cash equivalents	$ 94,855	$ 129,537
Appropriations due from primary government	868	3,023
Investments	88,497	82,430
Accounts receivable, net of allowances for doubtful accounts of $5,605 and $7,175	56,959	48,086
Account receivable - public private partnerships, current portion	4,044	2,859
Due from the Higher Education Policy Commission	747	2,409
Due from the County Commission	-	342
Service agreement receivable from BridgeValley and Parkersburg CTC's	9	25
Loans receivable, current portion	4,943	5,126
Inventories	2,091	2,101
Prepaid expenses	6,449	7,372
Notes receivable, current portion	276	291
Other current assets	-	1
Total current assets	259,738	283,602
Noncurrent Assets:		
Restricted cash and cash equivalents	51,910	56,390
Investments	77,105	157,220
Other accounts receivable	7,411	7,896
Account receivable - public private partnerships	4,309	3,371
Loans receivable, net of allowances for doubtful accounts of $6,015 and $5,976	29,795	29,848
Notes receivable	2,472	2,428
Capital assets, net	1,760,116	1,531,269
Total noncurrent assets	1,933,118	1,788,422
TOTAL ASSETS	2,192,856	2,072,024
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	13,448	13,958
Deferred outflows related to pensions	1,197	1,378
TOTAL DEFERRED OUTFLOWS OF RESOURCES	14,645	15,336
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	$ 2,207,501	$ 2,087,360

(continued)

WEST VIRGINIA UNIVERSITY

STATEMENTS OF NET POSITION (CONTINUED)
AS OF JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION		
Current Liabilities:		
Accounts payable	$ 56,335	$ 43,302
Accrued liabilities	10,409	11,051
Accrued payroll	29,703	28,520
Deposits	3,399	3,299
Unearned revenue	45,836	45,300
Due to the Commission	62	64
Compensated absences	25,123	24,241
Real estate purchase agreements payable, current portion	591	581
Debt service assessment payable to the Commission, current portion	4,548	4,617
Leases payable, current portion	7,862	1,880
Bonds payable, current portion	15,328	14,191
Notes payable, current portion	12,744	729
Total current liabilities	211,940	177,775
Noncurrent Liabilities:		
Real estate purchase agreement payable	14,692	15,935
Other post employment benefits liability	186,377	176,334
Net pension liability	10,379	11,267
Advances from federal government	30,094	31,659
Debt service assessment payable to the Commission	53,489	58,037
Leases payable	13,471	18,612
Bonds payable	609,610	624,628
Notes payable	18,869	19,613
Other noncurrent liabilities	23,126	24,418
Total noncurrent liabilities	960,107	980,503
TOTAL LIABILITIES	1,172,047	1,158,278
DEFERRED INFLOWS OF RESOURCES		
Deferred federal Pell grants	84	89
Deferred gain on refunding	431	476
Deferred service concession arrangements	37,889	34,151
Deferred inflows related to pensions	2,431	2,888
TOTAL DEFERRED INFLOWS OF RESOURCES	40,835	37,604
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	$ 1,212,882	$ 1,195,882
NET POSITION		
Net investment in capital assets	$ 1,085,219	$ 943,937
Restricted for:		
Nonexpendable:		
Scholarships and fellowships	85	85
Loans	16,276	16,838
Other	475	475
Total nonexpendable	16,836	17,398
Expendable:		
Scholarships and fellowships	1,252	803
Sponsored programs	498	487
Loans	5,380	5,589
Capital projects	2	2
Other	611	826
Total expendable	7,743	7,707
Unrestricted net deficit	(115,179)	(77,564)
TOTAL NET POSITION	$ 994,619	$ 891,478

See notes to financial statements.

WEST VIRGINIA UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
OPERATING REVENUES		
Student tuition and fees, net of scholarship allowances of $64,526 and $60,024	$ 385,121	$ 370,791
Federal land grants	8,055	8,140
Local land grants	1,147	1,297
Federal grants and contracts	77,642	69,195
State grants and contracts	38,650	38,897
Local grants and contracts	336	217
Nongovernmental grants and contracts	57,546	54,130
Sales and services of educational departments	18,701	17,540
Auxiliary enterprises, net of scholarship allowances of $12,022 and $11,133	154,607	148,606
Interest on student loans receivable	842	893
Net service agreement revenue from BridgeValley and Parkersburg CTC's	389	388
Other operating revenues (including revenue from outsourced enterprise of $1,319 and $1,210)	9,475	7,844
Total operating revenues	752,511	717,938
OPERATING EXPENSES		
Salaries and wages	490,860	473,801
Benefits	149,794	146,625
Scholarships and fellowships	42,572	37,858
Utilities	28,425	29,232
Supplies and other services	255,128	231,338
Depreciation and amortization	82,523	78,500
Loan cancellations and write-offs	411	392
Assessments by the Commission for operations	2,803	2,837
Other operating expenses	1,532	940
Total operating expenses	1,054,048	1,001,523
OPERATING LOSS	(301,537)	(283,585)

(continued)

WEST VIRGINIA UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
NONOPERATING REVENUES (EXPENSES)		
State appropriations	$ 178,104	$ 189,379
State Lottery appropriations	3,488	3,538
Payments on behalf of the University	2,805	4,104
Gifts	51,259	34,752
Federal Pell grants	29,890	30,444
Investment income (including unrealized loss of ($2,556) and ($4,286))	2,049	2,834
Interest on capital asset-related debt	(22,056)	(21,290)
Assessments by the Commission for debt service	(6,169)	(6,087)
Debt issuance costs	(40)	(712)
Other nonoperating (expenses) revenues - net	1,720	(326)
Net nonoperating revenues	241,050	236,636
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(60,487)	(46,949)
Capital grants and gifts	163,272	94,946
Capital bond proceeds from State	-	6
Bond/capital projects proceeds from the Higher Education Policy Commission	356	1,646
INCREASE IN NET POSITION	103,141	49,649
NET POSTION - BEGINNING OF YEAR	891,478	855,656
CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE	-	(13,827)
NET POSITION--BEGINNING OF YEAR, AS RESTATED	891,478	841,829
NET POSITION - END OF YEAR	$ 994,619	$ 891,478

See notes to financial statements.

WEST VIRGINIA UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Tuition and fees	$ 383,746	$ 372,038
Federal and local land grants	9,201	9,438
Grants and contracts	174,993	160,391
Payments to suppliers	(233,951)	(216,464)
Payments to employees	(489,511)	(473,299)
Payments for benefits	(136,610)	(135,971)
Payments for utilities	(28,310)	(30,145)
Payments for scholarships and fellowships	(41,248)	(39,219)
Loan advances returned to federal government	(2,407)	(138)
Cancellations of loans to students	(213)	(99)
Interest earned on loans to students	842	893
Auxiliary enterprise charges	147,005	152,188
Sales and service of educational departments	18,274	17,004
Payments of net operating expenses from BridgeValley and Parkersburg CTC's	406	270
Net payments for public private partnerships	(358)	(5,577)
Assessments by Commission for operations	(2,803)	(2,837)
Other payments	(3,589)	(1,292)
Net cash used in operating activities	(204,533)	(192,819)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	180,259	192,285
State lottery appropriations	3,488	3,538
Gifts	43,826	31,901
Purchase of secured promissory notes	(320)	-
Federal Pell grants	29,885	30,412
William D. Ford direct lending receipts	213,807	215,590
William D. Ford direct lending payments	(213,769)	(215,446)
Other nonoperating receipts	4,279	39
Net cash provided by noncapital financing activities	261,455	258,319
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Payments on Commission debt assessment payable	(4,617)	(4,700)
Bond/capital projects proceeds from the Higher Education Policy Commission	1,915	87
Assessments by the Commission for debt service	(6,169)	(6,087)
Reimbursements from the County Commission	-	18,630
Proceeds from University bonds	327	194,802
Bond issuance costs	(40)	(712)
Capital bond proceeds from State	-	164
Capital gifts and grants received	11,963	12,563
Purchases of capital assets	(149,791)	(136,731)
Proceeds from issuance of capital debt	12,000	13,250
Ballpark construction (receipts) payments	141	(15,637)
Capital projects proceeds from lease trustees	2,723	-
Principal paid on capital debt and leases	(14,908)	(64,401)
Interest paid on capital debt and leases	(25,725)	(22,947)
Net cash used in capital financing activities	(172,181)	(11,719)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	4,565	7,303
Purchase of investments	(3,855)	(186,359)
Redemption of matured bond investments	75,600	64,035
Purchase of Research Corporation investments	(213)	(413)
Net cash provided by (used in) investing activities	76,097	(115,434)
DECREASE IN CASH AND CASH EQUIVALENTS	(39,162)	(61,653)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	185,927	247,580
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 146,765	$ 185,927

(continued)

WEST VIRGINIA UNIVERSITY

STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015
(Dollars in Thousands)

	2016	2015
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	$ (301,537)	$ (283,585)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	82,523	78,500
Donated/noncapitalized expense	7,896	5,746
Expenses paid on behalf of the University	2,175	1,851
Changes in assets and liabilities:		
Accounts receivable, net	(12,324)	(23,429)
Due from the Commission	104	(440)
Loans receivable, net	236	(930)
Prepaid expenses	1,404	(3,697)
Inventories	10	(464)
Accounts payable	6,863	2,873
Accrued liabilities	9,331	17,491
Deposits	100	(20)
Unearned revenue	534	8,302
Due to the Commission	(2)	(56)
Compensated absences	883	1,137
Defined benefit pension plan	(1,164)	(1,050)
Advances from federal government	(1,565)	4,952
Net cash used in operating activities	$ (204,533)	$ (192,819)
Noncash Transactions:		
Construction in progress additions in accounts payable	$ 19,066	$ 10,942
Donated capital assets	$ 149,282	$ 78,690
Unrealized loss on investments	$ (2,556)	$ (4,286)
Capitalization of interest	$ 2,539	$ 2,077
Donated noncapitalized assets	$ 7,434	$ 2,853
Noncash purchase of capital asset	$ 422	$ 8,225
Bond and real estate agreements payable discounts, premiums, and losses	$ 1,534	$ 990
Loss on dispositions	$ 867	$ 547
Other post employment benefits liability	$ 10,043	$ 9,073
Expenses paid on behalf of the University	$ 2,805	$ 4,104
Adjustment to medical malpractice liability	$ 5,050	$ 5,425
Deferred gain on refunding	$ 45	$ 45
Deferred service concession arrangements - net	$ 3,738	$ 34,151
Reconciliation of cash and cash equivalents to the statements of net assets:		
Cash and cash equivalents classified as current assets	$ 94,855	$ 129,537
Cash and cash equivalents classified as noncurrent assets	51,910	56,390
	$ 146,765	$ 185,927

See notes to financial statements.

1. ORGANIZATION

West Virginia University (the "University") is governed by the West Virginia University Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653").

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

During fiscal year 2008, House Bill 3215 ("H.B. 3215") was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical colleges of West Virginia University, including West Virginia University at Parkersburg ("Parkersburg") and BridgeValley Community and Technical College ("BridgeValley') (formerly the Community and Technical College at West Virginia University Institute of Technology), established their own Boards of Governors.

The University provides Parkersburg and BridgeValley with administrative and academic support services. The University charges Parkersburg and BridgeValley for these services.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a. Reporting Entity – The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity, which, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (WVNET)), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the

State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology ("WVUIT"), West Virginia University Beckley ("Beckley"), West Virginia University Innovation Corporation ("WVUIC") and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. (See Note 25 for condensed financial statements). Related foundations and other affiliates of the University (see Notes 20 and 21) are not part of the University reporting entity and are not included in the accompanying financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB.

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

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

   Cash on deposit with the West Virginia Treasurer's Office (the "Treasurer") and deposits with the State's Board of Risk and Insurance Management (BRIM) escrow account are deposited into the WV Money Market Pool with the West Virginia Board of Treasury Investments (BTI).

   Cash in bank accounts includes deposits in the Insured Cash Sweep (ICS) program.

   Cash with the bond trustee is invested in U.S. Treasury Notes and government backed Money Market funds.

   Cash and cash equivalents also include cash on hand.

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

e. *Accounts Receivable* – Accounts receivable primarily includes amounts due from students for tuition and fees, amounts due from sponsoring agencies for grants and contracts, and other miscellaneous receivables.

f. *Accounts Receivable – Public Private Partnerships* – Accounts receivable – public private partnerships includes amounts due from partners for reimbursable project expenses, management fees, share of net revenues, lease payments and additional lease payments. (Also see Notes 20 and 22.)

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

h. *Loans Receivable* – Loans receivable includes amounts due from students for student loans.

i. *Inventories* – Inventories are stated at the lower-of-cost or market, cost primarily determined on the first-in, first-out method and average cost.

j. *Noncurrent Restricted Cash and Cash Equivalents* – Cash that is (1) externally restricted to make debt service payments or long-term loans to students or to maintain sinking funds or reserve funds or to purchase capital or other noncurrent assets or settle long-term liabilities, or (2) permanently restricted components of net position are classified as a noncurrent asset on the statement of net position.

k. *Noncurrent Investments* – Investments that are restricted to their purpose are classified as non-current. All other investments are classified as current or non-current based on the underlying investment.

l. *Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, infrastructure and intangible assets. 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 and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The estimated useful life of intangible assets varies. The University's capitalization threshold for equipment is $5,000. The accompanying financial statements reflect all adjustments required by GASB.

m. *Deposits* – Deposits include housing and tuition deposits made by students.

n. *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, football ticket sales, orientation fees, room and board, financial aid deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.

o. *Compensated Absences and Other Post Employment 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 post employment benefits for the State of West Virginia (the "State"). The University 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 financial statements can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or http://www.wvpeia.com.

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University 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 and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. Employees hired prior to July 1, 1988 and participating in PEIA on and before July 1, 1988 are eligible for 100% premium paid retiree health and basic life insurance based on accumulated premium credits. For employees hired after July 1, 1988, or who were hired before July 1, 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 on or after July 1, 2001 no longer receive sick and/or annual 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 (see Note 9).

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 5 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 on or after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

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

p. *Voluntary Separation Incentives Plan* – Effective November 4, 2011, the University adopted the Voluntary Separation Incentives Plan (the "VSIP"), which was approved by the West Virginia Legislative Joint Committee on Pensions and Retirement on July 23, 2012. The VSIP provides incentives for the voluntary separation of employees from the University when a review of programmatic needs or organizational development indicates that the University and the employee would benefit from such an offer. Eligibility to participate in the plan is limited to employees who have received a voluntary separation incentives offer. Continued eligibility to participate in the VSIP is conditioned upon the employee's fulfillment of all employment obligations. To participate, the employee must agree to separate from employment with the Board, but there is not a requirement that an employee commence his pension or otherwise retire from active employment. An employee granted incentives under this plan will be ineligible for reemployment with any State of West Virginia institution of higher education during or after his plan benefit period concludes, including contract employment in excess of $5,000 per fiscal year. One or more of the following voluntary separation incentives could be offered by the University to participants: 1) payment of a lump sum, 2) continuation of full salary for a predetermined period of time prior to the employee's separation and a reduction in the employee's hours of employment during the predetermined period of time, or 3) continuation of insurance coverage, pursuant to the provisions of West Virginia Code 5-16-1, for a predetermined period of time. The University's total liability as of June 30, 2016 and June 30, 2015 was $247,000 and $273,000, respectively, which is recorded as a component of accrued liabilities on the statement of net position. This includes approximately $30,000 and $18,000, respectively, for employee benefits as of June 30, 2016 and June 30, 2015.

q. *Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, real estate purchase agreements payable, and capital lease obligations with contractual maturities greater than one year; (2) OPEB liability, net pension liability, and other liabilities that will not be paid within the next fiscal year; and (3) projected claim payments for self insurance.

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

During fiscal year 2015, the University implemented GASB Statement No. 68, *"Accounting and Financial Reporting for Pensions"*, and Statement No. 71, *"Pension Transition for Contributions Made Subsequent to the Measurement Date"*. Statements No. 68 and 71 require the University to report its share of the defined benefit pension liabilities and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the CPRB. The balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources at July 1, 2014 is reported on the statement of revenues, expenses, and changes in net position as a restatement to the 2015 net position—beginning of year. The CPRB was not able to provide sufficient information to restate the financial statements for the period ending June 30, 2014.

Net position - beginning of year, as previously stated	$	855,656
Balance of the net pension liability and related deferred outflows of resources and deferred inflows of resources		(13,827)
Net position - beginning of year, as restated	$	841,829

s. *Net Position* – GASB establishes standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. The components of net position are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's components of net position are classified as follows:

Net investment in capital assets: This represents the University's total investment in capital assets, net of accumulated 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, net of related debt.

Restricted – expendable: This includes resources which the University is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

The West Virginia State Legislature (the "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 Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature. At June 30, 2016 and 2015, the University had no restricted balances remaining in these funds.

Restricted – nonexpendable: This includes endowment and similar type funds 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: This includes resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. This component is used for transactions related to the educational and general operations of the University and may be designated for specific purposes by action of the Board.

t. *Classification of Revenue* – The University 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) federal land grants, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University's academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

Nonoperating Revenues: Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB, such as state appropriations, Federal Pell grants, investment income and sale of capital assets (including natural resources).

Other Revenues: Other revenues primarily consist of capital grants and gifts.

u. *Use of Restricted Net Position* – The University has 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 components of net position are available. The University attempts to utilize restricted components of net position first when practicable. The University did not have any designated components of net position as of June 30, 2016 or 2015.

v. *Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' 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 Federal Direct Lending 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 University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

w. *Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net position, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately $213.8 million in fiscal year 2016 and approximately $215.5 million in fiscal year 2015 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net position.

The University also makes loans to students under the Federal Perkins Loan Program. The University disbursed approximately $4.2 million in fiscal year 2016 and approximately $4.6 million in fiscal year 2015 under this program.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying financial statements. In fiscal years 2016 and 2015, the University received and disbursed $32.9 million and $33.5 million, respectively, under these other federal student aid programs.

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

y. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service. The Corporation has received from the Internal Revenue Service an exemption from taxation under Section 501 (c) (3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

z. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.

aa. *Deferred Outflows of Resources* – Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30, 2016 and 2015, the University had a deferred loss on refunding of $13,448,000 and $13,958,000, respectively, and deferred outflows of resources related to pensions of $1,197,000 and $1,378,000 as of June 30, 2016 and 2015, respectively (see Note 10). Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refunding.

bb. *Deferred Inflows of Resources* – Acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2016 and 2015, the University had deferred Federal Pell grants of $84,000 and $89,000, respectively, and a deferred gain on refunding of $431,000 and $476,000, respectively. As of June 30, 2016 and 2015, the University also had deferred service concession arrangements of $37,889,000 and $34,151,000, (see Note 22) and deferred inflows related to pensions of $2,431,000 and $2,888,000, respectively (see Note 10).

cc. *Risk Management* – BRIM provides general liability, medical malpractice liability, property, and auto insurance coverage to the University and its employees, including those physicians employed by the University and related to the University's academic medical center hospital. Such coverage is provided to the University through a self-insurance program maintained by BRIM for general liability, medical malpractice liability, and auto insurance coverage. BRIM maintains a self-insurance program to pay the first $1,000,000 of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed $1,000,000. The BRIM self-insurance programs may involve experience and exposure related premiums.

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

The University's Health Sciences Center (HSC) established a $250,000 deductible program under BRIM's professional liability coverage for the University effective July 1, 2005. Starting July 1, 2005, HSC assumed the risk and responsibility for any and all indemnity amounts up to $250,000 per occurrence and all loss expenses associated with medical malpractice claims and/or suits in exchange for a reduction in its premium for medical malpractice insurance. From July 1, 2005 until June 30, 2015, BRIM provided coverage for indemnity amounts between $250,000 and $1,000,000 per occurrence. For fiscal year 2016, BRIM will provide coverage for indemnity amounts between $250,000 and $1,500,000 per occurrence. After June 30, 2016, BRIM coverage may increase annually based on the Consumer Price Index until it reaches a maximum of $2,000,000 per occurrence. Prior to July 1, 2005, the HSC was totally covered by BRIM at a limit of $1,000,000 per occurrence.

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit $3.0 million as of both June 30, 2016 and 2015, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit $26.0 million and $21.2 million as of June 30, 2016 and 2015, respectively, in an investment earnings account with the West Virginia University Foundation, Incorporated (the "Foundation") that is used to cover the liabilities under this program by replenishing the escrow account after BRIM withdraws indemnity and expense payments.

Based on an actuarial valuation of this self-insurance program and premium levels determined by BRIM, the University has recorded a liability of $20.1 million and $20.4 million to reflect projected claim payments at June 30, 2016 and 2015, respectively.

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

dd. *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.

ee. *Risks and Uncertainties* – The University utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.

ff. *Reclassifications* – Certain reclassifications have been made to the 2015 financial statements to conform to the current year presentation. This includes reclassification of the amortization of deferred inflows for service concession arrangements from capital grants and gifts revenue to revenue from auxiliary enterprises. This also includes reclassification of investments from noncurrent to current.

gg. *Newly Adopted Statements Issued by the GASB* – The University has implemented GASB Statement No. 72, *"Fair Value Measurement and Application"*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. In accordance with the implementation of this standard, the University has classified its investments as Level 1, 2, or 3 to indicate the valuation inputs used to measure the fair value.

The University has also implemented Statement No. 73, *"Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68"*. The requirements of this statement that address accounting and financial reporting by employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2016, and the requirements of this statement that address financial reporting for assets accumulated for purposes of providing those pensions are effective for fiscal years beginning after June 15, 2015. The requirements of this statement for pension plans that are within the scope of Statement 67 or for pensions that are within the scope of Statement 68 are effective for fiscal years beginning after June 15, 2015.

This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68.

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

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

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

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

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

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

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

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

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

The GASB has also issued Statement No. 83, *"Certain Asset Retirement Obligations"*, which is effective for fiscal years beginning after June 15, 2018. This statement establishes accounting and financial reporting for certain asset retirement obligations. The University has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30 (dollars in thousands):

2016

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ -	$ 560	$ 560
West Virginia University - Auxiliaries	56,493	-	56,493
Cash on deposit with Trustee	-	48,348	48,348
Deposits with BRIM Escrow Account Treasurer	-	3,002	3,002
Cash in Bank	38,282	-	38,282
Cash on Hand	80	-	80
	$ 94,855	$ 51,910	$ 146,765

2015

	Current	Noncurrent	Total
Cash on deposit with the Treasurer:			
West Virginia University - Nonauxiliaries	$ 30,434	$ 560	$ 30,994
West Virginia University - Auxiliaries	61,516	-	61,516
Cash on deposit with Trustee	-	52,829	52,829
Deposits with BRIM Escrow Account Treasurer	-	3,001	3,001
Cash in Bank	37,509	-	37,509
Cash on Hand	78	-	78
	$ 129,537	$ 56,390	$ 185,927

Cash on Deposit with the Treasurer. Cash on deposit with the Treasurer includes deposits in the State Treasury bank account and the WV Money Market Pool. Deposits in the bank account are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the bank in the name of the State. Deposits in the WV Money Market Pool are pooled by the Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (the BTI). These funds are transferred to the BTI, and the BTI invests in the WV Money Market Pool as directed by the University and then the BTI invests in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures and trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. 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 Legislature and is subject to oversight by the 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 and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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 BTI credit risk as of June 30:

	2016		2015	
External Pool	**Carrying Value (In Thousands)**	**S & P Rating**	**Carrying Value (In Thousands)**	**S & P Rating**
WV Money Market Pool	$ 1,556,503	AAAm	$ 1,890,872	AAAm

Cash on Deposit with Trustee. Cash on deposit with Trustee represents funds available for various projects, repair and replacement and debt service held by the Trustee and related to the 2011, 2013, 2014 and 2016 University specific bond issues, the Energy Performance Phase III B contract and the WVUIC equipment lease/purchase agreement (see Notes 11 and 12). These funds are FDIC insured or invested in specific U.S. government securities or U.S. government backed Money Market funds.

Deposits with BRIM Escrow Account Treasurer. The University is required to maintain a cash balance of $3.0 million. The Treasurer invests these funds in the WV Money Market Pool.

Cash in bank. Cash in bank includes bank balances and deposits in the ICS program. The carrying amount of cash in bank at June 30, 2016 and 2015 was $38.3 million and $37.5 million, respectively, as compared with bank balances of $22.3 million and $39.2 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank accounts and ICS deposits are FDIC insured up to $250,000 per Federal Employer Identification Number. In addition, bank balances are collateralized with the bank through a Repurchase Agreement in the name of the State or the Corporation.

Cash on Hand. Imprest funds approved by the Treasurer comprise the cash on hand.

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30 (dollars in thousands):

	2016	2015
Student tuition and fees, net of allowances for doubtful accounts of $4,412 and $5,128	$ 10,106	$ 5,719
Grants and contracts receivable, net of allowances for doubtful accounts of $368 and $545	30,738	29,706
Due from West Virginia University Hospitals, Incorporated	2,561	1,949
Auxiliary services, net of allowances for doubtful accounts of $793 and $1,420	1,760	2,584
Investment earnings receivable	10	7
Other, net of allowances for doubtful accounts of $32 and $83	6,080	7,823
Due from the Foundation	4,507	59
Due from other State agencies	1,197	239
Total accounts receivable	$ 56,959	$ 48,086

West Virginia University Hospitals, Incorporated (WVUH or the "Hospital") receivables represent various administrative expenses incurred by the University on behalf of the Hospital for which reimbursement has not yet been received.

In November 2009, the University changed the payroll method for all non-exempt benefit-eligible employees from current payroll to payroll in arrears. In September 2014, all other employees remaining on current payroll were moved to payroll in arrears. For both groups of employees, the University issued a "no hardship payment" to cover the transition period from current payroll to arrears payroll. Upon termination, the net amount of the "no hardship payment" will be deducted from the employee's last paycheck. This "no hardship payment" is recorded as other noncurrent accounts receivable on the statement of net position.

5. NOTES RECEIVABLE

During fiscal year 2016, the Corporation purchased a secured convertible promissory note and a warrant to convert the promissory note to shares of common stock from CereDx, Inc. for $220,000 ($200,000 cash and $20,000 in deferred lease costs for laboratory space for two years).

During fiscal year 2016, the Corporation also purchased a secured convertible promissory note and a warrant to convert the promissory note to shares of common stock from Aspinity, Inc. for $100,000.

Notes receivable also includes notes receivable due from Parkersburg and Bridge Valley (see note 20).

6. INVESTMENTS

The following Fair Value Levels represent the valuation of the underlying investments. Level 1 represents investments that have a quoted price in the active market. Level 2 represents investments with a direct or indirect observable market inputs. Level 3 investments represent investments with no observable market.

The University had the following investments as of June 30 (dollars in thousands):

2016 Investment Type	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 67,367	$ 67,367	$ -	$ -
Mutual Money Market Funds	1,878	-	1,878	-
Mutual Bond Funds:				
Brandywine Global Fixed Income (BGIMT)	4,945	4,166	779	-
Brandywine Global Fixed Income (BIT)	1,043	870	173	-
iShares Barclays 3-7 Year Treasury	3,616	379	3,237	-
iShares Barclays 7-10 Year Treasury	2,190	132	2,058	-
Guggenheim TR Bond	4,601	369	4,157	75
Wells Fargo	5	5	-	-
Mutual Stock Funds:				
Aberdeen Emerging Markets	1,478	349	1,129	-
Burgundy Emerging Markets	1,293	1,263	30	-
Dodge & Cox International Stock Fund	1,322	744	578	-
Dodge & Cox Stock Fund	5,614	5,491	123	-
Maingate MLP Fund	880	880	-	-
Eaton Vance	839	839	-	-
MFS International Value Fund	8,455	6,326	2,129	-
MFS Investment Management	5,064	5,064	-	-
Oppenheimer International Growth Fund	7,220	1,860	5,360	-
SPDR S&P Oil & Gas	482	482	-	-
Van Eck Global Hard Assets	1,026	990	34	2
Vanguard Total Stock Market ETF	18,958	18,937	7	14
Vanguard S&P 500 ETF	9,488	9,485	3	-
Wells Fargo	326	326	-	-
Fixed Income Funds:				
CF Multi-Strategy Bond Fund	5,652	-	5,652	-
CFI Multi-Strategy Bond Investors Fund	1,428	-	1,428	-
IR&M Core Bond	8,962	-	8,962	-
Limited Partnership Equity:				
Frontier Small Cap	693	693	-	-
TI Platform Fund	138	-	-	138
Land and Other Real Estate Held As Investments	477	-	-	477
Other Investments:				
Arden-Sage Capital International - SPV	2	-	-	2
WV Growth Investment LLC	160	-	-	160
	$ 165,602	$ 127,017	$ 37,717	$ 868

2015 Investment Type	Fair Value	Level 1	Level 2	Level 3
U.S. Treasury Securities	$ 142,962	$ 142,962	$ -	$ -
Mutual Money Market Funds	1,388	-	1,388	-
Mutual Bond Funds:				
Brandywine Global Fixed Income (BGIMT)	5,061	1,189	3,872	-
Brandywine Global Fixed Income (BIT)	1,007	164	843	-
Fidelity Floating Rate High Income	2,366	126	2,227	13
iShares Barclays 3-7 Year Treasury	2,953	2,953	-	-
iShares Barclays 7-10 Year Treasury	1,371	1,371	-	-
Guggenheim TR Bond	4,540	503	3,964	73
Wells Fargo	117	117	-	-
Mutual Stock Funds:				
Aberdeen Emerging Markets	3,571	1,052	2,519	-
Dodge & Cox International Stock Fund	3,223	599	2,624	-
Dodge & Cox Stock Fund	6,339	6,270	69	-
Eaton Vance	827	827	-	-
MFS International Value Fund	7,545	5,626	1,919	-
MFS	5,140	5,140	-	-
Oppenheimer International Growth Fund	6,987	6,906	81	-
SPDR S&P Oil & Gas	644	644	-	-
Van Eck Global Hard Assets	1,178	1,090	86	2
Vanguard Total Stock Market ETF	27,395	27,384	11	-
Wells Fargo	230	230	-	-
Fixed Income Funds:				
CF Multi-Strategy Bond Fund	5,411	-	5,411	-
CFI Multi-Strategy Bond Investors Fund	1,367	-	1,367	-
IR&M Core Bond	7,306	-	7,248	58
Land and Other Real Estate Held As Investments	477	-	-	477
Other Investments:				
Arden-Sage Capital International - SPV	85	-	-	85
WV Growth Investment LLC	160	-	-	160
	$ 239,650	$ 205,153	$ 33,629	$ 868

The values of investments classified as current and noncurrent were as follows (dollars in thousands):

	Current	Noncurrent	Total
As of June 30, 2016	$ 88,497	$ 77,105	$ 165,602
As of June 30, 2015	82,430	157,220	239,650

Investments with the Foundation – As of June 30, 2016 and 2015, the University's investments held with the Foundation were $91.4 million and $89.7 million, respectively. The investments held with the Foundation include the unrestricted investments, the Corporation's investments, and the BRIM investments as follows (dollars in thousands):

	Unrestricted	Corporation	BRIM	Total
As of June 30, 2016	$ 58,341	$ 10,334	$ 22,688	$ 91,363
As of June 30, 2015	58,279	10,168	21,290	89,737

The University's investments held with the Foundation are governed by investment policies and an investment management agency agreement that determine the permissible investments by category. The holdings include mutual money market funds, U.S. debt and equity securities, foreign debt and equity securities, and alternative investments. The investment management agency agreement outlines the acceptable exposure to each category of investment and generally outlines a liquidity goal. The agreement also states that at no time will illiquid investment assets (defined as those assets that cannot be converted into cash within 90 days) exceed 10% of any portfolio.

Unrestricted Investments – In 2005, the Legislature passed Senate Bill 603 ("S.B. 603"). S.B. 603 granted the University the ability to invest a limited amount of funds with the Foundation. In 2011, the Legislature passed Senate Bill 330 ("S.B. 330") which increased the maximum investment amount to $40 million. In 2013, the Legislature passed Senate Bill 444 ("S.B. 444") which increased the maximum investment amount to $70 million. As allowed by legislation, the University invested with the Foundation $25.0 million in October 2006, $4.0 million in October 2009, and $11.0 million in October 2011. In 2015, the Legislature passed Senate Bill 425 ("S.B. 425") which allowed all monies of the University to be invested with the Foundation except for General Revenue funds. In August 2015, the University began investing in the ICS and/or Certificate of Deposit Account Registry Service (CDARS) programs as allowed by S.B. 425. These investments are classified as cash and cash equivalents.

Research Corporation Investments – Beginning in 2007, an investment strategy was initiated for the Corporation. These long-term investments are managed by the Foundation. In addition, funds are deposited in the ICS program to maximize investment earnings and for FDIC insurance coverage. The ICS investments are classified as cash and cash equivalents.

BRIM Investments – In 2006, an investment strategy was initiated between the HSC and BRIM in conjunction with the Treasurer. The goals were 1) to provide an asset pool to settle medical professional liability claims and 2) to provide an investment pool for medical professional liability premiums with the goal of self-funding premiums in the future and to support medical professional liability claims as needed. The first goal was met by transferring funds to the Treasurer's Office who invests these funds in the WV Money Market Pool. These investments are classified as cash and cash equivalents. To meet the second goal, investments are managed by the Foundation.

Investments with Trustees –The unspent bond proceeds from the 2011 and 2014 series bonds are invested in U.S. government securities or U.S. government backed money market funds. Such restricted investments were $67.4 million and $143.0 million at June 30, 2016 and 2015, respectively. These investments are classified as a noncurrent asset on the statement of net position.

West Virginia Growth Investment, LLC – During fiscal year 2015, the Corporation purchased eight units of membership interest in West Virginia Growth Investment, LLC ("WVGI") for a total of $160,000. WVGI is a limited liability company formed to pool the capital resources and the business connections of accredited investors in and around the State of WV. Since the Corporation holds less than 20% of the ownership interest in WVGI, is not an officer of WVGI, cannot exercise significant influence over WVGI's operations and the fair value of the membership units cannot be readily determined, this investment was recorded using the cost basis of accounting.

Other – The University also has investments - the Wood investments – from the estate of donors with restricted purposes. In addition, funds are deposited in the ICS program to maximize investment earnings and for FDIC insurance coverage. The ICS investments are classified as cash and cash equivalents.

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Credit risk is applicable to investments in debt securities as well as investments in external investment pools, money market funds, mutual bond funds, and other pooled investments of fixed income securities.

The investment management agency agreement with the Foundation states that the investment agent shall invest the client's assets in investments in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-C, chapter forty four of the West Virginia Code.

Credit ratings were as follows at June 30 (dollars in thousands):

2016

Portfolio	**Description**	**Fair Value**	**Rating**
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	$ 1,306	AA-
Unrestricted	Brandywine Global Fixed Income	3,639	AA-
Corporation	Brandywine Global Fixed Income	1,043	Aa3
BRIM	Guggenheim TR Bond	1,116	A
Unrestricted	Guggenheim TR Bond	2,489	A
Corporation	Guggenheim TR Bond	996	A
BRIM	iShares Barclays 3-7 Year Treasury	1,077	Aaa
Unrestricted	iShares Barclays 3-7 Year Treasury	1,899	Aaa
Corporation	iShares Barclays 3-7 Year Treasury	641	Aaa
BRIM	iShares Barclays 7-10 Year Treasury	650	Aaa
Unrestricted	iShares Barclays 7-10 Year Treasury	1,201	Aaa
Corporation	iShares Barclays 7-10 Year Treasury	339	Aaa
Cash/Mutual Money Market Funds:			
BRIM	Cash Account - BRIM	582	Aaa-mf
Unrestricted	Cash Act - Unrestr Inv	1,053	Aaa-mf
Corporation	Cash Act - Research Co	243	Aaa-mf
Fixed Income Funds:			
BRIM	IR&M Core Bond	972	Aa3
Unrestricted	IR&M Core Bond	6,259	Aa3
Corporation	IR&M Core Bond	1,732	Aa3
BRIM	CF Multi-Strategy Bond Fund	1,829	Average Quality A+
Unrestricted	CF Multi-Strategy Bond Fund	3,823	Average Quality A+
Corporation	CFI Multi-Strategy Bond Investors Fund	1,428	Average Quality A+
		$ 34,317	

2015

Portfolio	Description	Fair Value	Rating
Mutual Bond Funds:			
BRIM	Brandywine Global Fixed Income	$ 1,534	A
Unrestricted	Brandywine Global Fixed Income	3,527	A
Corporation	Brandywine Global Fixed Income	1,007	A-
BRIM	Fidelity Floating Rate High Income	298	BB
Unrestricted	Fidelity Floating Rate High Income	1,541	BB
Corporation	Fidelity Floating Rate High Income	528	BB
BRIM	Guggenheim TR Bond	1,101	A
Unrestricted	Guggenheim TR Bond	2,456	A
Corporation	Guggenheim TR Bond	982	A
BRIM	iShares Barclays 3-7 Year Treasury	971	AAA
Unrestricted	iShares Barclays 3-7 Year Treasury	1,487	AAA
Corporation	iShares Barclays 3-7 Year Treasury	495	AAA
BRIM	iShares Barclays 7-10 Year Treasury	399	AAA
Unrestricted	iShares Barclays 7-10 Year Treasury	778	AAA
Corporation	iShares Barclays 7-10 Year Treasury	194	AAA
Cash/Mutual Money Market Funds:			
BRIM	Cash Account - BRIM	336	AAAm
Unrestricted	Cash Act - Unrestr Inv	902	AAAm
Corporation	Cash Act - Research Co	150	AAAm
Fixed Income Funds:			
BRIM	IR&M Core Bond	751	Aa2
Unrestricted	IR&M Core Bond	5,166	Aa2
Corporation	IR&M Core Bond	1,390	Aa2
BRIM	CF Multi-Strategy Bond Fund	1,749	Average Quality A+
Unrestricted	CF Multi-Strategy Bond Fund	3,661	Average Quality A+
Corporation	CFI Multi-Strategy Bond Investors Fund	1,367	Average Quality A+
		$ 32,770	

The remaining investments have not been rated. These funds are periodically evaluated.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. This risk is applicable to debt securities only.

The following table shows the maturities at June 30 (dollars in thousands):

2016

		Investment Maturities			
Investment Type	**Fair Value**	**Less Than One Year**	**1-5 Years**	**6-10 Years**	**More Than 10 Years**
U.S. Treasury Notes and U.S. Govt Backed Money Market Funds	$ 67,367	$ 40,768	$26,599	$ -	$ -
Mutual Bond Funds	16,400	944	5,338	5,614	4,504
Cash/Mutual Money Market Funds	1,878	1,878	-	-	-
Fixed Income Funds	16,042	1,023	4,825	3,667	6,527
Other Investments	162	2	-	-	160
	$101,849	$ 44,615	$36,762	$ 9,281	$ 11,191

2015

		Investment Maturities			
Investment Type	**Fair Value**	**Less Than One Year**	**1-5 Years**	**6-10 Years**	**More Than 10 Years**
U.S. Treasury Notes and U.S. Govt Backed Money Market Funds	$142,963	$ 75,639	$67,324	$ -	$ -
Mutual Bond Funds	17,415	5,842	4,534	4,322	2,717
Cash/Mutual Money Market Funds	1,388	1,388	-	-	-
Fixed Income Funds	14,083	351	10,895	1,616	1,221
Other Investments	245	85	-	-	160
	$176,094	$ 83,305	$82,753	$ 5,938	$ 4,098

Interest rate risk is managed by limiting the time period or duration of the specific investment. At June 30, 2016, the U.S. Treasury Notes have maturities through November 30, 2017 and interest rates which range from .5% to 1.1%. At June 30, 2015, the U.S. Treasury Notes have maturities through November 30, 2017 and interest rates which range from .2% to 1.1%.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Since this risk is minimized by the commingled funds structure, concentration risk disclosure is not required for external pooled funds.

At June 30, 2016 and 2015, the University's investments were not subject to concentration of credit risk.

Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the University will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. This risk is not applicable to external investment pools and open-end mutual funds.

No investments were subject to custodial credit risk at June 30, 2016 or 2015.

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. Disclosure is not required for external investment pools unless the fund represents a significant portion of the University's investments.

The University's exposure to foreign currency risk is as follows at June 30 (dollars in thousands):

Currency	2016	2015
Australian Dollar	$ 1,126	$ 927
Brazilian Real	652	524
British Pence	3,246	639
British Pound Sterling	333	1,875
Canadian Dollar	727	561
Chilean Peso	587	442
Czech Koruna	14	-
Danish Krone	360	254
Euro	5,586	5,032
Great Britain Pound	-	1,336
Hong Kong Dollar	349	679
Hungarian Forint	17	37
Indian Rupee	572	704
Indonesian Rupiah	66	146
Israeli Agorot	34	-
Japanese Yen	2,577	2,652
Malaysian Ringgit	297	239
Mexican Peso	989	998
New Turkish Lira	82	222
New Zealand Dollar	227	24
Norwegian Krone	421	480
Philippine Peso	64	138
Polish Zloty	327	378
Russian Ruble	25	70
Singapore Dollar	114	-
South African Cent	199	341
South African Rand	193	306
South Korean Won	219	572
Swedish Krona	1,015	811
Swiss Franc	1,989	2,036
Taiwan Dollar	66	161
Thai Baht	169	287
US Dollar	27,436	10,241
	$ 50,078	$ 33,112

7. CAPITAL ASSETS

Balances and changes in capital assets were as follows June 30 (dollars in thousands):

2016	**Beginning Balance**	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated or amortized:				
Land	$ 83,547	$ 1,833	$ (1,269)	$ 84,111
Construction in progress	176,501	137,044	(108,902)	204,643
Total capital assets not being depreciated or amortized	$ 260,048	$ 138,877	$ (110,171)	$ 288,754
Other capital assets:				
Land improvements	$ 46,152	$ 5,529	$ -	$ 51,681
Buildings	1,417,688	251,959	-	1,669,647
Equipment	201,114	17,507	(7,941)	210,680
Library books	146,312	6,055	(152)	152,215
Software	61,512	367	-	61,879
Infrastructure	301,006	2,930	-	303,936
Other assets	118,654	118	-	118,772
Intangible assets	150	-	-	150
Total other capital assets	2,292,588	284,465	(8,093)	2,568,960
Less accumulated depreciation and amortization for:				
Land improvements	(23,109)	(2,697)	-	(25,806)
Buildings	(368,511)	(30,561)	-	(399,072)
Equipment	(134,133)	(15,856)	6,908	(143,081)
Library books	(122,670)	(6,796)	(616)	(130,082)
Software	(55,184)	(2,543)	-	(57,727)
Infrastructure	(228,534)	(5,877)	-	(234,411)
Other assets	(89,206)	(18,191)	-	(107,397)
Intangible assets	(20)	(2)	-	(22)
Total accumulated depreciation and amortization	(1,021,367)	(82,523)	6,292	(1,097,598)
Other capital assets, net	$ 1,271,221	$ 201,942	$ (1,801)	$ 1,471,362
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 260,048	$ 138,877	$ (110,171)	$ 288,754
Other capital assets	2,292,588	284,465	(8,093)	2,568,960
Total cost of capital assets	2,552,636	423,342	(118,264)	2,857,714
Less accumulated depreciation and amortization	(1,021,367)	(82,523)	6,292	(1,097,598)
Capital assets, net	$ 1,531,269	$ 340,819	$ (111,972)	$ 1,760,116

2015	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	$ 80,784	$ 2,780	$ (17)	$ 83,547
Construction in progress	118,195	114,878	(56,572)	176,501
Total capital assets not being depreciated or amortized	$ 198,979	$ 117,658	$ (56,589)	$ 260,048
Other capital assets:				
Land improvements	$ 42,341	$ 3,811	$ -	$ 46,152
Buildings	1,272,567	146,053	(932)	1,417,688
Equipment	192,072	14,355	(5,313)	201,114
Library books	140,956	6,831	(1,475)	146,312
Software	60,163	1,387	(38)	61,512
Infrastructure	277,896	23,400	(290)	301,006
Other assets	116,152	2,502	-	118,654
Intangible assets	150	-	-	150
Total other capital assets	2,102,297	198,339	(8,048)	2,292,588
Less accumulated depreciation or amortization for:				
Land improvements	(20,690)	(2,419)	-	(23,109)
Buildings	(343,473)	(25,727)	689	(368,511)
Equipment	(123,335)	(15,081)	4,283	(134,133)
Library books	(116,968)	(7,174)	1,472	(122,670)
Software	(52,800)	(2,422)	38	(55,184)
Infrastructure	(223,182)	(5,465)	113	(228,534)
Other assets	(68,996)	(20,210)	-	(89,206)
Intangible assets	(18)	(2)	-	(20)
Total accumulated depreciation and amortization	(949,462)	(78,500)	6,595	(1,021,367)
Other capital assets, net	$ 1,152,835	$ 119,839	$ (1,453)	$ 1,271,221
Capital Assets Summary:				
Capital assets not being depreciated or amortized	$ 198,979	$ 117,658	$ (56,589)	$ 260,048
Other capital assets	2,102,297	198,339	(8,048)	2,292,588
Total cost of capital assets	2,301,276	315,997	(64,637)	2,552,636
Less accumulated depreciation and amortization	(949,462)	(78,500)	6,595	(1,021,367)
Capital assets, net	$ 1,351,814	$ 237,497	$ (58,042)	$ 1,531,269

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

The University capitalized interest on borrowings, net of interest earned on related debt of approximately $2.5 million and $2.1 million during fiscal years 2016 and 2015, respectively.

8. LONG-TERM LIABILITIES

Balances and changes in long-term liabilities were as follows at June 30 (dollars in thousands):

2016	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreements payable	$ 16,516	$ -	$ (1,233)	$ 15,283	$ 591
Other post employment benefits liability	176,334	10,043	-	186,377	
Net pension liability	11,267	-	(888)	10,379	
Advances from federal government	31,659	-	(1,565)	30,094	
Debt service assessment payable to the Commission	62,654	-	(4,617)	58,037	4,548
Leases payable	20,492	2,723	(1,882)	21,333	7,862
Bonds payable	638,819	327	(14,208)	624,938	15,328
Notes payable	20,342	12,000	(729)	31,613	12,744
Other noncurrent liabilities	25,418	5,050	(6,342)	24,126	1,000
Total long-term liabilities	$1,003,501	$ 30,143	$ (31,464)	$ 1,002,180	

2015	Beginning Balance	Additions	Reductions	Ending Balance	Due within One Year
Real estate purchase agreement payable	$ 6,087	$ 13,251	$ (2,822)	$ 16,516	$ 581
Other post employment benefits liability	167,261	9,073	-	176,334	
Net pension liability	-	11,267	-	11,267	
Advances from federal government	26,707	4,952	-	31,659	
Debt service assessment payable to the Commission	67,355	-	(4,701)	62,654	4,617
Leases payable	22,202	494	(2,204)	20,492	1,880
Bonds payable	507,973	144,802	(13,956)	638,819	14,191
Notes payable	21,058	-	(716)	20,342	729
Other noncurrent liabilities	24,983	5,425	(4,990)	25,418	1,000
Total long-term liabilities	$ 843,626	$ 189,264	$ (29,389)	$ 1,003,501	

9. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2016, 2015, and 2014, the noncurrent liability related to OPEB was $186.4 million, $176.3 million, and $167.3 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were $22.7 million and $13.0 million, respectively, during 2016, $22.0 million and $13.0 million, respectively, during 2015, and $17.1 million and $13.9 million, respectively, during 2014. As of the years ended June 30, 2016, 2015, and 2014, there were 762, 731, and 702 retirees, respectively, receiving these benefits.

10. DEFINED BENEFIT PENSION PLAN

Some employees of the University are enrolled in a defined benefit pension plan, the West Virginia Teachers' Retirement System (TRS), which is administered by the West Virginia Consolidated Public Retirement Board (CPRB).

Following is the University's pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30 (dollars in thousands):

	2016	2015
Net Pension Liability	$ 10,379	$ 11,267
Deferred Outflows of Resources	1,197	1,378
Deferred Inflows of Resources	2,431	2,888
Revenues	1,788	1,504
Pension Expense	1,994	1,832
Contributions Made by the University	1,197	1,378

TRS

Plan Description

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

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

Benefits Provided

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

Contributions

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

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

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;

2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;

3. 7.5% of SAF-covered payroll of members of the TDCRS;

4. a certain percentage of fire insurance premiums paid by State residents; and

5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2015, the University's proportionate share attributable to this special funding subsidy was $1,680,515. As of June 30, 2014, the University's proportionate share attributable to this special funding subsidy was $1,503,959.

The University's contributions to TRS for the years ended June 30, 2016, 2015, and 2014, were approximately $1,197,000, $1,378,000, and $1,374,000, respectively.

Assumptions

For the year ended June 30, 2016, the total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2014 and rolled forward to June 30, 2015. For the year ended June 30, 2015, total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2013 and rolled forward to June 30, 2014. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.

- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 1.9%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-30% and non-teachers 1.4-22.5%.
- Disability rates: 0-0.88%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%
- Ad hoc cost-of-living increases in pensions are periodically granted by the Legislature. However, the retirement system makes no automatic provision for such increases.

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

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

2016

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic equity	7.0%	27.5%
International equity	7.7%	27.5%
Core fixed income	2.7%	15.0% *
High-yield fixed income	5.5%	
TIPS	2.7%	0.0%
Real estate	5.6%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%
Cash	1.5%	0.0%

* Core and high-yield fixed income securities have a combined target allocation of 15.0%.

2015

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic equity	5.4%	27.5%
International equity	6.3%	27.5%
Core fixed income	0.7%	15.0% *
High-yield fixed income	2.6%	
TIPS	0.7%	0.0%
Real estate	4.6%	10.0%
Private equity	7.7%	10.0%
Hedge funds	2.8%	10.0%

* Core and high-yield fixed income securities have a combined target allocation of 15.0%.

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.73% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2015.

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

2016

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 13,456	$ 10,379	$ 7,737

2015

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability	$ 14,559	$ 11,267	$ 8,342

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

The TRS net pension liability at June 30, 2016 was measured as of June 30, 2014 rolled forward to June 30, 2015, which is the measurement date. The total pension liability at June 30, 2016 was determined by an actuarial valuation as of July 1, 2014 and rolled forward to the measurement date.

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

At June 30, 2016, the University's proportionate share of the TRS net pension liability was $34,061,000. Of this amount, the University recognized approximately $10,379,000 as its proportionate share on the statement of net position. The remainder of $23,682,000 denotes the University's proportionate share of net pension liability attributable to the special funding.

At June 30, 2015, the University's proportionate share of the TRS net pension liability was $36,722,700. Of this amount, the University recognized approximately $11,267,000 as its proportionate share on the statement of net position. The remainder of $25,455,700 denotes the University's proportionate share of net pension liability attributable to the special funding.

At June 30, 2016, the amount recognized as the University's proportionate share of the TRS net pension liability was approximately $10,379,000. TRS measured the net pension liability as of June 30, 2015.

At June 30, 2015, the amount recognized as the University's proportionate share of the TRS net pension liability was approximately $11,267,000. TRS measured the net pension liability as of June 30, 2014.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on their proportionate share of employer and non-employer contributions to TRS for each of the fiscal years ended June 30, 2015 and 2014. Employer contributions are recognized when due. At June 30, 2015, the University's proportion was 0.299518%, a decrease of 0.027044% from its proportion of 0.326562% calculated as of June 30, 2014. At June 30, 2014, the University's proportion was 0.326562%, a decrease of 0.040276% from its proportion of 0.366841% calculated as of June 30, 2013.

For the year ended June 30, 2016, the University recognized TRS pension expense of $1,993,742. Of this amount, $205,643 was recognized as the University's proportionate share of the TRS expense and $1,680,515 as the amount of pension expense attributable to special funding and $107,584 as the pension expense related to a non-special funding from a non-employer contributing entity. The University also recognized revenue of $1,788,099 for support provided by the State.

For the year ended June 30, 2015, the University recognized TRS pension expense of $1,831,613. Of this amount, $327,654 was recognized as the University's proportionate share of the TRS expense and $1,503,959 as the amount of pension expense attributable to special funding from a non-employer contributing entity. The University also recognized revenue of $1,503,959 for support provided by the State.

For the years ended June 30, 2016 and 2015, the University recognized TRS pension expense of $205,643 and $327,654, respectively. Deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows at June 30, (dollars in thousands):

2016

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ -	$ 1,903
Net difference between projected and actual investment earnings	-	438
Difference between expected and actual experience	-	90
Contributions after the measurement date	1,197	-
	$ 1,197	$ 2,431

2015

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and difference between employer contributions and proportionate share of contributions	$ -	$ 1,398
Net difference between projected and actual investment earnings	-	1,490
Contributions after the measurement date	1,378	-
	$ 1,378	$ 2,888

The University will recognize the $1,197,000 and $1,378,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the years ended June 30, 2017 and 2016, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in TRS pension expense as follows.

Fiscal Year Ended	Amortization
June 30, 2017	$ 687
June 30, 2018	687
June 30, 2019	687
June 30, 2020	298
June 30, 2021	72
	$ 2,431

Payables to the Pension Plan

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

11. LEASES PAYABLE

a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2016 are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2017	$	5,464
2018		4,629
2019		4,197
2020		2,797
2021		2,619
2022-2026		10,042
2027-2031		9,880
2032-2036		5
2037-2041		5
2042-2046		5
2047-2051		5
2052-2056		5
2057-2058		2
Total	$	39,655

Total rental expense for the years ended June 30, 2016 and 2015 was $6.8 million and $7.4 million, respectively. The University leases 6 floors of a seven floor office building from the Foundation. Rental expense under the operating lease is $1,975,000 per year through 2031. The University does not have any non-cancelable leases.

b. *Capital* – The University leases certain property, plant and equipment under capital leases. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2017	$	8,373
2018		2,281
2019		2,301
2020		2,344
2021		2,381
2022-2026		5,196
2027-2031		533
2032-2036		125
2037-2041		125
2042-2044		75
Minimum lease payments		23,734
Less amount representing interest		(2,401)
Present value of minimum lease payments		21,333
Current Portion		7,862
Noncurrent Portion	$	13,471

The net book value of leased assets was as follows as of June 30 (dollars in thousands):

	2016	2015
Buildings	$ 28,387	$ 28,387
Equipment	87	87
Land Improvements	6	6
Construction in progress	503	-
Less: Accumulated Depreciation	(3,428)	(2,910)
New Book Value	$ 25,555	$ 25,570

Cash on deposit with the trustee includes $2.2 million at June 30, 2016 related to the WVUIC equipment lease/purchase agreement (see note 3).

12. BONDS PAYABLE

Bonds payable consisted of the following at June 30 (dollars in thousands):

	Original Interest Rate	Annual Principal Installment Due	2016 Principal Amount Outstanding	2015 Principal Amount Outstanding
Revenue Improvement Bonds, 2011 Series A, due through 2026	3.87%	\$ 35 to \$ 62	10,484	10,979
Revenue Improvement Bonds, 2011 Series B, due through 2037	4.14%	\$ 0 to \$ 21,800	167,240	172,335
Revenue Bonds (Taxable), 2012 Series A, due through 2042	4.50%	\$ 35 to \$ 62	12,411	12,659
Revenue Bonds (Taxable), 2012 Series B, due through 2032	variable rate	\$ 0 to \$ 50	4,123	4,323
Revenue Refunding and Improvement Bonds, 2013 Series A, due through 2043	3.55%	\$ 0 to \$ 13,715	137,475	137,905
Revenue Refunding and Improvement Bonds (Taxable), 2013 Series B, due through 2043	3.00%	\$ 995 to \$ 7,440	63,950	70,030
Improvement Revenue Bonds, 2014 Series A, due through 2045	4.30%	\$ 855 to \$ 30,285	60,000	60,000
Improvement Revenue Bonds (Taxable), 2014 Series B, due through 2043	4.50%	\$ 10,075 to \$ 24,105	79,050	79,050
Improvement Revenue Bonds, 2014 Series C, due through 2042	0.58%	\$ 9,730 to \$ 10,705	50,190	50,190
Improvement Revenue Bonds, 2016 Series A, due through 2046,	1.74%	\$ 0 to \$ 678	327	-
Unamortized Bond Discount			(124)	(129)
Unamortized Bond Premium			39,812	41,477
Net Bonds Payable			624,938	638,819
Current Portion			15,328	14,191
Noncurrent Portion			\$ 609,610	\$ 624,628

Bond Indenture, Pledged Revenues and Board Authorization

The 2004 Bonds and all subsequently issued WVU Bonds ("the Bonds") are limited obligations of the Board, payable from and secured by a pledge of Fees and Gross Operating Revenues received by the Board, any interest earnings thereon and on the funds and accounts held by the Bond Trustee, and funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rents fees, charges and other income received by or accrued to the University from the operation and use of the Auxiliary Facilities. The Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

The WVU Bond Trust Indenture, dated as of November 1, 2004, is the original indenture upon which the 2004 Bonds were issued. Subsequently issued WVU Bonds were issued based on Supplemental Indentures to the 2004 Indenture, as resolved by the Board as follows:

Bond Issue	Indenture or Supplemental Indenture	Board Resolution
2004 A, B and C	Original indenture	Adopted November 5, 2004
2011A	First Supplemental Indenture	Adopted April 8, 2011/Amended August 10, 2011
2011 B and C	Second Supplemental Indenture	Adopted June 6, 2011
2012 A	Third Supplemental Indenture	Adopted June 7, 2012
2012 B	Fourth Supplemental Indenture	Adopted September 28, 2012
2013 A and B	Fifth Supplemental Indenture	Adopted December 13, 2012
2014 A, B and C	Sixth Supplemental Indenture	Adopted April 4, 2014
2016 A	Seventh Supplemental Indenture	Adopted June 1, 2016

2004 Bonds

On November 1, 2004 the Board issued $220.0 million in revenue bonds.

The 2004 Series A bonds were paid in full on April 1, 2013. The 2004 Series B and C bonds were advance refunded with the 2013 bonds. The amount of the University Revenue Refunding Bonds 2004 Series B refunded and defeased was $40,515,000. The amount of principal of the University Revenue Improvement Bonds 2004 Series C bonds refunded and defeased was the entire issue of $138,710,000. The difference between the debt service required to service the old debt and the amount required to service the new debt was $24,555,331. The economic gain as represented by the present value savings of the cash flows of the difference noted directly above is $17,520,958 using an effective interest rate of 3.41%.

2011 Bonds

During fiscal year 2012, the Board issued $250.3 million in revenue bonds as follows:

2011 Series A In August 2011, the Board issued the 2011 Series A Improvement Revenue bonds to finance the acquisition of a multi-story apartment complex known as "The Augusta on the Square" and other lots, buildings, houses and structures which were subject to liens thereupon. The 2011 Series A bonds were issued on August 1, 2011 in the amount of $12,710,197.

2011 Series B In October 2011, the Board issued the 2011 Series B Improvement Revenue bonds in the par amount of $187,605,000. The actual proceeds received equaled $205.6 million. These bonds were issued to refinance the Childcare Center, Engineering Sciences Building, Energy Performance Lease Phase II, and Energy Performance Phase III lease purchases and to finance new projects.

2011 Series C In October 2011, the Board issued the 2011 Series C Improvement Variable Rate Revenue Bonds in the aggregate principal amount of $50,000,000 with an interest rate based on the SIFMA index plus 65 basis points. On October 1, 2014, these bonds were refunded with the 2014 Series C bonds as required by the original issuance. The proceeds of the 2011 Bonds were used to (a) finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures related thereto made prior to the issuance of the 2011 Bonds, (b) refinance certain tax-exempt lease-purchase agreements entered into by the University and (c) pay the costs of issuance of the 2011 Bonds.

The 2011 bond proceeds of $268.3 million included net original issue premium of $18.0 million.

2012 Bonds

During fiscal year 2013, the Board issued the 2012 Bonds as follows:

2012 Series A On July 26, 2012, the Board issued the 2012 Series A (Taxable) bonds in the amount of $13,270,555 to finance the acquisition of the Suncrest Plaza. These bonds were a private placement bond issue with the Huntington Investment Company.

2012 Series B On December 13, 2012, the 2012 Series B (taxable) bonds were issued in the amount of $4,800,000 to finance the acquisition of the Square at Falling Run/Loop.

These bonds were a private placement bond issue with First United Bank & Trust, for a fixed rate of 2.5% for three years then adjusting annually based on the average yield on the U.S. Treasury Securities adjusted to a constant maturity of one year plus 175 basis points. The interest rate has a floor of 2.5%.

2013 Bonds

On February 13, 2013, the Board issued $210.5 million in revenue bonds as follows.

2013 Series A The 2013 Series A bonds were issued in the par amount of $138,325,000. The actual proceeds received equaled $160.5 million. These bonds were issued to (a) advance refund a portion of the University Revenue Improvement Bonds 2004 Series C, dated December 2, 2004, and issued in the original principal amount of $138,710,000, (b) advance refund a portion of the University Revenue Refunding Bonds 2004 Series B, dated December 2, 2004, maturing on and after October 1, 2015 and issued in the original principal amount of $55,430,000, (c) finance a portion of the costs of the 2013 A projects at the University including reimbursement to the University for certain capital expenditures made on the 2013 Series A projects prior to the issuance of the 2013 Series A bonds, and (d) pay the costs of issuance of the 2013 Series A bonds.

2013 Series B The 2013 Series B bonds (Taxable) series were issued in the amount of $72,180,000 to (a) advance refund that portion of the 2004 Series C bonds not refunded with the proceeds of the 2013 Series A bonds, (b) finance a portion of the costs of the 2013 Series B projects including reimbursement to the University for certain capital expenditures made on the 2013 Series B projects prior to the issuance of the 2013 Series B bonds (the acquisition of the Sunnyside property), and (c) pay the costs of issuance of the 2013 Series B bonds.

2014 Bonds

On October 1, 2014, the Board issued $189.2 million in revenue bonds as follows:

2014 Series A The 2014 Series A bonds (tax exempt) were issued in the amount of $60,000,000. The actual proceeds received equaled $65,562,000. These bonds were issued to (a) finance the modernization of the University's Personal Rapid Transit system (the "PRT") including reimbursement for prior capital expenditures related to this project and (b) pay the costs of issuance of the 2014 Series A bonds.

2014 Series B The 2014 Series B bonds (taxable) were issued in the amount of $79,050,000 to (a) finance certain Athletics capital projects including reimbursement for prior capital expenditures related to these projects and (b) pay the costs of issuance of the 2014 B bonds.

2014 Series C The 2014 Series C bonds (tax exempt) were issued in the amount of $50,190,000 with an interest rate based on the SIFMA index plus 53 basis points to (a) refund (the "Refunding") the 2011 Series C bonds, dated October 5, 2011 and (b) pay the costs of issuance of the 2014 C bonds. During fiscal year 2016 and 2015, the average interest rate was .66% and .58%, respectively. The rate at June 30, 2016 and 2015 was .94% and .60%, respectively. The initial Par Call Date with respect to the 2014 C Bonds is April 1, 2019.

2016 Bonds

On June 29, 2016, the Board issued $20,000,000 in revenue bonds as follows:

2016 Series A The 2016 Series A bonds (tax exempt) were issued in the amount of $20,000,000 to finance Phase 1 of the Health Science Center infrastructure plan and to pay the costs of issuance. As of June 30, 2016, the University received proceeds of $327,000 for project expenses and cost of issuance incurred to date. The remaining project funds are available to the University on a draw down basis to reimburse expenses associated with the project. In January 2017 the unspent project funds will be deposited or invested with the Trustee. During the six month timeframe, interest is accrued and paid only on the project funds drawn.

Bond Summary

For the years ended June 30, 2016 and June 30, 2015, the University recorded a deferred loss on refunding of $13,448,000 and $13,958,000, respectively, on the statement of net position.

Total principal and interest payments remaining to be paid at June 30, 2016 and 2015 were $999.2 million and $1,036.5 million, respectively. Total gross pledged revenue for fiscal year 2016 and 2015 was $177.4 million and $168.8 million, respectively.

The scheduled maturities of the revenue bonds are as follows (dollars in thousands):

Fiscal Year Ending June 30,	**Principal**	**Interest**	**Total Payments**
2017	$ 13,668	$ 24,790	$ 38,458
2018	13,805	24,393	38,198
2019	14,254	23,936	38,190
2020	14,769	23,439	38,208
2021	15,336	22,911	38,247
2022-2026	84,015	104,904	188,919
2027-2031	95,538	84,218	179,756
2032-2036	110,543	60,104	170,647
2037-2041	113,229	34,500	147,729
2042-2045	110,093	10,770	120,863
Bonds Payable	585,250	$ 413,965	$ 999,215
Unamortized Bond Discount	(124)		
Unamortized Bond Premium	39,812		
Net Bonds Payable	624,938		
Current Portion	15,328		
Noncurrent Portion	$ 609,610		

13. NOTES PAYABLE

Health Sciences Center Construction Loan – In December 2012, the Corporation refinanced various construction loans with United Bank, Inc. in the principal amount of $22.1 million at an interest rate, initially 1.90%, resetting every five years. Beginning August 2014, the loan agreement allows the Corporation to prepay the loan with 60 days notice and without any penalty or premium, and it allows the bank to "put" all or part of the loan to the Corporation with 60 days notice and without any penalty or premium.

The loan is pledged by facilities and administrative revenues received by the Corporation under any grants, contracts, and other agreements on behalf of the HSC as follows:

1) 30% of the total HSC facilities and administrative revenues, up to a total of $6.8 million ("threshold amount") received by the Corporation in any single fiscal year.

2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

Total principal to be paid at June 30, 2016 and June 30, 2015 was approximately $19.6 million and $20.3 million, respectively. Total interest paid through June 30, 2016 and June 30, 2015 was approximately $1,404,000 and $1,018,000, respectively. Total facilities and administrative revenues earned by HSC during fiscal year 2016 and 2015 were $8.0 and $7.8 million, respectively. Total pledged revenue as of June 30, 2016 and June 30, 2015 was $2.9 and $2.8 million, respectively.

During fiscal year 2016, the Corporation negotiated a 90-day note with United Bank in the amount of $12 million for reimbursement of the purchase and start-up costs related to the Beckley campus of the University. On September 27, 2016, the Corporation entered into an extension of this 90-day note. The extension was for a 30 day period for the same amount under the same terms. It is expected that the Corporation will enter into a long term note payable during fiscal year 2017 and use a portion of the proceeds to pay the 90-day note in full.

The scheduled maturities of the notes payable are as follows (dollars in thousands):

Fiscal Year Ending June 30,		
2017	$	12,744
2018		758
2019		773
2020		787
2021		803
2022-2026		4,257
2027-2031		4,686
2032-2036		5,159
2037-2038		1,646
		31,613
Current Portion		12,744
Noncurrent Portion	$	18,869

14. REAL ESTATE PURCHASE AGREEMENTS PAYABLE

During fiscal year 2011, the University entered into an agreement with SBS Properties LLC to finance the purchase of real property at 992 Elmer Prince Drive in Morgantown, WV. The total purchase price of the property was $3,714,800. The University paid $397,400 at closing and agreed to make installment payments of $368,600 per year through November 30, 2019. This liability is recorded at present value at an interest rate of .18%.

During fiscal year 2013, the University purchased several properties located at the Square at Falling Run/Loop. This purchase included a real estate purchase agreement payable to the City of Morgantown Building Commission in the amount of $4.2 million due in 2026 less the following credits: 1) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenditures on the Loop project in excess of $30 million, 2) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 for construction expenses on the College Park project, and 3) all B&O taxes paid to the City of Morgantown prior to August 31, 2026 arising from and directly associated with any construction, retail, commercial, rental, and other development activities located in, or with respect to the completion of, the commercial space in the Square at Falling Run, College Park, and Sunnyside, 4) all Airport Grant Funds received or obtained prior to August 31, 2026 as a result of Transferee's direct solicitation efforts, or indirectly as a result of specifically identifiable efforts, contracts, or commitments. The above credits have reduced the liability to $1,316,766 as of June 30, 2016. Also, the purchase included a Tax Increment Financing (TIF) District Guaranty to First United Bank & Trust for $120,000 annually through September 1, 2032. This has been recorded at a present value of $1,484,607 at the following interest rates: 2.5% through June 2014, 3.5% from June 2014 through June 2017, and 5.69% from June 2017 through June 2033.

During fiscal year 2015, the University obtained external financing from WesBanco in the amount of $13,250,000 to finance the purchase of real estate on the Evansdale Campus. The University agreed to make installment payments of $759,000 per year through September 1, 2024.

These liabilities are classified as real estate purchase agreements payable on the statement of net position.

15. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (DEBT SERVICE PAYABLE TO COMMISSION)

The University is a State institution of higher education. It receives a State appropriation in partial support of its operations. In addition, the University is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the University's operations, its tuition and fee structure, its personnel policies and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by either the former Board of Regents, the former University System of West Virginia, the former State College System of West Virginia or the former Interim Governing Board (collectively, the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former boards.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on these various bonds. Certain tuition and registration fees (referred to as system fees) of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. The bonds remain as a capital obligation of the Commission; however, effective June 30, 2002, an amount of principal related to each institution was reported as debt service assessment payable to the Commission by each institution and as a receivable by the Commission.

The Commission issued 2004 Series B Higher Education Facilities Revenue Bonds (the "HEPC 2004 B Bonds") in August 2004 to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges, including the University. In June 2012, a portion of the HEPC 2004 Bonds were advance refunded by the State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds (Higher Education Facilities) 2012 Series A and Revenue Bonds (Higher Education Facilities) 2012 Series B Bonds (the "HEPC 2012 Bonds"). The HEPC 2004 B Bonds and the HEPC 2012 Bonds are secured by the pledge of higher education institutions' tuition and registration fees as well as excess lottery revenues. The HEPC 2004 B Bonds and the HEPC 2012 Bonds are considered an indirect obligation of the University and the principal amount of the bonds related to the University is not reported as a payable to the Commission.

16. UNRESTRICTED NET POSITION (DEFICIT)

The University did not have any designated unrestricted components of net position as of June 30, 2016 or 2015.

	2016	2015
Total unrestricted net position before OPEB liability and net pension liability	$ 81,577	$ 110,037
Less: OPEB liability	186,377	176,334
Less: net pension liability	10,379	11,267
Total unrestricted net deficit	$ (115,179)	$ (77,564)

17. DEFINED CONTRIBUTION PENSION PLANS

Substantially all eligible employees of the University participate in either TRS or the Teachers Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). (See Note 9 for information regarding TRS.)

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. Educators Money was a brand utilized by Great West Financial; this has since transitioned to Empower Retirement.

The TIAA-CREF and Empower Retirement are defined-contribution benefit plans in which benefits are based upon amounts contributed plus investment earnings. Each employee who elects to participate in these plans is required to make a contribution equal to 3% (for employees of the Corporation enrolled in TIAA-CREF) or 6% (for employees of the State enrolled in TIAA-CREF or Empower Retirement) of their total annual compensation. The University simultaneously matches the employees' 3% or 6% contribution. Contributions are immediately and fully vested.

Contributions to the TIAA-CREF for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	WVU	Employees	Total
2016	$ 25,800	$ 25,800	$ 51,600
2015	24,765	24,765	49,530
2014	24,146	24,146	48,292

Contributions to Empower Retirement for each of the last three fiscal years were approximately as follows (dollars in thousands):

Fiscal Year Ending June 30,	WVU	Employees	Total
2016	$ 294	$ 294	$ 588
2015	302	302	604
2014	271	271	542

The University's total payroll for fiscal years 2016, 2015, and 2014 was $491.0 million, $473.8 million, and $462.6 million, respectively; total covered employees' salaries in TIAA-CREF and the Empower Retirement were $434.2 million and $4.9 million in fiscal year 2016, $306.9 million and $5.0 million in fiscal year 2015, and $406.0 million, and $4.5 million in fiscal year 2014, respectively.

18. NONMONETARY TRANSACTIONS

During fiscal year 2016, the University entered into a like-kind exchange agreement with ACC that involved a transfer of a parcel of the University's property in the Fourth Ward of the City of Morgantown, Monongalia County, WV, adjacent to the University's downtown campus and contiguous to the University Place parking garage, for another parcel of property, also located in the Fourth Ward, owned by ACC. Accounting for the property exchange was based on the net book value of the University's property. A loss of $222,000 was recorded on the exchange.

19. COMMITMENTS

a. *Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. At June 30, 2016, the University is committed to an additional $1.4 million purchase to meet the minimum steam purchase requirement for the contract year ended September 30, 2016. The University anticipates substantially meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.

b. *Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately $71.8 million at June 30, 2016.

c. *Other Commitments* – The University is involved in legal action in regards to normal business activities. Management does not feel that these actions are material and pose a financial threat to the University and, accordingly, no liability is accrued at June 30, 2016 and 2015.

20. AFFILIATED ORGANIZATIONS

The University has affiliations with separately incorporated organizations including West Virginia United Health System, Inc., which includes West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated (the "Association"); the Center for Entrepreneurial Studies and Development, Incorporated; West Virginia University Medical Corporation; the Physician's Office of Charleston; University Healthcare Physicians, Inc.; the West Virginia University Dental Corporation; Potomac State College Alumni Association; WV Campus Housing, LLC; ACC OP LLP, University Park at Evansdale, LLC; Downtown Campus Parking Associates; and WVU Connector, LLC. Oversight responsibility for these entities rests with independent Boards and management not otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB standards. Accordingly, the financial statements of all such organizations are not included in the accompanying financial statements.

The National Aeronautics and Space Administration Independent Verification and Validation facility was established in Fairmont, West Virginia in 1993 in partnership with the University. Under a cooperative agreement with the University, verification and validation research programs are conducted at the facility. The facility is operated and maintained by the University's Facilities and Services Division.

Related Party Transactions

a. *West Virginia University Medical Corporation* – West Virginia University Medical Corporation (the "Morgantown practice plan") is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia University School of Medicine (WVUSOM) in Morgantown WV. The membership of the Morgantown practice plan consists of physicians who are faculty members of the WVUSOM. The Morgantown practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the Morgantown practice plan's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other clinical practice management services.

   The University is reimbursed by the Morgantown practice plan for the use of certain facilities, Physician Office Center (POC) utility costs and other costs of the WVUSOM, including medical malpractice insurance premiums. The University reimburses the Morgantown practice plan for costs associated with the services it provides to the University. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from the Morgantown practice plan.

   Total funds disbursed to the Morgantown practice plan and total funds collected from the Morgantown practice plan totaled $690,000 and $16.9 million in fiscal year 2016 and $729,000 and $15.2 million in fiscal year 2015, respectively. Accounts receivable at June 30, 2016 and 2015 includes $702,000 and $139,000, respectively, due from the Morgantown practice plan for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. There were no amounts due to the Morgantown practice plan at June 30, 2016 or 2015.

b. *West Virginia University Physicians of Charleston* – West Virginia University Physicians of Charleston (the "Charleston practice plan") is a West Virginia not-for-profit corporation and serves as the faculty practice plan of WVUSOM in Charleston, WV. The membership of the Charleston practice plan consists of physicians who are faculty members of the WVUSOM. The Charleston practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the plan's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other practice management services.

The University is reimbursed by the Charleston practice plan for costs of the WVUSOM, Charleston Division, including medical malpractice insurance premiums. The HSC currently receives some state appropriations through the Medicaid program from Physicians of Charleston. Accounts receivable due from Physicians of Charleston for such items as mission support and reimbursement for medical malpractice insurance.

Total funds collected from the Charleston practice plan totaled $4.7 million in fiscal year 2016 and $3.0 million in fiscal year 2015, respectively. Accounts receivable at June 30, 2016 and 2015 includes $504,000 and $774,000, respectively, for such items as medical malpractice insurance and salary support. There were no amounts due to the Charleston practice plan at June 30, 2016 or 2015. There were no funds disbursed to the Charleston practice plan in fiscal year 2016 or 2015.

c. *University Healthcare Physicians, Inc.* – University Healthcare Physicians, Inc. (the "Eastern practice plan") is a West Virginia not-for-profit corporation and serves as the faculty practice plan of WVUSOM in Martinsburg, WV. The membership of the Eastern practice plan consists of physicians who are faculty members of the WVUSOM. The Eastern practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the plan's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other practice management services.

The University is reimbursed by the Eastern practice plan for costs of the WVUSOM, Eastern Division, including medical malpractice insurance premiums. The HSC currently receives some state appropriations through the Medicaid program from University Healthcare Physicians. Accounts receivable due from University Healthcare Physicians for such items as mission support and reimbursement for medical malpractice insurance.

Total funds collected from the Eastern practice plan totaled $2.7 million in fiscal year 2016 and $2.0 million in fiscal year 2015, respectively. Accounts receivable at June 30, 2016 and 2015 includes $115,000 and $327,000 for such items as medical malpractice insurance and salary support. Amounts due to the Eastern practice plan at June 30, 2016 or 2015 were $0 and $157,000, respectively. Total funds disbursed to the Eastern practice plan were $78,000 and $0 in fiscal year 2016 and 2015, respectively.

d. *West Virginia University Dental Corporation* – West Virginia University Dental Corporation (the "dental practice plan") is a West Virginia not-for-profit corporation and serves as the faculty practice plan of West Virginia School of Dentistry (WVUSOD). The membership of the dental practice plan consists of dentists who are faculty members of the WVUSOD. The dental practice plan coordinates its activities with these schools by operating outpatient clinics staffed by such faculty, billing and collecting for professional medical services furnished by the plan's membership, appropriately distributing receipts generated by billings, providing educationally oriented clinical practice settings and opportunities, and providing other practice management services.

The University is reimbursed by the dental practice plan for the use of certain facilities and other costs of the School of Dentistry, including medical malpractice insurance premiums. Accounts receivable due from Dental Corporation for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees and reimbursement of dentistry clinic supplies.

Total funds collected from the dental practice plan totaled $2.4 million in fiscal year 2016 and $867,000 in fiscal year 2015, respectively. Accounts receivable at June 30, 2016 and 2015 includes $174,000 and $426,000, respectively, for such items as medical malpractice insurance, facility rental fees, clinic supplies and student expenses. There were no amounts due to the dental practice plan at June 30, 2016 or 2015. There were no funds disbursed to the dental practice plan in fiscal year 2016 or 2015.

e. *West Virginia University Hospitals, Incorporated* – The Hospital is a not-for-profit corporation, established in West Virginia, to facilitate clinical education and research of the HSC. The Hospital's tertiary care teaching facility-Ruby Memorial, serves as the primary teaching hospital for the faculty and residents of the HSC and operates graduate medical education programs. The Hospital has entered into a Resident Support agreement with the University, under which the Hospital reimburses the WVUSOM for resident salaries and fringes support and for the cost of malpractice insurance for the residents. The Hospital also compensates the WVUSOM for a range of services via the Clinical Teaching Support agreement, Medical Direction and Support agreement, Mission Support agreement and Faculty Physician Support agreement. During fiscal year 2004, the Legislature reallocated HSC state appropriations to the Medicaid program in Health and Human Services. The HSC currently receives some state appropriations through the Medicaid program from the Hospital.

During fiscal years 2016 and 2015, $36.3 million and $34.9 million, respectively, was received from WVUH for such items as residents' support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, and rent. Accounts receivable at June 30, 2016 and 2015 include $1.4 million and $1.4 million, respectively, due from WVUH for such items. During fiscal years 2016 and 2015, $305,000 and $322,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2016 and 2015 include $3,000 and $3,000, respectively, due to WVUH for such items.

f. *West Virginia University Alumni Association, Incorporated* – The Association is a West Virginia not-for-profit corporation and was established to promote and advance the interests and welfare of the University and to foster a spirit of fraternity and loyalty among graduates, former students, faculty and other friends of the University.

Employees of the Association are paid through the University. The University funds a portion of their salary through State funds and graduate fees. The University funded $603,000 and $247,000 for the years ended June 30, 2016 and 2015, respectively. The remaining payroll is billed to the Association. The Association owed the University $394,000 and $99,000 related to payroll and postage as of June 30, 2016 and 2015, respectively.

The Association reimburses the University up to $50,000 per year for the alumni magazine. These payments were $50,000 for both years ended June 30, 2016 and 2015.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering and rental revenue received from the University was approximately $1.1 million and $941,000 for the years ended June 30, 2016 and 2015, respectively.

The University charged the Association $947,000 and $807,000 for catering services for the years ended June 30, 2016 and 2015, respectively. The Association owed the University $202,000 and $149,000 for catering services as of June 30, 2016 and 2015, respectively.

The University owed the Association $12,000 and $13,000 for reimbursement of utilities as of June 30, 2016 and 2015, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University $14,000 and $135,000 for the years ended June 30, 2016 and 2015, respectively. The Association owed the University $0 for both years ended June 30, 2016 and 2015, respectively.

During fiscal year 2009, the old alumni center building reverted back to the University. The fair market value of the building transferred to the University was $1,485,000. The Association entered into a long-term lease with the University for land to construct a new alumni center building and parking lot. The term of the land lease is $1 rent per year for forty years with options to renew for additional forty year periods.

On July 11, 2012, the Association and the University entered into a parking lot shared use agreement. Beginning in July 2012, the Association pays the University $80,000 per year on a quarterly basis.

g. *West Virginia University at Parkersburg and BridgeValley Community and Technical College*

Energy Performance Contract — In 2008, the University entered into an agreement with Siemens Building Technologies, Inc. to perform Phase II of the Energy Performance contract. The contract was to install certain energy enhancement equipment in buildings on the University's campuses, including Parkersburg and

WVUIT. The cost of the contract was financed with a lease purchase agreement between the University and Suntrust Leasing Corporation ("Suntrust").

Beginning in fiscal year 2009, when Parkersburg and BridgeValley became separate entities from the University, the Parkersburg and BridgeValley portions of the Energy Performance Phase II lease purchase were reported on Parkersburg's and BridgeValley's statements of net position as a lease payable.

During fiscal year 2012, the University issued the 2011 Series B and C bonds which in part paid off the Energy Performance Phase II lease purchase with Suntrust. After the bonds were issued, an agreement was entered into between the University and Parkersburg and BridgeValley wherein Parkersburg and BridgeValley agreed to continue to pay the University based on their portion of the original amortization schedule for the lease purchase with Suntrust. This source of funds is internally assigned by the University to pay the 2011 Series B and C bonds.

The original amount of the notes related to Parkersburg and BridgeValley was $3,316,991 and $211,691, respectively, with an interest rate of 3.98%. The term of the notes were 16 years with the last payment due in January 2024. The new agreements between the University and Parkersburg and BridgeValley used the same terms. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2016 was $2,282,243 and $145,653, respectively. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2015 was $2,518,092 and $160,705, respectively. Interest earned during fiscal year 2016 for the notes related to Parkersburg and BridgeValley was $97,101 and $6,197, respectively. Interest earned during fiscal year 2015 for the notes related to Parkersburg and BridgeValley was $105,964 and $6,763, respectively. This interest is recorded as investment income on the statement of revenues, expenses, and changes in net position.

Deferred Maintenance Funding — In 2006, the Commission provided funding for deferred maintenance projects to institutions with approved projects that could also provide a 50% match in funding. The total cost for the WVUIT projects was $1,925,000. The University agreed to loan WVUIT the 50% match of $962,500 for these projects at zero percent interest for a term of ten years.

Beginning in fiscal year 2009, when BridgeValley became a separate entity from the University, the BridgeValley portion of the Deferred Maintenance Loan was separated from the WVUIT portion. The remaining principal on the original loan was $673,750 of which $393,750 was allocated to WVUIT and $280,000 was allocated to BridgeValley with both loans having remaining terms of seven years.

The outstanding notes receivable due from BridgeValley at June 30, 2015 was $40,000. This note receivable was paid in full during fiscal year 2016.

h. *West Virginia Campus Housing, LLC ("WVCH")* — In fiscal year 2013, the University entered into a public-private arrangement with Paradigm and WVCH for the design, construction, financing, management and operation of University Place (student housing and commercial facilities). In October 2012, the University acquired 39 parcels of real property with improvements from Paradigm in the Sunnyside area for $14.6 million. Subsequently, in February 2013, the University entered into lease and development, sublease and joint operating agreements with Paradigm and WVCH. This project was completed in November 2014, and in accordance with the lease and development agreement, WVCH transferred buildings in the amount of $75.4 million, and non-capital furniture and equipment in the amount of $2.1 million, to the University during fiscal year 2015.

After making inquiries of WVCH in fiscal year 2016, the University became aware that WVCH had spent an additional $14.6 million on capital assets (buildings, land improvements and infrastructure) and $0.2 million on non-capital items (furniture and equipment) forming part of University Place. Per the lease and development agreement, since the University has and owns the title to all improvements forming part of University Place, these assets were transferred to the University and are reported as part of the University's total capital assets on the statement of net position, and the non-capital items are reported on the University's statement of revenues, expenses and changes in net position.

i. *American Campus Communities Operating Partnership, LLP* — In fiscal year 2014, the University entered into an agreement with American Campus Communities Operating Partnership, LLP ("ACC") to finance, design, construct, furnish, equip, and operate a student housing facility. The agreement will be in place for 40 years with the option to extend the agreement for two additional 10 year terms, at which time the facility is required to be returned back to the University in substantially the same condition it was transferred to them at the start of the agreement. This project was completed at the start of the fall semester 2014. The agreement stipulates that ACC OP will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.

j. *University Park at Evansdale, LLC ("UPE")* — In fiscal year 2014, the University entered into a public-private arrangement with UPE for the development, financing, construction and management of University Park (student housing and commercial facilities). Per this agreement, the University will lease the land to UPE. UPE will construct improvements upon the land and transfer the improvements to the University. The University will lease the land, improvements and personal property located on the premises to UPE. The agreement will be in place for 40 years with a guaranteed option to renew for a term equal to the remaining term of any leasehold deed of trust then outstanding, if any, plus 15 years and an option to extend the agreement for one additional term of 10 years. This project was completed in August 2015. The agreement stipulates that UPE will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.

k. *Downtown Campus Parking Associates ("DCPA")* — In fiscal year 2013, the University entered into a public-private arrangement with Paradigm and WVCH for the development, financing, construction and management of student housing facilities and various amenities including commercial and parking facilities (known as University Place). WVCH entered into an agreement with DCPA (an affiliate of WVCH) to sublease the certain portion of real property and delegate, transfer and assign its duties and obligations under the lease and development agreement with the University for the acquisition, design, development, financing, construction and operation of the parking facilities project. Under this agreement, DCPA constructed and transferred ownership of certain parking facility improvements, including a 500 space parking garage with first floor commercial space. This project was completed in November 2015 and DCPA transferred the garage building and parking equipment in the amount of $17.9 million to the University in fiscal year 2016.

The parking facilities sublease agreement stipulates that the University will remit 100% of net revenues received from the operation of the parking facilities to DCPA as lease payments, not to exceed DCPA's scheduled principal and interest on the parking facilities financing for the current year plus its net operating margin (deficit) from the parking facilities project. If the University's net revenues from the operation of the parking facilities are insufficient to meet DCPA's debt-service and operating needs, the University will make additional lease payments in the amount of the shortfall, which will be owed back to the University from housing revenues of WVCH. Accordingly, the University recorded lease payments of $43,927 and additional lease payments of $288,079 to DCPA (and a corresponding accounts receivable from WVCH) as of June 30, 2016.

DCPA obtained financing for the project in an amount not to exceed $40.0 million. WVU's understanding is that up to $24.0 million was to construct the parking garage and the remaining $16.0 million was to be used to acquire additional property and to construct a surface lot on the additional property. The University has become aware that $14.0 million of the $16.0 million was used to make improvements to the WVCH property. It is the position of the University that it is only required to cover any shortfall on the $24.0 million allocated to the parking garage.

l. *WVU Connector, LLC* — In fiscal year 2014, the University entered into a public-private arrangement with WVU Connector for the development of certain real property owned by the University on its Evansdale campus for a full service student support services project, amenities and limited commercial development (Evansdale Crossing). According to this agreement, the University will lease the property to WVU Connector and WVU Connector will construct improvements upon the property. The initial term of the lease will be for 40 years with the option to extend the lease term for two additional terms of 10 years. The project was completed in December 2015. The agreement stipulates that WVU Connector will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.

21. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED

The Foundation is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose "to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . ." Oversight of the Foundation is the responsibility of an independently elected Board of Directors. 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. The Foundation does not meet the criteria for determination as a component unit of the University as described by GASB. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University's endowments are under the control and management of the Foundation.

The Foundation's assets totaled $1.4 billion and $1.5 billion at June 30, 2016 and 2015, respectively, with net assets of $774.8 million and $803.7 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled $55.8 million and $86.0 million in fiscal years 2016 and 2015, respectively.

Total funds expended by the Foundation in support of University activities totaled $76.6 million and $62.8 million in fiscal years 2016 and 2015, respectively. This support is primarily recorded as gifts and capital grants and gifts and the related expenditures are primarily recorded as salaries and wages, benefits and capital assets in the University's financial statements.

22. SERVICE CONCESSION ARRANGEMENT

The University has identified one contract for services that meets the four criteria of a service concession arrangement (SCA) per GASB Statement No. 60, *"Accounting and Financial Reporting for Service Concession Arrangements"*. SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided and the government retains ownership of the assets at the end of the contract.

This contract is with ACC OP (College Park, WV) LLC. Per the contract, ACC OP financed, designed, constructed, furnished and equipped a student housing facility. This facility was completed at the start of the fall semester 2014. The agreement will be in place for 40 years with the option to extend the agreement for two additional 10 year terms, at which time the facility will be returned to the University in substantially the same condition as it was when transferred to them at the start of the agreement. The agreement stipulates that the ACC OP will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University. Per the operating agreement, the University will provide certain services including marketing, lease management, billing, collections, security, parking enforcement and other services, and will receive a management fee for providing such services.

During fiscal year 2015, the University recorded a capital asset with a fair market value of $34,952,000 and a deferred inflow of resources. This deferred inflow is being amortized to auxiliary revenue over the term of the agreement (40 years). The University has recorded an accounts receivable of $199,000 and $295,000 at June 30, 2016 and 2015, respectively, for reimbursable project expenses. At June 30, 2016, the University recognized management fee revenue and its share of the net revenue of $20,000 and $346,000, respectively. At June 30, 2015, the University recognized management fee revenue and its share of the net revenue of $12,000 and $547,000, respectively. This revenue included in revenue from auxiliary enterprises on the statement of revenues, expenses and changes in net position.

23. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2016 or 2015.

The University owns various buildings that are known to contain asbestos. The University is not required by Federal, State or Local law to remove the asbestos from its buildings. The University is required under Federal Environmental, Health and Safety regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated, as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

At June 30, 2016 and 2015, the University has recorded a liability of $816,000 and $1.3 million, respectively, for asbestos removal in accordance with the provisions of GASB.

The University has consented to the reduction of its distributions from future Big 12 revenues (of which, $3 million and $4 million is recorded as an other noncurrent liability as of June 30, 2016 and June 30, 2015, respectively) if the Foundation does not make required payments under its $10 million promissory note with the Big 12.

24. SUBSEQUENT EVENTS

On December 15, 2016, the Corporation closed on a note payable for $36,090,000. The proceeds of the loan were used to reimburse the University for the purchase of the Beckley campus as well as for capital improvements to the campus. Additionally, the proceeds include capital interest of $3,000,000 as the loan will have a capitalized interest period of three years.

The amortization term is 30 years. The interest rate is set for 5-year increments beginning with a rate of 3.11% fixed for the first five years and a spread to the 5-year constant U.S. Treasury Maturity rate thereafter. The spread is based on the University's rating with Moody's.

On August 9, 2016, the Corporation entered into a lease agreement with the University for the lease of assets required by the University for the operation of the Beckley campus. This agreement was amended on December 15, 2016 to reflect an increase in the principal amount of the loan. The base rentals are to equal the principal and interest payments on the loan with the appropriate credit reflected during the three-year capitalized interest period.

25. BLENDED COMPONENT UNIT

As described in Note 2, the following presents the condensed financial statements as of June 30 (in thousands):

2016
Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
Assets					
Current Assets	$ 200,425	$ 58,708	$ 605	$ -	$ 259,738
Accounts Receivable - Corporation	9,086	-	-	(9,086)	-
Accounts Receivable - WVUIC, Current Portion	-	183	-	(183)	-
Total Noncurrent Assets	209,511	58,891	605	(9,269)	259,738
Capital Assets, net	1,708,458	50,609	1,049	-	$ 1,760,116
Accounts Receivable - WVUIC	-	1,586	-	(1,586)	-
Other Noncurrent Assets	168,506	2,287	2,209	-	173,002
Total Noncurrent Assets	1,876,964	54,482	3,258	(1,586)	1,933,118
Total Assets	$ 2,086,475	$ 113,373	$ 3,863	$ (10,855)	$ 2,192,856
Deferred Outflows of Resources	$ 14,645	$ -	$ -	$ -	$ 14,645
Total Assets and Deferred Outflows of Resources	$ 2,101,120	$ 113,373	$ 3,863	$ (10,855)	$ 2,207,501
Liabilities and Deferred Inflows of Resources					
Current Liabilities	$ 174,153	$ 36,810	$ 977	$ -	$ 211,940
Accounts Payable - WVU	-	9,086	-	(9,086)	-
Accounts Payable - WVUIC, Current Portion	(439)	-	622	(183)	-
Total Current Liabilities	174,153	45,896	977	(9,086)	211,940
Noncurrent Liabilities	939,024	18,869	2,214	-	960,107
Accounts Payable - WVUIC	-	-	1,586	(1,586)	-
Total Noncurrent Liabilities	939,024	18,869	3,800	(1,586)	960,107
Total Liabilities	$ 1,113,177	$ 64,765	$ 3,191	$ (9,086)	$ 1,172,047
Deferred Inflows of Resources	$ 40,404	$ 431	$ -	$ -	$ 40,835
Total Liabilities and Deferred Inflows of Resources	$ 1,153,581	$ 65,196	$ 3,191	$ (9,086)	$ 1,212,882
Net Position					
Net Investment in Capital Assets	$ 1,066,671	$ 18,548	$ -	$ -	$ 1,085,219
Restricted Nonexpendable	16,836	-	-	-	16,836
Restricted Expendable	7,743	-	-	-	7,743
Unrestricted Net Deficit	(143,272)	29,629	(1,536)	-	(115,179)
Total Net Position	$ 947,978	$ 48,177	$ (1,536)	$ -	$ 994,619

2016
Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	Eliminations	WVU Combined
Operating Revenues					
Student Tuition and Fees, net	$ 385,121	$ -	$ -	$ -	$ 385,121
Federal Land Grants	8,055	-	-	-	8,055
Local Land Grants	1,147	-	-	-	1,147
Federal Grants and Contracts	9,570	67,522	550	-	77,642
State Grants and Contracts	10,626	28,024	-	-	38,650
Local Grants and Contracts	22	314	-	-	336
Nongovernmental Grants and Contracts	35,858	21,216	472	-	57,546
Sales and Services of Educational Departments	18,274	427	-	-	18,701
Auxiliary Enterprises, net	154,607	-	-	-	154,607
Interest on Student Loans Receivable	842	-	-	-	842
Net Operating Revenue from the Corporation	14,378	-	-	(14,378)	-
Net Operating Revenue from WVUIC	-	183	-	(183)	-
Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's	389	-	-	-	389
Other Operating Revenues	9,260	214	1	-	9,475
Total Operating Revenues	648,149	117,900	1,023	(14,561)	752,511
Operating Expenses					
Depreciation and Amortization	81,247	1,264	12	-	82,523
Net Operating Expenses to WVU	-	14,378	-	(14,378)	-
Net Operating Expenses to the Corporation	(1,012)	-	1,195	(183)	-
Other Operating Expenses	856,079	114,094	1,352	-	971,525
Total Operating Expenses	936,314	129,736	2,559	(14,561)	1,054,048
Operating (Loss) Income	(288,165)	(11,836)	(1,536)	-	(301,537)
Nonoperating Revenues (Expenses)					
State Appropriations	178,104	-	-	-	178,104
State Lottery Appropriations	3,488	-	-	-	3,488
Payments on Behalf of the University	2,803	2	-	-	2,805
Gifts	44,388	6,871	-	-	51,259
Federal Pell Grants	29,890	-	-	-	29,890
Investment Income	1,744	305	-	-	2,049
Interest on Capital Asset-Related Debt	(21,742)	(314)	-	-	(22,056)
Assessments by Commission for Debt Service	(6,169)	-	-	-	(6,169)
Debt Issuance Costs	(40)	-	-	-	(40)
Other Nonoperating Expenses - Net	1,720	-	-	-	1,720
Net Nonoperating Revenues	234,186	6,864	-	-	241,050
Gains, or Losses	(53,979)	(4,972)	(1,536)	-	(60,487)
Capital Grants and Gifts	162,711	561	-	-	163,272
Capital Bond Proceeds from State	-	-	-	-	-
Bond/Capital Projects Proceeds					-
from the Higher Education Policy Commission	356	-	-	-	356
Transfer of Assets to the University	5,318	(5,318)	-	-	-
Transfer of Assets (from) to the University	(422)	422	-	-	-
Increase in Net Position	167,963	(9,307)	(1,536)	-	103,141
Net Position at Beginning of Year	833,994	57,484	-	-	891,478
Net Position at End of Year	$ 1,001,957	$ 48,177	$ (1,536)	$ -	$ 994,619

2016
Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	WVU Innovation Corporation	WVU Combined
Cash Provided By (Used In):				
Operating Activities	$ (190,412)	$ (12,862)	$ (1,259)	$ (204,533)
Noncapital Financing Activities	254,903	6,552	-	261,455
Capital Financing Activities	(179,238)	4,968	2,089	(172,181)
Investing Activities	76,731	140	(774)	76,097
Increase (Decrease) in Cash and Cash Equivalents	$ (38,016)	$ (1,202)	$ 56	$ (39,162)
Cash and Cash Equivalents, Beginning of Year	$ 160,791	$ 25,136	$ -	$ 185,927
Cash and Cash Equivalents, End of Year	$ 122,775	$ 23,934	$ 56	$ 146,765

2015
Statement of Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
Assets				
Current Assets	$ 152,911	$ 48,261	$ -	$ 201,172
Accounts Receivable - Corporation - Current Portion	9,024	-	(9,024)	-
Total Current Assets	161,935	48,261	(9,024)	201,172
Capital Assets, net	1,481,003	50,266	-	1,531,269
Accounts Receivable - Corporation	-	-	-	-
Other Noncurrent Assets	329,180	10,403	-	339,583
Total Noncurrent Assets	1,810,183	60,669	-	1,870,852
Total Assets	$ 1,972,118	$ 108,930	$ (9,024)	$ 2,072,024
Deferred Outflows of Resources	$ 15,336	$ -	$ -	$ 15,336
Total Assets and Deferred Outflows of Resources	$ 1,987,454	$ 108,930	$ (9,024)	$ 2,087,360
Liabilities and Deferred Inflows of Resources				
Current Liabilities	$ 155,442	$ 22,333	$ -	$ 177,775
Accounts Payable - WVU - Current Portion	-	9,024	(9,024)	-
Total Current Liabilities	155,442	31,357	(9,024)	177,775
Noncurrent Liabilities	960,890	19,613	-	980,503
Total Liabilities	$ 1,116,332	$ 50,970	$ (9,024)	$ 1,158,278
Deferred Inflows of Resources	$ 37,128	$ 476	$ -	$ 37,604
Total Liabilities and Deferred Inflows of Resources	$ 1,153,460	$ 51,446	$ (9,024)	$ 1,195,882
Net Position				
Net Investment in Capital Assets	$ 914,410	$ 29,527	$ -	$ 943,937
Restricted Nonexpendable	17,398	-	-	17,398
Restricted Expendable	7,707	-	-	7,707
Unrestricted Net Deficit	(105,521)	27,957	-	(77,564)
Total Net Position	$ 833,994	$ 57,484	$ -	$ 891,478

2015
Statement of Revenues, Expenses and Changes in Net Position

	WVU Excluding Component Unit	WVU Research Corporation	Eliminations	Total
Operating Revenues				
Student Tuition and Fees, net	$ 370,791	$ -	$ -	370,791
Federal Land Grants	8,140	-	-	8,140
Local Land Grants	1,297	-	-	1,297
Federal Grants and Contracts	7,173	62,022	-	69,195
State Grants and Contracts	11,414	27,483	-	38,897
Local Grants and Contracts	12	205	-	217
Nongovernmental Grants and Contracts	28,311	25,819	-	54,130
Sales and Services of Educational Departments	17,004	536	-	17,540
Auxiliary Enterprises, net	148,606	-	-	148,606
Interest on Student Loans Receivable	893	-	-	893
Net Operating Revenue from the Corporation	3,040	-	(3,040)	-
Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's	388	-	-	388
Other Operating Revenues	7,713	131	-	7,844
Total Operating Revenues	604,782	116,196	(3,040)	717,938
Operating Expenses				
Depreciation and Amortization	77,386	1,114	-	78,500
Net Operating Expenses to WVU	-	3,040	(3,040)	-
Other Operating Expenses	812,903	110,120	-	923,023
Total Operating Expenses	890,289	114,274	(3,040)	1,001,523
Operating (Loss) Income	(285,507)	1,922	-	(283,585)
Nonoperating Revenues (Expenses)				
State Appropriations	189,379	-	-	189,379
State Lottery Appropriations	3,538	-	-	3,538
Payments on Behalf of the University	4,073	31	-	4,104
Gifts	31,140	3,612	-	34,752
Federal Pell Grants	30,444	-	-	30,444
Investment Income	2,718	116	-	2,834
Interest on Capital Asset-Related Debt	(20,936)	(354)	-	(21,290)
Assessments by Commission for Debt Service	(6,087)	-	-	(6,087)
Debt Issuance Costs	(712)	-	-	(712)
Other Nonoperating Revenues - Net	(326)	-	-	(326)
Net Nonoperating Revenues	233,231	3,405	-	236,636
(Loss) Income before Other Revenues, Expenses, Gains, or Losses	(52,276)	5,327	-	(46,949)
Capital Grants (Federal)	-	-	-	-
Capital Bond Proceeds from State	6	-	-	6
Bond/Capital Projects Proceeds from the Higher Education Policy Commission	1,646	-	-	1,646
Gain from Early Extinguishment of Debt	-	-	-	-
Transfer of Assets to the University	6,930	(6,930)	-	-
Transfer of Assets from the University	(8,225)	8,225	-	-
Increase in Net Position	39,464	10,185	-	49,649
Net Position at Beginning of Year	808,357	47,299	-	855,656
Cumulative Effect of Change in Accounting Principle	(13,827)	-	-	(13,827)
Net Position at Beginning of Year, as Restated	794,530	47,299	-	841,829
Net Position at End of Year	$ 833,994	$ 57,484	$ -	$ 891,478

2015
Statement of Cash Flows

	WVU Excluding Component Unit	WVU Research Corporation	WVU Total
Cash Provided By (Used In):			
Operating Activities	$ (197,341)	$ 4,522	$ (192,819)
Noncapital Financing Activities	254,706	3,613	258,319
Capital Financing Activities	(7,124)	(4,595)	(11,719)
Investing Activities	(115,387)	(47)	(115,434)
Increase (Decrease) in Cash and Cash Equivalents	$ (65,146)	$ 3,493	$ (61,653)
Cash and Cash Equivalents, Beginning of Year	$ 225,937	$ 21,643	$ 247,580
Cash and Cash Equivalents, End of Year	$ 160,791	$ 25,136	$ 185,927

26. SEGMENT INFORMATION

See Note 12 for descriptive information for the University’s segment.

Condensed financial information for each of the University’s segments follow:

(Dollars in Thousands)

	AUXILIARIES As of/Year Ended 2016	AUXILIARIES As of/Year Ended 2015
CONDENSED SCHEDULES OF NET POSITION		
Assets and Deferred Outflows of Resources:		
Current Assets	$ 59,391	$ 64,861
Noncurrent and Capital Assets *	1,100,770	960,341
Total Assets	1,160,161	1,025,202
Deferred Outflows of Resources:		
Deferred Loss on Refunding	13,448	13,958
Deferred Outflows Related to Pensions	86	86
Total Assets and Deferred Outflows of Resources	$ 1,173,695	$ 1,039,246
Liabilities, Deferred Inflows, and Net Position:		
Current Liabilities	$ 56,616	$ 44,093
Long-Term Liabilities	666,872	687,210
Total Liabilities	723,488	731,303
Deferred Inflows of Resources:		
Deferred service concession arrangements	37,889	34,151
Deferred inflows related to pensions	179	179
Total Liabilities and Deferred Inflows of Resources	$ 761,556	$ 765,633
Net Position:		
Net investment in capital assets	$ 486,844	$ 332,870
Restricted	113,211	195,591
Unrestricted	(187,916)	(254,848)
Total Net Position	$ 412,139	$ 273,613
CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Auxiliary and Capital Fees	$ 30,699	$ 31,333
Operating Revenues	137,320	131,472
Operating Expenses	(157,860)	(139,374)
Net Operating Income	10,159	23,431
Nonoperating Revenues/Expenses:		
Investment Income	799	911
Net Transfers (from) to Other Funds	(2,016)	2,536
Other Nonoperating Income	138,995	85,788
Gifts	16,394	12,222
Other Nonoperating Expenses	(4,113)	(6,419)
Interest Expense *	(21,692)	(19,311)
Increase in Net Position	138,526	99,158
Net Position - Beginning of Year	273,613	174,455
Net Position - End of Year	$ 412,139	$ 273,613

(continued)

CONDENSED SCHEDULES OF CASH FLOWS		
Net Cash Provided by Operating Activities	$ 27,008	$ 4,292
Net Cash Flows Provided by Noncapital Financing Activities	16,394	12,222
Net Cash Flows Used in Capital and Related Financing Activities	(57,324)	(54,994)
Net Cash Flows Provided by Investing Activities	833	576
Decrease in Cash	(13,089)	(37,904)
Cash - Beginning of Year	109,944	147,848
Cash - End of Year	$ 96,855	$ 109,944
Reconciliation of cash		
Cash classified as current assets	$ 50,917	$ 57,316
Cash classified as noncurrent assets	45,939	52,628
	$ 96,856	$ 109,944

* Interest of $2,160,000 and $1,675,000 was capitalized for fiscal year 2016 and 2015, respectively.

27. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

The University's operating expenses by functional and natural classification are as follows:

Year Ended June 30, 2016
Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Other Operating Expenses	Total
Instruction	$ 215,079	$ 64,288	$ -	$ 306	$ 30,514	$ -	$ -	$ -	$ 187	$ 310,374
Research	62,243	26,777	-	78	40,957	-	-	-	49	130,104
Public Service	35,042	8,773	-	160	14,254	-	-	-	36	58,265
Academic Support	26,478	6,528	-	98	13,648	-	-	-	13	46,765
Student Services	21,601	9,217	-	32	13,302	-	-	-	45	44,197
Operation and Maintenance of Plant	23,615	8,916	-	20,588	31,567	-	-	-	85	84,771
General Institutional Support	60,188	15,936	-	52	48,055	-	-	-	721	124,952
Student Financial Aid	-	-	42,572	-	-	-	-	-	-	42,572
Auxiliary Enterprises	46,614	9,359	-	7,111	62,831	-	-	-	396	126,311
Depreciation and Amortization	-	-	-	-	-	82,523	-	-	-	82,523
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,803	-	2,803
Allocations to the Policy Commission	-	-	-	-	-	-	-	-	-	-
Waivers in Support of Other State Institutions	-	-	-	-	-	-	-	-	-	-
Other Operating Expenses	-	-	-	-	-	-	-	-	-	-
Loan Cancellations and Write Offs	-	-	-	-	-	-	411	-	-	411
Total Expenses	$ 490,860	$ 149,794	$ 42,572	$ 28,425	$ 255,128	$ 82,523	$ 411	$ 2,803	$ 1,532	$ 1,054,048

Year Ended June 30, 2015
Natural Classification

Functional Classification	Salaries & Wages	Benefits	Scholarships & Fellowships	Utilities	Supplies & Other Services	Depreciation and Amortization	Loan Cancellations & Write Offs	Assessments by the Commission	Other Operating Expenses	Total
Instruction	$ 204,449	$ 61,932	$ -	$ 256	$ 30,248	$ -	$ -	$ -	$ 40	$ 296,925
Research	62,730	28,122	-	411	39,042	-	-	-	-	130,305
Public Service	34,774	8,731	-	164	14,587	-	-	-	183	58,439
Academic Support	25,006	6,048	-	106	13,675	-	-	-	11	44,846
Student Services	20,376	8,529	-	31	11,667	-	-	-	-	40,603
Operation and Maintenance of Plant	23,426	8,732	-	20,610	20,824	-	-	-	-	73,592
General Institutional Support	56,745	15,201	-	36	42,158	-	-	-	307	114,447
Student Financial Aid	-	-	37,858	-	-	-	-	-	-	37,858
Auxiliary Enterprises	46,295	9,330	-	7,618	59,137	-	-	-	399	122,779
Depreciation and Amortization	-	-	-	-	-	78,500	-	-	-	78,500
Assessments by Commission for Operations	-	-	-	-	-	-	-	2,837	-	2,837
Loan Cancellations and Write Offs	-	-	-	-	-	-	392	-	-	392
Total Expenses	$ 473,801	$ 146,625	$ 37,858	$ 29,232	$ 231,338	$ 78,500	$ 392	$ 2,837	$ 940	$ 1,001,523

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF NET PENSION LIABILITY AND CONTRIBUTIONS

Schedule of Proportionate Share of TRS Net Pension Liability (in thousands):

Measurement Date	University's Proportionate Share as a Percentage of Net Pension Liability	University's Proportionate Share	State's Proportionate Share	Total Proportionate Share	University's Covered Employee Payroll	University's Proportionate Share as a Percentage of Covered Payroll	University's Plan Fiduciary Net Position as a Percentage of Total Pension
June 30, 2015	0.299518%	$ 10,379	$ 23,682	$ 34,061	$ 4,438	233.86%	66.25%
June 30, 2014	0.326562%	$ 11,267	$ 25,456	$ 36,723	$ 4,877	231%	65.95%

Schedule of Employer Contributions (in thousands):

Measurement Date	Actuarily Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a percentage of Covered Payroll
June 30, 2015	$ 1,470	$ 1,362	$ 108	$ 4,438	30.69%
June 30, 2014	$ 1,486	$ 1,504	$ (18)	$ 4,877	30.84%

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

Notes to Required Supplementary Information
For the Year Ended June 30, 2016

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

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

Board of Governors
West Virginia University
Morgantown, 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 of West Virginia University, a campus of West Virginia Higher Education Policy Commission as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise West Virginia University's basic financial statements, and have issued our report thereon dated January 23, 2017.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Recommendations that we consider to be a significant deficiency as item 2016-001.

Compliance and Other Matters

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

West Virginia University's Response to Findings

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

Purpose of this Report

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

CliftonLarsonAllen LLP

CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
January 23, 2017

WEST VIRGINIA UNIVERSITY & DIVISIONS
SCHEDULE OF FINDINGS AND RECOMMENDATIONS
YEAR ENDED JUNE 30, 2016

2016-001:

Type of Finding: Significant Deficiency in Internal Control over Financial Reporting

Condition: During the audit, it was determined that a June 2016 expense was not recorded as of June 30, 2016. The expense was incurred prior to the end of the fiscal year, and therefore should have been recorded as a liability on the Statement of Net Position as of June 30, 2016 which was corrected during the audit.

Criteria: Management is responsible for establishing and maintaining internal controls, including monitoring, and for the fair presentation in the Statement of Net Position, Statement of Revenue, Expenses, and Changes in Net Position, and Statement of Cash Flows, including the notes to the financial statements, in conformity with accounting principles generally accepted in the United States of America. Their responsibilities include recording significant financial reporting process, including controls over procedures used to enter transaction totals into the general ledger; initiate, authorize, record, and process journal entries into the general ledger; and record recurring and nonrecurring adjustments to the financial statements.

Context: The University has a process to review subsequent disbursements to ensure any expense incurred within the fiscal year is properly recognized as accounts payable. As invoices are received, the Payment Services department enters the goods received date, based on the date of expense; the liability is booked within the respective fiscal year.

Cause: The expense in question was not processed with the appropriate date and therefore a liability was not recognized as of June 30, 2016.

Effect: This omission resulted in an adjustment to record the accounts payable and related expense as of June 30, 2016.

Recommendation: We recommend management review policies and procedures regarding the review of subsequent disbursements to ensure expenses are recognized in the proper fiscal year in which they are incurred.

2016-001 (Continued):

Management Response: As part of the FY 2016 financial statements audit, CLA indicated WVU may have a significant deficiency in internal controls related to a failure to record expenses in the correct accounting period. This observation is based on two invoices CLA discovered during their testing – one for $4,325,893.02 on the main campus and another for $165,045.04 in the Research Corporation.

WVU's current controls around subsequent disbursements include a manual review (by Payment Services) of the goods received date on all PO invoices and all other invoices greater than $25,000 during the months of July, August, and September. If the review indicates the goods were received by or services were rendered to WVU prior to June 30th, the goods received date is adjusted accordingly, so the expense can be recorded in the correct fiscal year. This process has worked adequately in capturing the subsequent disbursements. However, due to the retirement of a seasoned, 30+ year employee who normally reviewed such invoices, and cross training effort within the AP department where a new employee and an employee who was not accustomed to this review assumed the retiree's duties, coupled with Payment Services resources being stretched thin due to the implementation of new Mountaineer Market Place system during early Fall 2016, the goods received date on the above mentioned invoices was not appropriately identified and adjusted.

As noted above, WVU has already transitioned the procurement and payment of most commodities and services to an electronic system called the Mountaineer Market Place. Mountaineer Marketplace has increased WVU/WVURC's internal control structure for purchasing and payment through several different enhancements. First, an individual is assigned specific, limited permissions in the system based on a system access approval process. The system also allows for automated and auditable workflows based on that approved/controlled system access. Another major control pertains to the payment auditing/approval process within the system. The prior paper intensive process (with hand written signatures) led to confusion within the approval process and also resulted in a lack of awareness/visibility within Payment Services of pending obligations until the paper invoice was delivered by the colleges. Mountaineer Marketplace allows for Payment Services to generate real time reports to confirm outstanding obligations, outstanding goods receipts, etc. along with detailed visibility into the history of the entire procure to pay process (i.e. requisition to purchase order to invoice). The system also has a robust reporting module, which provides detailed and instant visibility into the history of the entire procure to pay process (i.e. requisition to purchase order to invoice).

In addition to the enhanced controls within Mountaineer Marketplace, WVU will institute additional controls around the subsequent disbursement process. The initial review of invoices for good received date will be followed by a second review by the Manager of Payment Services; and Payment Services will generate multiple reports from the Mountaineer Market Place to identify and monitor invoices that could potentially be related to the prior year. WVU will also ensure that all personnel involved in this process receive adequate training to understand their responsibilities and the testing process.

The University feels confident these additional controls should mitigate the risk of failure to record expense in the correct fiscal year.