

West Virginia State University

Financial Statements as of and for the Years Ended
June 30, 2018 and 2017, and Independent Auditors'
Reports

WEST VIRGINIA STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

Board of Governors
West Virginia State University
Institute, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of West Virginia State University and its discretely presented component unit, a component unit of the West Virginia Higher Education Policy Commission, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the West Virginia State University Foundation, a discretely presented component unit of West Virginia State University, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Additionally, we did not audit the financial statements of the West Virginia State University Research and Development Corporation, a blended component unit of West Virginia State University, which represent 4%, 4%, and 30%, respectively, of the assets, net position, and revenues of the statements of West Virginia State University. Those statements were audited by other auditors whose report has been furnished to us, and our opinions, insofar as it relates to the amounts included for West Virginia State University and the discretely presented component unit, are based solely on the reports of the other auditors. We and the auditors of the West Virginia State University Research and Development Corporation, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the West Virginia State University Foundation, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

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, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the financial statements of West Virginia State University and its discretely presented component unit as of June 30, 2018 and 2017 and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

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

Other Matters

Required Supplementary Information

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

Other Information

The certificate of regarding debt service coverage as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 25, 2018, on our consideration of the West Virginia State 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 solely 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 the effectiveness of 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 State University’s internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 25, 2018

West Virginia State University
Management's Discussion and Analysis (Unaudited)
For the Year Ended June 30, 2018

HISTORY OF WEST VIRGINIA STATE UNIVERSITY

West Virginia State University was founded under the provisions of the Second Morrill Act of 1890 as the West Virginia Colored Institute, one of 17 land-grant institutions authorized by Congress and designated by the states to provide for the education of black citizens in agriculture and the mechanical arts. West Virginia was one of the states that maintained segregated educational systems at that time.

From 1891 to 1915, the original Institute offered the equivalent of a high school education, vocational training and teacher preparation. In 1915 the West Virginia Collegiate Institute began to offer college degrees. Under the leadership of President John W. Davis, the academic program was expanded and new buildings were constructed, and in 1927 the institution was accredited by the North Central Association. In 1929, it became West Virginia State College (WVSC). Over the next decades, WVSC became recognized as one of the leading public institutions of higher education for blacks in the country.

In 1954 the United States Supreme Court gave its historic decision in *Brown vs. Board of Education* outlawing school segregation. The consequence of this decision for West Virginia State College was a rapid transition to an integrated institution serving a multiracial, multi-generational commuting student population. This shift in student population and mission occurred in part due to demographics and in part due to efforts made by the college administration to reverse a decline in enrollment during the early 1950's. Enrollment quadrupled during the following decades.

Meanwhile, by a decision of the West Virginia Board of Education, WVSC was compelled to surrender its land-grant status, the only one of the 1890 institutions to do so. Only after a 12-year quest was the college's land-grant status fully restored, in 2001 by act of Congress signed by President Bill Clinton.

In 2004, WVSC was granted university status by the West Virginia Legislature along with three other public four-year colleges and renamed West Virginia State University. The same piece of legislation (SB 448) also called for re-organization of community and technical colleges throughout the state which eventually led to WVSC's community and technical college component becoming a separate institution, Kanawha Valley Community and Technical College.

The first half-century of the history of WVSU epitomizes the long struggle of African-Americans for educational opportunity and political, social and economic equality. While desegregation changed the racial proportions of the student body, faculty and staff, WVSU still emphasizes the diversity of its people and derives important values and elements of its mission from its tradition as a historically black college. The motto "A Living Laboratory of Human Relations" is still a relevant depiction of West Virginia State University.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

West Virginia State University (the “University”) is pleased to present the financial statements for the year ended June 30, 2018. The information also includes the West Virginia State University Research and Development Corporation (the “Corporation”). The West Virginia State University Foundation is included as a discretely presented component unit.

There are three financial statements presented: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows.

The required, supplementary information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2018.

The Governmental Accounting Standards Board (GASB) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously, the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University.

STATEMENTS OF NET POSITION

The purpose of the University’s Statements of Net Position is to take a snapshot of the financial statements at a point in time. This statement shows the assets, deferred outflows, liabilities, deferred inflows, and net position of the University as of June 30, 2018.

The year-end data regarding assets (current and noncurrent) and deferred outflows, liabilities (current and noncurrent) and deferred inflows of resources and net position (assets and deferred outflows minus liabilities and deferred inflows) is also presented in the financial statements. The difference between current and noncurrent assets, deferred outflows, liabilities, and deferred inflows of resources are discussed in the note section of the financial statements.

By reviewing the Statement of Net Position, the reader is able to ascertain the assets available to continue the operations of the University. Also, readers can see data presented in a way to discern how much the institution owes vendors, employees and lending institutions. In addition, the Statement of Net Position offers an overview picture of the net position (assets and deferred outflows of resources minus liabilities and deferred inflow of resources) and the availability of the assets to utilize for future expenditure by the University.

Net position is divided into four major types:

- Net Investment in Capital Assets: net book value of the University’s capital assets less any related debt.
- Restricted Net Position — The restricted component of net position consists of restricted assets and deferred outflows of resources reduced by liabilities and deferred inflows of resources related to those assets. This includes amounts restricted for use in capital projects and for loans to students by various agreements, as well as amounts required to be held for use in debt service on outstanding bonds as outlined in Bond Trust Indenture.
 - a. Nonexpendable — The nonexpendable component of net position is permanently restricted, and only the income from such resources can be used. The University does not have such assets as of June 30, 2018 or 2017.
 - b. Expendable — The expendable component of net position is available for expenditures as determined by donors and/or external entities in regard to time or purpose.
- Unrestricted: The unrestricted component of net position is the net amount of assets available to this institution to utilize for any lawful purpose.

Condensed Schedules of Net Position

	FY 2018	FY 2017	Difference	FY 2016
Assets				
Total current assets	\$5,453,349	\$5,474,608	\$ (21,259)	\$4,831,243
Total non-current assets	<u>81,036,442</u>	<u>79,869,615</u>	<u>1,166,827</u>	<u>78,914,853</u>
Total assets	\$86,489,791	\$85,344,223	\$ 1,145,568	\$83,746,096
Deferred Outflows	<u>910,352</u>	<u>328,061</u>	<u>582,291</u>	<u>121,518</u>
Total Assets and Deferred Outflows	<u>\$87,400,143</u>	<u>\$85,672,284</u>	<u>\$ 1,727,859</u>	<u>\$83,867,614</u>
Liabilities				
Total current liabilities	\$10,351,068	\$12,019,732	\$ (1,668,664)	\$7,647,390
Total non-current liabilities	<u>42,920,663</u>	<u>48,635,527</u>	<u>(5,714,864)</u>	<u>48,743,200</u>
Total liabilities	\$ 53,271,731	\$60,655,259	\$ (7,383,528)	\$56,390,590
Deferred Inflows	<u>1,966,901</u>	<u>162,505</u>	<u>1,804,396</u>	<u>253,543</u>
Total Liabilities and Deferred Inflows	<u>\$ 55,238,632</u>	<u>\$60,817,764</u>	<u>\$ (5,579,132)</u>	<u>\$56,644,133</u>
Net Position				
Net investment in capital assets	\$44,446,116	\$44,263,400	\$ 182,716	\$44,727,317
Restricted expendable-debt service	365,052	357,354	7,698	354,355
Restricted expendable-other	(379,513)	(343,539)	(35,984)	22,315
Unrestricted (deficit)	<u>(12,270,146)</u>	<u>(18,868,477)</u>	<u>6,598,331</u>	<u>(17,880,506)</u>
Total net position	<u>\$32,161,509</u>	<u>\$24,854,517</u>	<u>\$ 7,306,992</u>	<u>\$27,223,481</u>
Total liabilities and net position	<u>\$87,400,143</u>	<u>\$85,672,280</u>	<u>\$ 1,727,863</u>	<u>\$83,867,614</u>

Assets:

Total assets for fiscal year 2018 increased from fiscal year 2017 by \$1.1 million. This was caused by the increase in investment of capital assets, net, of \$1.2 million. Total current liabilities of resources of \$10.3 million exceeded total current assets of \$5.5 million, for a net working capital of \$(4.8) million.

Total assets for fiscal year 2017 increased from fiscal year 2016 by \$1.6 million. This was caused by the increase in in accounts receivable of \$1.8 million. Total current liabilities of resources of \$11.9 million exceeded total current assets of \$5.5 million, for a net working capital of \$(6.4) million.

Liabilities:

Total liabilities for fiscal year 2018 increased by \$7.4 million over fiscal year 2017. Most of the difference is a decrease in OPEB Liability of \$10.3 million and an increase of Net Pension Liability of \$5.4 million.

Total liabilities for fiscal year 2017 increased by \$4.3 million over fiscal year 2016. Most of the difference is an increase in current liabilities of \$4.2 million and a decrease of \$0.4 million in noncurrent liabilities, which is mainly related to a \$2.8 million increase in accounts payable, a \$1 million increase in Notes Payable Current, and a \$.5 million increase in deferred revenue.

Net Position:

The largest difference in net position for fiscal year 2018 is the Unrestricted Net Assets category as a result of decrease for OPEB Liability and increase in Net Pension Liability compared to 2017.

The largest difference in net position for fiscal year 2017 is the net investment in capital assets category as a result of depreciation expense and decrease of cash compared to 2016.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The purpose of the Statements of Revenues, Expenses and Changes in Net Position is to present the operating and non-operating revenues earned and expenses incurred by the University and any other revenues, expenses, gains and losses of the University.

Operating revenues are earned by providing goods and services to the various customers and constituencies of the University. Operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the University.

Revenues for which goods and services are not provided are reported as non-operating revenues. For example, State of West Virginia (the "State") appropriations are non-operating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Condensed Schedules of Revenues, Expenses and Changes in Net Position

	FY 2018	FY 2017	Difference	FY 2016
Operating Revenues	\$28,955,372	\$28,262,960	\$ 692,412	\$30,209,543
Operating Expenses	44,644,891	51,016,383	(6,371,492)	49,777,732
Operating Loss	(15,689,519)	(22,753,423)	7,063,904	(19,568,189)
Nonoperating Revenues Net	13,877,540	16,001,487	(2,123,947)	14,505,119
Income before other revenue, expenses, gains or losses	(1,811,979)	(6,751,936)	4,939,957	(5,063,070)
Capital gifts and Grants	4,905,013	3,916,627	988,386	273,894
Capital Payments Behalf	976,089	466,348	509,741	480,877
(Decrease) Increase in Net Position	4,069,123	(2,368,961)	6,438,094	(3,970,016)
Net Position, beginning of year	24,854,520	27,223,481	(2,368,961)	31,193,497
Restatement/change in accounting principal	3,237,866	-	3,237,866	-
Net Position, beginning of year as restated	28,092,386	27,223,481	868,905	31,193,497
Net position, end of year	\$32,161,509	\$24,854,520	\$ 7,306,989	\$27,223,481

Operating Revenues:

Operating revenues increased by \$0.7 million for fiscal year 2018 as a result of increase federal grants by \$0.5 million and auxiliary revenue increased by \$0.2 million.

Operating revenues decreased by \$(1.9) million for fiscal year 2017 as a result of decreased federal grants by \$(1.5) million and state grant revenue decreased by \$(0.3) million.

Operating Expenses:

Operating expenses decreased in 2018 by about \$(6.4) million. The decrease in fiscal year 2017 salaries and benefits of \$(1.3) million, and student financial aid decrease of \$(1.9) million and decrease in supplies and other expense of \$(3.0) million, were the significant changes for operating expenses.

Operating revenues in fiscal year 2018 of \$28.9 million compared to operating expenses of \$44.6 million resulted in an operating loss of \$15.7 million. Although State Appropriations of \$11.1 million are counted as non-operating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

Operating expenses increased in 2017 by about \$1.2 million. The decrease in fiscal year 2017 salaries and benefits of \$(0.7) million, and student financial aid increase of \$1.6 million and increase in depreciation of \$0.6 million, were the significant changes for operating expenses.

Operating revenues in fiscal year 2017 of \$28.3 million compared to operating expenses of \$51.0 million resulted in an operating loss of \$22.7 million. Although State Appropriations of \$11.3 million are counted as non-operating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

STATEMENTS OF CASH FLOWS

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

Condensed Schedules of Cash Flows

	FY 2018	FY 2017	Difference	FY 2016
Cash provided by (used in):				
Operating activities	\$(13,633,642)	\$(17,510,510)	\$3,876,868	\$(14,947,837)
Noncapital financing activities	15,985,863	18,141,699	(2,155,836)	16,674,067
Capital financing activities	(1,859,261)	(1,862,066)	2,805	(2,460,830)
Interest on investments	40,870	26,928	13,942	20,916
	<hr/>			
Increase (decrease) in cash and cash equivalents	533,830	(1,203,949)	1,737,779	(713,684)
	<hr/>			
Cash — beginning of year	1,642,274	2,846,223	(1,203,949)	3,559,907
	<hr/>			
Cash — end of year	\$2,176,104	\$1,642,274	\$533,830	\$2,846,223

The major difference between fiscal year 2018 and fiscal year 2017 included in operating activities consists of student tuition and fees of \$2.3 million, grants and contracts of \$0.3 million, payments to and on behalf of employees of \$1.4 million.

The major difference between fiscal year 2017 and fiscal year 2016 included in operating activities consists of student tuition and fees of \$(1.1) million, grants and contracts of \$(1.8) million, payments to and on behalf of employees of \$0.3.

Major difference between fiscal year 2018 and fiscal year 2017 in funding included is noncapital financing is primarily decrease in state appropriations of \$(0.2) million compared to last year's receipts and decrease in Pell Grant receipts of \$(1.9) million.

Major difference between fiscal year 2017 and fiscal year 2016 in funding included is noncapital financing is primarily decrease in state appropriations of \$(0.1) million compared to last year's receipts and increase in Pell Grant receipts of \$1.5 million.

There were no major differences between fiscal year 2018 and fiscal year 2017 in capital finance activities.

Major differences between fiscal year 2017 and fiscal year 2016 in capital finance activities included, capital gifts and grants received \$3.3 million and purchase of capital assets \$(3.5).

CAPITAL ASSETS

In FY 2018, West Virginia State University exercised frugal management in regard to capital improvements. The purchase, renovation and restoration of capital assets, such as land and/or buildings, educational and scientific equipment, renovation of classroom and research facilities remain essential for the forward movement of the University.

Some of the capital projects for FY 2018 include the following.

- Renovation of F. Ray Power Building for research.
- Cooling tower for Drain Jordan Library.
- HVAC upgrades complete in Cole Complex.

ECONOMIC OUTLOOK

Under the leadership of the President, Dr. Anthony L. Jenkins, the University continues to seek external and internal resources for the conduct of its institutional mission: research, instruction and outreach programming. Furthermore, new academic offerings including additional graduate and undergraduate programs, along with their associated research and public service, have been established. The University is also positioning itself as an active participant in statewide initiatives, along with other state Universities, related to research infrastructure improvements which in turn translate into regional economic development. Efforts to increase recruitment and retention while maintaining an affordable education are the leading forces in establishing WVSU as the number one university in West Virginia.

During FY2018 the WVSU Foundation received \$2,469,260 in new gifts and pledges, more than double the previous year. Of this total, \$1,004,910 was in the form of outright cash gifts, the second highest total on record. Alumni participation in giving reached 4.5%, the highest participation on record. The Foundation is on track to continue increasing both the number of donors and the total new gifts each year as we seek to build a foundation for the next capital campaign.

Since the general economic climate of the Kanawha Valley is showing challenges during the transitional stages of the national economy, it is believed WVSU will continue to be a dynamic higher education force in West Virginia. WVSU now offers a Bachelor of Fine Arts Degree, a Master of Public Administration Degree and completely online degrees of English with concentration in Technical Writing, Criminal Justice, and Business Administration with a concentration in Management, Business Administration with a concentration in Accounting, Regents Bachelor of Arts, and B.S. in Health Sciences.

Due to the loss of revenue from the state mandated separation of the Kanawha Valley Community and Technical College in 2009, WVSU has appealed for funding support from the State legislature for \$1,000,000 in FY's 2014, 2015, 2016, 2017 and 2018. Additional funding was placed in the budget legislation that passed both the House of Delegates and Senate in FY's 2015 and 2016 but was vetoed by the Governor. WVSU is continuing the effort to obtain this needed funding during the upcoming State Legislative session particularly since other institutions in a similar situation has received additional funding for their respective Community and Technical College separation.

In federal fiscal year 2017, the University did not receive U.S. Department of Education Upward Bound funding for the first time over a minor budget technicality. The University, to that point, had received this funding continuously in an uninterrupted manner for 25 years. The University was not alone in being rejected for funding over an insignificant technicality. More than 100 colleges and universities were rejected for similar technicalities, including West Virginia University, WVSU's sister land-grant institution. This resulted in a lost for the University of \$522,363. Thanks to the support of the collective congressional delegations of most of the institutions that did not receive funding over these technicalities, the upward bound/Trio funding was recently restored for 2018. These funds are managed by the Corporation and play a significant role in the institutional efforts geared towards STEM outreach for youth.

For the first time in nearly six years, the State of West Virginia did not significantly cut funding to its higher education system. State match funding dedicated to research and outreach activities remained flat, as opposed to the decrease experienced during previous fiscal years. In an effort to offset the funding cuts from previous years, the University, via the Corporation, actively pursued alternative funding streams and sources for program development, growth and sustainability.

The University continues to grow academically, which is reflected by the approval of the MS in Computer Science by the University's Board of Governors and the West Virginia Higher Education Policy Commission. On June 12, 2018, The Higher Learning Commission, the University's regional accrediting body, approved the institutions request to offer the Master of Science in Computer Science. With all of the necessary approvals in place, the University will begin its first cohort for the Master of Science in Computer Science in the Spring Fall of 2019. This represents the University's second Master's program in a Science, Technology, Engineering and Mathematics (STEM) discipline.

WEST VIRGINIA STATE UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2018 AND 2017

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 2,176,104	\$ 1,642,274
Accounts receivable — net	2,566,472	3,229,127
Loans to students — current portion	84,595	86,528
Inventories	323,372	327,152
Prepaid expenses	<u>302,806</u>	<u>189,527</u>
Total current assets	<u>5,453,349</u>	<u>5,474,608</u>
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	365,052	357,354
Other Receivables	104,155	119,286
Loans to students — net of allowance of \$306,538 and \$318,082 in 2018 and 2017, respectively	5,416	41,544
Capital assets — net	<u>80,561,819</u>	<u>79,351,431</u>
Total noncurrent assets	<u>81,036,442</u>	<u>79,869,615</u>
Deferred Outflows of Resources:		
Deferred outflows related to OPEB	590,940	-
Deferred outflows related to pensions	<u>319,412</u>	<u>328,061</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u>\$ 87,400,143</u>	<u>\$ 85,672,284</u>

WEST VIRGINIA STATE UNIVERSITY

STATEMENTS OF NET POSITION AS OF JUNE 30, 2018 AND 2017

	2018	2017
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 3,989,652	\$ 5,559,603
Accrued liabilities	2,443,300	2,517,260
Unearned revenue	1,633,719	1,620,613
Compensated absences — current portion	890,397	758,256
Leases payable - current portion	180,000	120,000
Bonds payable — current portion	375,000	360,000
Notes payable — current portion	839,000	1,084,000
Total current liabilities	<u>10,351,068</u>	<u>12,019,732</u>
NONCURRENT LIABILITIES:		
Deposits	89,150	78,004
Compensated absences	173,763	338,353
Bonds payable	9,620,000	9,995,000
Notes payable	2,272,999	2,362,000
Capital leases payable	20,987,032	21,167,032
Advances from federal sponsors	579,122	579,122
Net pension liability	938,439	1,288,208
Other post employment benefits liability	8,260,158	12,827,808
Total noncurrent liabilities	<u>42,920,663</u>	<u>48,635,527</u>
TOTAL LIABILITIES	<u>53,271,731</u>	<u>60,655,259</u>
Deferred Inflows of Resources:		
Deferred inflows related to OPEB	1,397,282	-
Deferred inflows related to pensions	569,621	162,505
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>55,238,634</u>	<u>60,817,764</u>
NET POSITION:		
Net investment in capital assets	<u>44,446,116</u>	<u>44,263,400</u>
Restricted - Expendable Loans	(379,513)	(343,539)
Restricted - Expendable Debt service	365,052	357,354
Total restricted	<u>(14,461)</u>	<u>13,815</u>
Unrestricted (deficit)	<u>(12,270,146)</u>	<u>(19,422,695)</u>
TOTAL NET POSITION	<u>\$ 32,161,509</u>	<u>\$ 24,854,520</u>

WEST VIRGINIA STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of \$6,239,611 and \$5,957,004 in 2018 and 2017, respectively	\$ 10,850,974	\$ 10,494,956
Contracts and grants:		
Federal	9,141,392	8,622,075
State	2,880,045	2,962,759
Private	273,348	346,713
Sales and services of educational activities	-	2,338
Auxiliary enterprise revenue — net of scholarship allowance of \$2,549,291 and \$2,515,759 in 2018 and 2017, respectively	4,553,336	4,377,225
Miscellaneous — net	1,116,851	1,295,838
Fees charged to the students of Kanawha Valley Community and Technical College	<u>139,426</u>	<u>161,056</u>
 Total operating revenues	 <u>28,955,372</u>	 <u>28,262,960</u>
OPERATING EXPENSES:		
Salaries and wages	20,705,544	21,741,337
Benefits	5,322,636	5,582,466
Supplies and other services	10,076,102	13,099,428
Utilities	2,051,356	1,982,432
Student financial aid — scholarships and fellowships	2,990,171	4,896,768
Depreciation and amortization	3,499,082	3,603,447
Fees assessed by the Commission for operations	<u>-</u>	<u>110,505</u>
 Total operating expenses	 <u>44,644,891</u>	 <u>51,016,383</u>
 OPERATING LOSS	 <u>(15,689,519)</u>	 <u>(22,753,423)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	11,099,907	11,356,258
Federal Pell Grants	4,901,128	6,800,551
Investment income	40,870	26,928
Interest on indebtedness	(2,149,194)	(2,166,662)
Loss on fixed asset disposal	-	(478)
Fees assessed by the Commission	<u>(15,171)</u>	<u>(15,110)</u>
 Net nonoperating revenues	 <u>13,877,540</u>	 <u>16,001,487</u>
 LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	 <u>(1,811,979)</u>	 <u>(6,751,936)</u>
 PAYMENTS MADE ON BEHALF OF WV STATE UNIVERSITY	 976,089	 466,348
 CAPITAL GRANTS AND GIFTS	 <u>4,905,013</u>	 <u>3,916,627</u>
 CHANGE IN NET POSITION	 4,069,123	 (2,368,961)
 NET POSITION — Beginning of year	 24,854,520	 27,223,481
Restatement/change in accounting principal	<u>3,237,866</u>	<u>-</u>
 NET POSITION — Beginning of year as restated	 <u>28,092,386</u>	 <u>27,223,481</u>
 NET POSITION — End of year	 <u>\$ 32,161,509</u>	 <u>\$ 24,854,520</u>

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 11,541,864	\$ 9,253,094
Contracts and grants	12,294,785	11,931,547
Payments to and on behalf of employees	(26,592,036)	(27,220,026)
Payments to suppliers	(11,695,552)	(10,345,694)
Payments to utilities	(2,051,356)	(1,982,432)
Payments for scholarships and fellowships	(2,990,171)	(4,896,768)
Collection of loans to students	38,063	18,268
Sales and service of educational activities	-	2,338
Auxiliary enterprise charges	4,564,482	4,382,775
Fees retained by the Commission	-	(110,505)
Fees charged to Kanawha Valley Community and Technical College students	139,426	161,056
Other receipts — net	<u>1,116,851</u>	<u>1,295,838</u>
Net cash used in operating activities	<u>(13,633,644)</u>	<u>(17,510,509)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	11,099,907	11,356,258
William D. Ford direct lending receipts	12,174,124	11,736,977
William D. Ford direct lending payments	(12,174,124)	(11,736,977)
Federal Pell grants	4,901,128	6,800,551
Fees assessed by the Commission	<u>(15,172)</u>	<u>(15,110)</u>
Net cash provided by noncapital financing activities	<u>15,985,863</u>	<u>18,141,699</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	4,905,013	3,916,627
Capital payments made on behalf of WVSU	976,089	466,348
Proceeds from disposal of assets	-	(478)
Purchases of capital assets	(4,709,470)	(4,575,902)
Principal paid on notes and bonds	(874,001)	501,000
Interest paid on notes, bonds, and leases	(2,149,194)	(2,166,662)
Withdrawals from non-current cash and cash equivalents	<u>(7,698)</u>	<u>(2,999)</u>
Net cash used in capital financing activities	<u>(1,859,261)</u>	<u>(1,862,066)</u>
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	<u>40,870</u>	<u>26,928</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	533,828	(1,203,948)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>1,642,274</u>	<u>2,846,223</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 2,176,102</u>	<u>\$ 1,642,275</u>

(Continued)

WEST VIRGINIA STATE UNIVERSITY
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (15,689,519)	\$ (22,753,423)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	3,499,082	3,603,447
Effect of change operating assets and liabilities:		
Receivables — net	677,786	(1,789,947)
Loans to students — net	38,063	18,269
Prepaid expenses	(113,283)	(94,429)
Inventories	3,780	39,487
Accounts payable and accrued liabilities	(1,643,911)	2,805,870
Compensated absences	(32,449)	(144,044)
Leases payable	60,000	-
OPEB	(7,845,160)	292,299
Unearned revenue	13,106	548,084
Defined benefit pension plans	7,387,715	(41,672)
Deposits held in custody for others	11,146	5,550
	<u> </u>	<u> </u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (13,633,644)</u>	<u>\$ (17,510,509)</u>
NONCASH TRANSACTIONS		
Donated capital assets	<u>\$ -</u>	<u>\$ 3,078,254</u>

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENTS OF NET ASSETS AS OF JUNE 20, 2018 AND 2017

	2018	2017
ASSETS		
ASSETS		
Cash and cash equivalents	\$ 452,900	\$ 439,906
Cash and cash equivalents - restricted funds	2,191,962	2,077,999
Unconditional promises to give (less allowance for doubtful accounts of \$52,000 and \$40,000 respectively)	2,599,476	2,381,600
Other receivables	36,416	26,048
Investments	9,378,525	8,429,661
Other Investments, bond reserve funds	3,082,494	3,039,688
Beneficial interest in trusts	270,955	263,176
Note Receivable	750,000	1,000,000
Lease Receivable	21,167,032	21,287,032
Deferred bond issuance cost	384,568	405,179
Property and equipment, net	<u>437,673</u>	<u>699,446</u>
TOTAL ASSETS	<u>\$ 40,752,001</u>	<u>\$ 40,049,735</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 50,057	\$ 27,891
Bonds payable	<u>24,837,602</u>	<u>24,871,368</u>
	<u>24,887,659</u>	<u>24,899,259</u>
NET ASSETS		
Unrestricted	767,787	807,817
Temporarily restricted	8,023,655	7,375,524
Permanently restricted	<u>7,072,900</u>	<u>6,967,135</u>
Total net assets	<u>15,864,342</u>	<u>15,150,476</u>
	<u>\$ 40,752,001</u>	<u>\$ 40,049,735</u>

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	\$ 195,509	\$ 1,565,452	\$ 109,812	\$ 1,870,773
Administrative fees (expenses)	149,500	(149,500)	-	-
Rental income	2,882	460	-	3,342
Investment income	3,783	426,681	-	430,464
Other Income	10,962	334,407	-	345,369
Net assets released from restrictions	<u>1,794,248</u>	<u>(1,794,248)</u>	<u>-</u>	<u>-</u>
	<u>2,156,884</u>	<u>383,252</u>	<u>109,812</u>	<u>2,649,948</u>
EXPENSES				
Salaries and wages	165,054	-	-	165,054
Bad debt expense (unrestricted pledges)	650	-	-	650
Bond amortization and discount	35,662	-	-	35,662
Conference/seminar fees	10,964	-	-	10,964
Depreciation	35,213	-	-	35,213
Maintenance	-	-	-	-
Meeting expense	54,718	-	-	54,718
Miscellaneous	32,478	-	-	32,478
Office expense	367	-	-	367
Printing	4,836	-	-	4,836
Professional fees	60,460	-	-	60,460
Advertising	10,000	-	-	10,000
Supplies	3,135	-	-	3,135
Taxes and licenses	4,094	-	-	4,094
Travel	11,162	-	-	11,162
Program expenses	<u>1,794,248</u>	<u>-</u>	<u>-</u>	<u>1,794,248</u>
	<u>2,223,041</u>	<u>-</u>	<u>-</u>	<u>2,223,041</u>
NET INCREASE (DECREASE)	(66,157)	383,252	109,812	426,907
CHANGE IN VALUE OF PERPETUAL TRUSTS	-	-	7,779	7,779
UNREALIZED GAIN ON INVESTMENTS	-	302,151	-	302,151
CAPITAL LEASE INTEREST INCOME	1,653,288	(57,854)	-	1,595,434
BOND INTEREST EXPENSE	(1,653,288)	-	-	(1,653,288)
GAIN ON SALE OF FIXED ASSETS	34,883	-	-	34,883
RECLASSIFICATIONS	<u>(8,756)</u>	<u>20,582</u>	<u>(11,826)</u>	<u>-</u>
INCREASE IN NET ASSETS	(40,030)	648,131	105,765	713,866
NET ASSETS AT BEGINNING OF YEAR	<u>807,817</u>	<u>7,375,524</u>	<u>6,967,135</u>	<u>15,150,476</u>
NET ASSETS AT END OF YEAR	<u>\$ 767,787</u>	<u>\$ 8,023,655</u>	<u>\$ 7,072,900</u>	<u>\$ 15,864,342</u>

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	\$ 286,049	\$ 530,118	\$ 198,251	\$ 1,014,418
Administrative fees (expenses)	133,445	(133,445)	-	-
Rental income	1,854	5,316	-	7,170
Investment income	3,782	280,024	-	283,806
Other Income	16,326	275,431	-	291,757
Net assets released from restrictions	<u>1,576,239</u>	<u>(1,576,239)</u>	<u>-</u>	<u>-</u>
	<u>2,017,695</u>	<u>(618,795)</u>	<u>198,251</u>	<u>1,597,151</u>
EXPENSES				
Salaries and wages	127,107	-	-	127,107
Bad debt expense (unrestricted pledges)	15,617	-	-	15,617
Bond amortization and discount	35,662	-	-	35,662
Conference/seminar fees	1,336	-	-	1,336
Depreciation	38,437	-	-	38,437
Maintenance	399	-	-	399
Meeting expense	40,652	-	-	40,652
Miscellaneous	28,122	-	-	28,122
Office Expense	1,235	-	-	1,235
Printing	10,090	-	-	10,090
Professional fees	51,053	-	-	51,053
Advertising	10,100	-	-	10,100
Supplies	7,799	-	-	7,799
Taxes and licenses	1,945	-	-	1,945
Travel	9,818	-	-	9,818
Program expenses	<u>1,576,239</u>	<u>-</u>	<u>-</u>	<u>1,576,239</u>
	<u>1,955,611</u>	<u>-</u>	<u>-</u>	<u>1,955,611</u>
NET INCREASE (DECREASE)	62,084	(618,795)	198,251	(358,460)
CHANGE IN VALUE OF PERPETUAL TRUSTS	-	-	16,351	16,351
UNREALIZED GAIN ON INVESTMENTS	-	795,480	-	795,480
UNREALIZED LOSS ON BOND INVESTMENTS	-	-	-	-
CAPITAL LEASE INTEREST INCOME	1,658,606	-	-	1,658,606
BOND INTEREST EXPENSE	(1,658,606)	-	-	(1,658,606)
GAIN ON SALE OF FIXED ASSETS	-	-	-	-
RECLASSIFICATIONS	<u>23,021</u>	<u>(11,047)</u>	<u>(11,974)</u>	<u>-</u>
INCREASE IN NET ASSETS	85,105	165,638	202,628	453,371
NET ASSETS AT BEGINNING OF YEAR	<u>722,712</u>	<u>7,209,886</u>	<u>6,764,507</u>	<u>14,697,105</u>
NET ASSETS AT END OF YEAR	<u>\$ 807,817</u>	<u>\$ 7,375,524</u>	<u>\$ 6,967,135</u>	<u>\$ 15,150,476</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. ORGANIZATION

West Virginia State University (the “University”) is governed by the West Virginia State 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 University under its jurisdiction, the duty to develop a master plan for the University, the power to prescribe the specific functions and the University’s budget request, the duty to review, at least every five years, all academic programs offered at the University, and the power to fix tuition and other fees for the different classes or categories of students enrolled at the University.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity — The University is a blended component unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the “State”) that are not included in the State’s general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing), and the West Virginia Council of 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 the University, including its blended component unit, the West Virginia State University Research and Development Corporation (the “Research and Development Corporation”), a nonprofit, nonstock corporation. The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University’s ability to significantly influence operations and accountability for fiscal matters of the Research and Development Corporation.

The related organization, Alumni Association, is not part of the University reporting entity and is 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 the West Virginia State University Alumni Association under GASB.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB, the audited financial statements of the “Foundation” are discretely presented here with the University’s financial statements. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation’s audited financial information, as it is presented herein (see also Note 20).

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a basis to focus on the University as a whole. The University’s net position is classified into three categories according to external donor restrictions or availability of resources for satisfaction of University obligations. The components of the University’s net position are classified as follows:

- *Net Investment in Capital Assets* — This represents the University’s total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.
- *Restricted Net Position* — This includes amounts restricted for use in capital projects and for loans to students by various agreements, as well as amounts required to be held for use in debt service on outstanding bonds as outline in Bond Trust Indenture. See Footnote 2 for details on debt service deposits.
 - *Restricted — Expendable* — This includes resources in 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 “State Legislature”), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill No. 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.
 - *Restricted — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any nonexpendable funds or components of net position of this type as of June 30, 2018 and 2017.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- *Unrestricted* — This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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

Cash and Cash Equivalents — For purposes of the statements of net position, the University considers all highly liquid investments with an original maturity of three months or less at the time of purchase to be cash equivalents.

Cash on deposit with the West Virginia Treasurer's Office (the "Treasurer") is deposited into the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool with the West Virginia Board of Treasury Investments (BTI). The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

Cash and cash equivalents also include cash in bank accounts and cash on hand.

Accounts Receivable — Accounts receivable include primarily amounts due from students for tuition and fees, amounts due from sponsoring agencies for grants and contracts, and other miscellaneous receivables.

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

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

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets — Capital assets include property, plant, equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or acquisition value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment. Land is not depreciated as it is considered to have an indefinite useful life. The University's threshold for capitalizing capital assets is \$5,000. The financial statements reflect all adjustments required by GASB.

Impairment of Capital Assets — Management reviews capital assets for impairment whenever events or changes in circumstances indicate that the service utility of an asset has declined significantly and unexpectedly. Any writedowns due to impairment are charged to operations at the time of the impairment is identified. No writedown of capital assets was required for the years ended June 30, 2018 or 2017.

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

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

These statements require 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 also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later, will no longer receive sick leave credit toward insurance premiums when they retire. This liability is now provided for under the multiple employer cost-sharing plans sponsored by the State.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from 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 retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

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

Other Post Employment Benefits — For purposes of measuring the net other postemployment benefits (“OPEB”) liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the West Virginia Postemployment Benefit Plan (the “OPEB plan”), which is administered by a combination of the West Virginia Public Employees Insurance Agency (“PEIA”) and the West Virginia Health Benefit Plan (the “RHBT”), additions to/reductions from the OPEB plan’s fiduciary net position have been determined on the same basis as they are reported in the RHBT’s financial statements which can be found at www.peia.gov. The OPEB plan schedules are prepared using the accrual basis of accounting in accordance with U.S. GAAP as prescribed by GASB.

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 13.)

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, 2018 and 2017, the University had deferred outflows of resources related to pensions of \$319,412 and \$328,061, respectively (see Note 13). As of June 30, 2018 the University had deferred outflows of resources related to OPEB of \$590,940 and \$0 respectively.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017, the University had deferred inflows related to pensions of \$569,621 and \$162,505 respectively (see Note 13). As of June 30, 2018 and 2017, the University had deferred inflows related to OPEB of \$1,397,282 and \$0 respectively.

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

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the 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 currently charged by BRIM to the University and the University's ultimate actual loss experience, the difference will be recorded, as the change in estimate becomes known.

In addition, through its participation in the West Virginia PEIA and third-party insurers, 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.

Classification of Revenues — The University has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Restricted Component of Net Position — The University has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Generally, the University attempts to utilize restricted resources first when practical.

Alternative Loans — Students apply for Alternative Loans through lenders who participate in the Alternative Loan Program when they have exhausted their Federal Loan Eligibility or need extra money to fill the gap of their cost of attendance. The University will certify these loans and, if approved by the lender, will receive the funds to disburse to the student accounts. Under this program, banks and loan companies make loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the bank or loan company. For the years ended June 30, 2018 and 2017, the University received and disbursed approximately \$287,377 and \$211,000, respectively, which is not included as revenue and expense in the statement of revenues, expenses, and changes in net position.

Direct Lending — The University facilitates loans to students under the Direct Lending Program (DL). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Direct Lending student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2018 and 2017, the University received and disbursed approximately \$12.2 million and \$11.4 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statement of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In the years ended June 30, 2018 and 2017, the University received and disbursed approximately \$5.1 million and \$4.6 million, respectively, under these federal student aid programs.

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Certain aid such as loans, funds provided to students as awarded by third parties and Federal Direct Lending are 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.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to an 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 five years.

Service Concession Arrangements — The University has a service concession arrangement for the operation of food services.

Income Taxes — The University is exempt from income taxes as a governmental entity. The component units are exempt from income taxes, except for unrelated business income, as nonprofit organizations under federal income tax laws and regulations of the Internal Revenue Service.

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

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

Risk and Uncertainties — Investment securities are exposed to various 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 risk and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

Net position - beginning of year, as previously stated	\$ 24,854,520
Balance of the net OPEB liability and related deferred outflows of resources and deferred inflows of resources	<u>3,237,866</u>
Net position - beginning of year, as restated	<u>\$ 28,092,386</u>

The Commission has adopted Statement No. 85, Omnibus 2017. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The Commission has not yet determined the effect that the adoption of GASB Statement No. 85 may have on its financial statements. The adoption of this standard had no effect on the Commission's financial statements.

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

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

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

In April 2018, the GASB issued Statement No. 88, Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements, which is effective for fiscal years beginning after June 15, 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The Commission has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

In June 2018, the GASB issued Statement No. 89, Accounting for Interest Cost Incurred before the End of a Construction Period, which is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement also establishes accounting requirements for interest cost incurred before the end of a construction period. The Commission has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

In August 2018, the GASB issued Statement No. 90, Major Equity Interests, which is effective for fiscal years beginning after December 15, 2018. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting component unit if a government acquires a 100% equity interest in that component unit. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measureable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measureable if the government has a present or future claim to the net resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. The Commission has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

Reclassifications — Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. These reclassifications did not have any impact on net position or changes in net position.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2018 and 2017, was held as follows:

	2018		
	Current	Noncurrent	Total
State Treasurer	\$ 1,309,580	\$ -	\$ 1,309,580
Trustee	-	365,052	365,052
In bank	<u>866,524</u>	<u>-</u>	<u>866,524</u>
	<u>\$ 2,176,104</u>	<u>\$ 365,052</u>	<u>\$ 2,541,156</u>

	2017		
	Current	Noncurrent	Total
State Treasurer	\$ 1,295,885	\$ -	\$ 1,295,885
Trustee	-	357,354	357,354
In bank	<u>346,389</u>	<u>-</u>	<u>346,389</u>
	<u>\$ 1,642,274</u>	<u>\$ 357,354</u>	<u>\$ 1,999,628</u>

Cash on deposit with trustee escrow consists of Huntington National Bank for Bond Series 2012 and 2013 and it will hold funds for principal, and interest payments as described in Note 7. The deposits with trustee escrows were covered by federal depository insurance as noted below. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

Custodial credit risk for deposits 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 deposits that are in the possession of an outside party. The combined carrying amount of cash in bank at June 30, 2018 and 2017 was \$2,538,674 and \$1,999,628 as compared with the combined bank balance of \$1,331,215 and \$704,596, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Amounts with the State Treasurer as of June 30, 2018 and 2017, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool and the WV Short Term Bond Pool.

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

External Pool	2018		2017	
	Carrying Value	S & P Rating	Carrying Value	S & P Rating
WV Money Market Pool	\$ 1,171,641	AAAm	\$ 1,231,565	AAAm
WV Short Term Bond Pool	<u>27,182</u>	Not Rated	<u>28,348</u>	Not Rated
	<u>\$ 1,198,823</u>		<u>\$ 1,259,913</u>	

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

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

External Pool	2018		2017	
	Carrying Value	WAM (Days)	Carrying Value	WAM (Days)
WV Money Market Pool	\$ 1,171,641	34	\$ 1,231,565	36

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

External Pool	2018		2017	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	\$ 27,182	370	\$ 28,348	371

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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

4. ACCOUNTS RECEIVABLE

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

	2018	2017
Student tuition and fees — net of allowance for doubtful accounts of \$941,580 and \$1,370,897 in 2018 and 2017, respectively	\$ 407,094	\$ 455,454
Grants and contracts receivable	2,144,660	2,766,367
Due from the Commission	2,078	1,156
Due from other State agencies	706	3,106
Other accounts receivable	<u>11,934</u>	<u>3,044</u>
	<u>\$ 2,566,472</u>	<u>\$ 3,229,127</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

5. CAPITAL ASSETS

Summary of capital asset transactions for the University for the years ended June 30, 2018 and 2017 are as follows:

	2018			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 8,628,563	\$ -	\$ -	\$ 8,628,563
Construction in progress	3,048,684	4,240,721	(282,352)	7,007,053
Total capital assets not being depreciated	<u>\$ 11,677,247</u>	<u>\$ 4,240,721</u>	<u>\$ (282,352)</u>	<u>\$ 15,635,616</u>
Capital assets being depreciated:				
Land improvements	\$ 1,651,479	\$ -	\$ -	\$ 1,651,479
Infrastructure	5,274,451	-	-	5,274,451
Buildings	90,175,855	50,679	-	90,226,534
Equipment	8,931,949	374,154	-	9,306,103
Motor vehicles	631,212	202,889	(41,293)	792,808
Software	340,069	-	-	340,069
License	18,750	-	-	18,750
Library books	5,177,548	123,380	-	5,300,928
Total capital assets being depreciated	<u>112,201,313</u>	<u>751,102</u>	<u>(41,293)</u>	<u>112,911,122</u>
Less accumulated depreciation for:				
Land improvements	970,522	37,144	-	1,007,666
Infrastructure	3,799,855	138,003	-	3,937,858
Buildings	28,930,520	2,463,811	-	31,394,331
Equipment	5,270,460	687,088	(41,293)	5,916,255
Motor vehicles	553,771	26,612	-	580,383
Software	340,069	-	-	340,069
License	18,750	-	-	18,750
Library books	4,643,182	146,424	-	4,789,607
Total accumulated depreciation	<u>44,527,129</u>	<u>3,499,082</u>	<u>(41,293)</u>	<u>47,984,919</u>
Capital assets being depreciated — net	<u>\$ 67,674,184</u>	<u>\$ (2,747,980)</u>	<u>\$ (82,586)</u>	<u>\$ 64,926,203</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 11,677,247	\$ 4,240,721	\$ (282,352)	\$ 15,635,616
Capital assets being depreciated	112,201,313	751,102	(41,293)	112,911,122
Total cost of capital assets	123,878,560	4,991,823	(323,645)	128,546,738
Less accumulated depreciation	44,527,129	3,499,082	(41,293)	47,984,919
Capital assets — net	<u>\$ 79,351,431</u>	<u>\$ 1,492,741</u>	<u>\$ (282,352)</u>	<u>\$ 80,561,819</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

5. CAPITAL ASSETS (CONTINUED)

	2017			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	\$ 8,611,045	\$ 17,518	\$ -	\$ 8,628,563
Construction in progress	454,684	3,139,888	(545,888)	3,048,684
Total capital assets not being depreciated	<u>\$ 9,065,729</u>	<u>\$ 3,157,406</u>	<u>\$ (545,888)</u>	<u>\$ 11,677,247</u>
Capital assets being depreciated:				
Land improvements	\$ 1,651,479	\$ -	\$ -	\$ 1,651,479
Infrastructure	5,274,451	-	-	5,274,451
Buildings	89,480,597	695,258	-	90,175,855
Equipment	8,615,680	1,119,110	(802,841)	8,931,949
Motor vehicles	594,186	37,026	-	631,212
Software	340,069	-	-	340,069
License	18,750	-	-	18,750
Library books	5,064,080	113,468	-	5,177,548
Total capital assets being depreciated	<u>111,039,292</u>	<u>1,964,862</u>	<u>(802,841)</u>	<u>112,201,313</u>
Less accumulated depreciation for:				
Land improvements	933,378	37,144	-	970,522
Infrastructure	3,665,231	134,624	-	3,799,855
Buildings	26,488,560	2,441,960	-	28,930,520
Equipment	5,260,998	811,825	(802,363)	5,270,460
Motor vehicles	512,063	41,708	-	553,771
Software	340,069	-	-	340,069
License	18,750	-	-	18,750
Library books	4,506,996	136,185	-	4,643,182
Total accumulated depreciation	<u>41,726,045</u>	<u>3,603,446</u>	<u>(802,363)</u>	<u>44,527,129</u>
Capital assets being depreciated — net	<u>\$ 69,313,247</u>	<u>\$ (1,638,584)</u>	<u>\$ (1,605,204)</u>	<u>\$ 67,674,184</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 9,065,729	\$ 3,157,406	\$ (545,888)	\$ 11,677,247
Capital assets being depreciated	111,039,292	1,964,862	(802,841)	112,201,313
Total cost of capital assets	120,105,021	5,122,268	(1,348,729)	123,878,560
Less accumulated depreciation	41,726,045	3,603,446	(802,363)	44,527,129
Capital assets — net	<u>\$ 78,378,976</u>	<u>\$ 1,518,822</u>	<u>\$ (546,366)</u>	<u>\$ 79,351,431</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

5. CAPITAL ASSETS (CONTINUED)

Capital assets include buildings acquired by capital lease in the amount of \$21,167,032 and \$21,232,032 at June 30, 2018 and 2017, respectively. Related accumulated depreciation totaled \$2,846,936 and \$2,135,202 at June 30, 2018 and 2017, respectively. The University maintains various collections of inexhaustible assets to which no value can be 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 or recognized for financial statement purposes.

6. NONCURRENT LIABILITIES

Summaries of noncurrent obligation transactions for the University for the years ended June 30, 2018 and 2017 are as follows:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 3,446,000	\$ -	\$ 334,000	\$ 3,112,000	\$ 839,000
Bonds payable	10,355,000	-	360,000	9,995,000	375,000
Other noncurrent liabilities:					
Deposits held in custody for others	78,004	-	11,146	66,858	-
Accrued compensated absences	1,096,609	-	32,449	1,064,160	890,397
Advances from Federal Sponsors	579,122	-	-	579,122	-
Capital Leases Payable	21,287,032	-	120,000	21,167,032	180,000
Net pension liability	1,288,208	5,418,164	-	6,706,372	-
Other post employment benefits liability	12,827,808	-	4,567,650	8,260,158	-
Total noncurrent liabilities	\$ 50,957,783	\$ 5,418,164	\$ 5,425,245	\$ 50,950,702	\$ 2,284,397
	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	\$ 2,525,000	\$ 1,000,000	\$ 79,000	\$ 3,446,000	\$ 1,084,000
Bonds payable	10,710,000	-	355,000	10,355,000	360,000
Other noncurrent liabilities:					
Deposits held in custody for others	72,454	22,400	16,850	78,004	-
Accrued compensated absences	1,240,653	-	144,044	1,096,609	758,256
Advances from Federal Sponsors	579,122	-	-	579,122	-
Capital Leases Payable	21,352,032	-	65,000	21,287,032	120,000
Net pension liability	1,032,299	255,909	-	1,288,208	-
Other post employment benefits liability	12,535,509	292,299	-	12,827,808	-
Total noncurrent liabilities	\$ 50,047,069	\$ 1,570,608	\$ 659,894	\$ 50,957,783	\$ 2,322,256

Additional information regarding noncurrent debt is included in Notes 7 and 8.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

7. BONDS PAYABLE

In December 2012, the West Virginia State University Board of Governors (the “Board”) sold \$8,930,000 of University Refunding and Improvement Revenue Bonds, Series 2012 (the “2012 Bonds”), with interest rates from 2.5% to 4.50% and maturing October 2037. The 2012 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to an Indenture dated as of December 1, 2012, by and between the University and Huntington National Bank, as the Trustee. The 2012 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2012 Bonds were used to (1) refund the Eddie Mac Note, (2) fund the design, acquisition, construction and equipping of various capital projects and (3) pay the costs of issuance of the 2012 Bonds.

In March 2013, the Board sold \$2,815,000 of University Refunding Revenue Bonds, Series 2013 (the “2013 Bonds”), with interest rates of 1.50% to 3.00%, maturing October 2021. The 2013 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to an Indenture dated as of March 1, 2013, by and between the University and Huntington National Bank, as the Trustee. The 2013 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2013 Bonds were used to (1) refund the 2002 Series A Bonds and (2) pay the costs of issuance of the 2013 Bonds.

It is estimated that the refunding of the 2002 Bonds will result in a reduction in the University’s total debt service payments over the next 10 years of approximately \$500,000. The refunding resulted in an economic gain (the difference between the present values of the debt service payments on the old debt and new debt) of approximately \$450,000.

Principal maturities for the year ending after June 30, 2018, are as follows:

Years Ending June 30	Bond HNB 2012 Principal	Bond HNB 2012 Interest	Bond HNB 2013 Principal	Bond HNB 2013 Interest	Bonds Combined Principal	Bonds Combined Interest
2019	\$ 50,000	\$ 297,648	\$ 320,000	\$ 30,670	\$ 370,000	\$ 328,318
2020	55,000	296,073	325,000	22,295	380,000	318,368
2021	55,000	294,423	335,000	13,695	390,000	308,118
2022	60,000	292,893	340,000	4,335	400,000	297,228
2023	405,000	287,125	-	-	405,000	287,125
2024-2028	2,205,000	1,250,066	-	-	2,205,000	1,250,066
2029-2033	2,680,000	767,406	-	-	2,680,000	767,406
2034-2038	3,165,000	273,934	-	-	3,165,000	273,934
Future payments	<u>\$ 8,675,000</u>	<u>\$ 3,759,568</u>	<u>\$ 1,320,000</u>	<u>\$ 70,995</u>	<u>\$ 9,995,000</u>	<u>\$ 3,830,563</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

8. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation (“Eddie Mac”) to have available a line of credit of \$3,500,000 to be used to renovate dormitories.

In December 2012, a portion of the proceeds from Huntington National Bank Revenue Bond Series 2012 were used to refund 1996-1Eddie Mac note, thus the note is paid in full. See footnote #7 for more details. In September 2015, the remaining funds in escrow were returned to WVSU and are now in the Revenue Clearing Account. A portion of the original escrow funds in the amount of \$61,928, were used for Barber-Scotia College’ default payments as part of HBCU partnership agreement. No steps have been taken to recover these funds at this time.

During February 2014, the University signed a promissory note with Capital One Equipment Finance Corp borrowing \$2,700,000 at an interest rate of 6.65% to be used to partially finance the construction of a new athletic complex. The note matures in 2033, with principal payments due annually on October 1 starting in 2014. Interest payments are due annually on April 1 and October 1 starting April 2014. In February 2016, the Board of WVSU Foundation voted to submit \$55,000 for an extra payment of principal.

Principal and interest maturities for the year ending after June 30, 2018, are as follows:

Years Ending June 30	Principal	Interest	Total
2019	\$ 839,000	\$ 154,114	\$ 993,114
2020	95,000	147,996	242,996
2021	102,000	141,446	243,446
2022-2026	618,000	592,781	1,210,781
2027-2031	853,000	350,156	1,203,156
2032-2036	<u>605,000</u>	<u>58,552</u>	<u>663,552</u>
Future payments	<u>\$ 3,112,000</u>	<u>\$ 1,445,045</u>	<u>\$ 4,557,045</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS

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

Following is the University’s other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2018:

2018	
Net OPEB Liability	\$ 8,260,158
Deferred Outflows of Resources	590,940
Deferred Inflows of Resources	1,397,282
Revenues	422,859
OPEB Expense	704,809
Contributions made by the University	560,181

Plan Description

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

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

("STRS"), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

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

Benefits Provided

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

Contributions

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

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

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

Members hired before July 1, 1988 may convert accrued sick leave or vacation leave days into 100% of the required retiree healthcare contribution.

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

The conversion rate is two days of unused sick and vacation leave days per month for single healthcare coverage and three days of unused sick and vacation leave days per month for family healthcare coverage. Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Certain faculty employees (generally those with less than a 12 month contract) earn a similar extended health or life insurance coverage retirement benefits based on years of service. Generally, 3 1/3 years of teaching service extend health insurance coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receive years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receive no health insurance premium subsidy when they retire. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, 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.

Assumptions

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

Actuarial cost method: Entry age normal cost method.

Amortization method and period: Level percentage of payroll over 21 years; closed as of June 30, 2016.

Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.

Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.

Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.5% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.5%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.

Inflation rate: 2.75%.

Discount rate: 7.15%

Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.5% for long-term assets invested with the West Virginia Investment Management Board ("IMB") and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments ("BIT").

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

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

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

2018

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

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

Sensitivity of the net pension liability to changes in the discount rate. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the discount rate of 7.15%, as well as what the University's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB Liability	\$ 9,618,004	\$ 8,260,158	\$ 7,131,406

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates. The following presents the University's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the current healthcare cost trend rates, as well as what the University's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates:

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB Liability	\$ 6,938,649	\$ 8,260,158	\$ 9,876,434

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability at June 30, 2018 was measured as of June 30, 2016 rolled forward to June 30, 2017, which was the measurement date. The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date. At June 30, 2018, the amount recognized as the University's proportionate share of the net OPEB liability was \$8,260,158.

For the year ended June 30, 2018, the University recognized OPEB expense of \$ 704,809. Of this amount, \$281,950 was recognized as the University's proportionate share of the OPEB expense, and \$422,859 as the amount of OPEB expense attributed to special funding. The University also recognized revenue of \$422,859 for the support provided by the State.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

9. OTHER POST EMPLOYMENT BENEFITS (CONTINUED)

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

2018	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Changed in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 1,267,788
Net differences between projected and actual investment earnings	-	107,038
Difference between expected and actual experience	-	22,456
Contributions after the measurement date	590,940	-
Total	<u>\$ 590,940</u>	<u>\$ 1,397,282</u>

The University will recognize the \$590,940 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Amortization</u>
2019	\$ (374,160)
2020	(374,160.00)
2021	(374,160.00)
2022	<u>(274,803.00)</u>
Total	<u>\$ (1,397,283)</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

10. OPERATING LEASES

Future scheduled annual lease payments for years subsequent to June 30, 2018, are as follows:

Years Ending June 30	
2019	\$ 108,948
2020	66,961
2021	28,759
2022	9,600
2023	9,600
Total	<u>\$ 223,868</u>

Total rental expense for the years ended June 30, 2018 and 2017, was \$270,703 and \$241,991, respectively. The University does not have any non-cancelable leases.

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education, and the University receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of the 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 the former Board of Regents or the former Boards of the University and College Systems (the "Boards").

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees, which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligations of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2014, the University paid \$0, to the Commission against the debt obligation. The amount due to the Commission at June 30, 2018 and 2017 is \$0 and \$0, respectively.

During the year ended June 30, 2005, the Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive \$1,350,000 of these funds. The University had drawn the entire allotment by June 30, 2010. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

During December 2010, the West Virginia Higher Education Policy Commission (HEPC) issued \$76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue Series 2010 Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive \$1,135,000 of these proceeds to be specifically used for upgrades to Wallace Hall roof, windows and HVAC system. As of June 30, 2015, \$892,887 of such proceeds have been received. The University began drawing the bond proceeds for this project in FY 2012; eighty-five percent of these bond proceeds must be spent by December 2013. The West Virginia Higher Education Policy Commission is responsible for repayment of this debt.

12. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2018 and 2017, the University has no designated components of net position.

	2018	2017
Total unrestricted net position before OPEB liability and pension items	\$ (2,014,998)	\$ (5,472,235)
Less: OPEB liability	8,260,158	12,827,808
Less: Net Pension Liability	938,439	1,288,208
Less: Deferred Inflows of Resources	1,966,903	162,505
Add: Deferred Outflows of Resources	<u>(910,352)</u>	<u>(328,061)</u>
Total unrestricted net position	<u>\$ (12,270,146)</u>	<u>\$ (19,422,695)</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS

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

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2017 and 2016, respectively, two and three employees were enrolled in the Educator's Money 401(a) basic retirement plan.

Total contributions to the Educators Money 401(a) for the years ended June 30, 2018, 2017 and 2016, were \$11,917, \$12,302 and \$10,680, respectively, which consisted of \$5,958, \$6,151 and \$5,340, respectively from the University, and \$5,958, \$6,151 and \$5,340, respectively from the covered employees for 2018, 2017 and 2016.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2018, 2017 and 2016, were \$2,156,081, \$2,206,886 and \$2,281,149, respectively which consisted of contributions of \$1,078,040, \$1,103,443 and \$1,140,574, respectively, from the University and \$1,078,040, \$1,103,443 and \$1,140,574, respectively from the covered employees in 2018, 2017 and 2016.

The University's total payroll for the years ended June 30, 2018, 2017 and 2016, was \$20,882,082, \$21,721,199 and \$20,580,486, respectively; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were \$686,888, \$99,308, and \$17,868,544; \$747,829, \$102,514, and \$18,390,715; \$810,120, \$88,997, and \$18,807,059, respectively, in 2017, 2016 and 2015.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

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 year ended June 30 (dollars in thousands):

	2018	2017
Net Pension Liability	\$ 938,439	\$ 1,288,208
Deferred Outflows of Resources	\$ 193,211	\$ 328,061
Deferred Inflows of Resources	\$ 280,764	\$ 162,505
Revenues	\$ 201,215	\$ 217,805
Pension Expense	\$ 106,935	\$ 4,382
Contributions Made by WV	\$ 10,178	\$ 4,257

TRS

Plan Description

TRS is a multiple employer defined benefit cost sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia (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 of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. TRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the TRS website at <https://www.wvretirement.com/Publications.html#CAFR>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

Benefits Provided

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

Contributions

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

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

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 \$121,518.

The University's contributions to TRS for the years ended June 30, 2018, 2017, and 2016, were approximately \$193,211, \$328,061, and \$121,518, respectively.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

Assumptions

For the year ended June 30, 2018, the total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2016 and rolled forward to June 30, 2017. For the year ended June 30, 2017, total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2015 and rolled forward to June 30, 2016. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 2.2%.
- Discount rate of 7.50%
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 1.2-30% and non-teachers 1.4-22.5%.
- Disability rates: 0-0.8%
- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%
- Ad hoc cost-of-living increases in pensions are periodically granted by the State Legislature. However, the retirement system makes no automatic provision for such increases.

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

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, 2018 and June 30, 2017, are summarized below.

2018		
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	7.0%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%

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

2017		
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	7.0%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%

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

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the College's proportionate share of the TRS net pension liability as of June 30, 2018 and June 30, 2017 calculated using the discount rate of 7.50%, as well as what the College'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.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net Pension Liability- 2018	\$ 1,235,496	\$ 938,439	\$ 684,624
Net Pension Liability- 2017	1,629,716	1,288,208	996,337

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

The June 30, 2018 TRS net pension liability was measured as of June 30, 2017, and the total pension liability was determined by an actuarial valuation as of July 1, 2016, rolled forward to the measurement date of June 30, 2017. The June 30, 2017 TRS net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of July 1, 2015, rolled forward to the measurement date of June 30, 2016.

At June 30, 2018, the University's proportionate share of the TRS net pension liability was \$3,013,719. Of this amount, the University recognized approximately \$938,439 as its proportionate share on the Statement of Net Position. The remainder of \$2,075,280 denotes the University's proportionate share of net pension liability attributable to the special funding.

At June 30, 2017, the University's proportionate share of the TRS net pension liability was \$3,741,901. Of this amount, the University recognized approximately \$1,288,208 as its proportionate share on the Statement of Net Position. The remainder of \$2,453,693 denotes the University's proportionate share of net pension liability attributable to the special funding.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

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, 2018 and 2017. Employer contributions are recognized when due. At June 30, 2018, the University's proportion was 0.027162%, a decrease of 0.004183% from its proportion of 0.031345% calculated as of June 30, 2017. At June 30, 2017, the University's proportion was 0.031345%, a decrease of 0.001555% from its proportion of 0.029790% calculated as of June 30, 2016.

For the year ended June 30, 2018, the University recognized TRS pension expense of \$211,393. Of this amount, \$21,280 was recognized as the University's proportionate share of the TRS expense and \$201,215 as the amount of pension expense attributable to special funding from nonemployer contributing entity. The University also recognized revenue of \$10,178 for support provided by the State.

For the year ended June 30, 2017, the University recognized TRS pension expense of \$311,679. Of this amount, \$82,743 was recognized as the University's proportionate share of the TRS expense and \$217,805 as the amount of pension attributable to special funding and \$11,161 as the pension related to a nonspecial funding form a nonemployer contributing entity. The University also recognized revenue of \$4,257 for support provided by the State.

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

2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ 37,354	\$ 493,404
Net difference between projected and actual investment earnings	35,254	54,297
Difference between expected and actual experience	8,159	21,920
Contributions after the measurement date	<u>238,645</u>	<u>-</u>
Total	<u>\$ 319,412</u>	<u>\$ 569,621</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

13. RETIREMENT PLANS (CONTINUED)

The University will recognize the \$319,412 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ended June 30, 2018. 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, 2019	\$ 117,346
June 30, 2020	117,346
June 30, 2021	117,346
June 30, 2022	97,271
June 30, 2023	39,545
	<u>\$ 488,854</u>

Payables to the Pension Plan

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

14. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "...to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations..." Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employs management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests, are restricted to the activities by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2018 and 2017, the Foundation's net position (including unrealized gains) totaled \$15,864,342 and \$15,150,476, respectively on the accrual basis of accounting.

During the years ended June 30, 2018 and 2017, the Foundation contributed \$608,402 and \$288,432, respectively to the University for scholarships. Program expenses of the Foundation are used to provide support to students of the University, for projects that benefit the University and for other activities that support the Foundations mission.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

15. AFFILIATED ORGANIZATION

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University's accompanying financial statements under the blended component unit requirements. They are not included in the University's accompanying financial statements under the discretely presented component unit requirements as they are not significant to the University.

16. CONTINGENCIES

The nature of the educational industry is such that, from time to time, claims will be presented against the University 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 seriously affect 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's management believes disallowances, if any, will not have a significant 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, 2018 and 2017.

The University owns various buildings, which 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.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

17. SEGMENT INFORMATION

In fiscal year 2013 the University issued two revenue bond series (2012A and 2013) to refinance old bonds, to pay off a note, and to improve various capital projects. See footnote 7 on Bond Payables for details. As part of issuing these new bonds, the University has pledged student fees collected in three funds: University Student Union (formerly Wilson Student Union), Residence Life (Dawson Hall), and the Capital Improvement Fund. Investors in these bonds rely solely on the revenues generated by the activities of the auxiliaries and capital fund for repayment.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2012 Series — On December 20, 2012, the University issued \$8,930,000 of Revenue Bonds, 2012 Series (the “2012 Bonds”). The 2012 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to the Bond Trust Indenture (the “Indenture”) dated as of December 1, 2012, by and between the Board and Huntington National Bank (the “Trustee”). The 2012 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2012 Bonds are being used to (1) refund 1996-1 note from Educational Direct Loan Mortgage Corporation (“Eddie Mac”) of \$2,515,267 for renovation of Dawson Hall, (2) fund various capital projects of \$6,260,033, and (3) pay the costs of issuance of the 2012 Bonds and related costs. Final payment date is October 1, 2037.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2013 Series A — On February 20, 2013, the University issued \$2,815,000 of Revenue Bonds, 2013 Series A (the “2013 Bonds”). The 2013 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to the First Supplemental Bond Trust Indenture (the “Indenture”) dated as of March 1, 2013, by and between the Board and Huntington National Bank (the “Trustee”). The 2013 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2013 Bonds are being used to (1) to refund 2002 Series A Call (3-25-2013) for \$3,468,655, which were used to renovate the Student Union, acquire equipment, and pay costs of issuance of 2013 Bonds and its related costs. The difference in the amounts between the 2002 Bonds and the 2013 Bonds was refunded using the balance of the 2002 Bond’s escrow of \$685,471. A new escrow account was established and funded from operations in accordance with the Bond Trust Indenture for the 2013 Bonds. The final payment of 2013 Bonds will be on October 1, 2021.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

17. SEGMENT INFORMATION (CONTINUED)

The condensed schedules net position, condensed schedules of revenues, expenses and changes in net position and condenses statement cash flows of the segments pledged to support the debt service payments as of and for the years June 30, 2017 and 2016, are as follows:

Condensed Schedules of Net Position	Capital, Housing, Student Union 2018	Capital, Housing, Student Union 2017
Assets:		
Current assets	\$ 1,788,099	\$ 1,537,802
Noncurrent assets	<u>13,239,575</u>	<u>13,121,117</u>
Total	<u>\$ 15,027,674</u>	<u>\$ 14,658,919</u>
Liabilities:		
Current	\$ 1,858,145	\$ 1,806,100
Noncurrent liabilities	<u>9,635,000</u>	<u>9,995,000</u>
Total liabilities	<u>11,493,145</u>	<u>11,801,100</u>
Net position:		
Net investment in capital assets	9,393,447	9,606,940
Restricted — expendable debt service	472,011	464,314
Unrestricted	<u>(6,333,929)</u>	<u>(7,213,435)</u>
Total net position	<u>3,531,529</u>	<u>2,857,819</u>
Total	<u>\$ 15,024,674</u>	<u>\$ 14,658,919</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

17. SEGMENT INFORMATION (CONTINUED)

	Capital, Housing, Student Union 2018	Capital, Housing, Student Union 2017
Condensed Schedules of Revenues, Expenses, and Changes in Net Position		
Operating:		
Operating revenues	\$ 1,669,625	\$ 1,689,436
Operating expenses	<u>(1,272,544)</u>	<u>(1,970,080)</u>
Net operating income	397,081	(280,644)
Nonoperating:		
Nonoperating revenues	1,983	786
Nonoperating expenses	<u>(700,890)</u>	<u>(699,288)</u>
Decrease in net position	(301,826)	(979,146)
Net position — beginning of year	<u>2,419,397</u>	<u>3,398,543</u>
Net position — end of year	<u>\$ 2,117,571</u>	<u>\$ 2,419,397</u>
Condensed Schedules of Cash Flows		
Net cash provided by operating activities	\$ 397,081	\$ (280,644)
Net cash used in capital and related financing activities	<u>(698,907)</u>	<u>(698,501)</u>
Increase (decrease) in cash and cash equivalents	(301,826)	(979,145)
Cash and cash equivalents — beginning of year	<u>(338,164)</u>	<u>640,981</u>
Cash and cash equivalents — end of year	<u>\$ (639,990)</u>	<u>\$ (338,164)</u>

18. EAST BONDS

The University has been approved to receive \$15,000,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2014, \$15,000,000 of such proceeds has been received. The West Virginia Development Office is responsible for repayment of the debt.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the Foundation's financial statements as follows:

Summary of Significant Accounting Policies:

Organization and Nature of Activities — West Virginia State University Foundation, Inc. and Subsidiary (the "Foundation") was established to provide support for the private fundraising efforts of the West Virginia State University (the "University") and to manage privately donated funds on behalf of the University. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of West Virginia and managed by a volunteer Board of Directors.

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

Basis of Accounting — The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Consolidation Policy — The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, West Virginia State University Foundation Properties, Inc. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation — The Foundation presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- **Unrestricted Net Assets** — Net assets not subject to donor-imposed stipulations.
- **Temporarily Restricted Net Assets** — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- **Permanently Restricted Net Assets** — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Cash Equivalents — For purposes of the reporting on the Consolidated Statement of Cash Flows, the Foundation considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Investments — Investments are reported at fair value based on quoted prices in active markets. Investment income consists of interest and dividend income earned and realized gains or losses less any related fees, and is included in the Consolidated Statement of Activities.

Property and Equipment — The Foundation capitalizes all expenditures in excess of \$500 for property and equipment at cost. All donated assets are stated at the acquisition value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

Buildings and improvements	31.5–39 years
Furniture and equipment	3–7 years

Contributions — Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Outstanding Legacies — The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Beneficial Interest in Trusts — The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities or property, and the Foundation records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the value of split-interest trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

In-Kind Contributions — The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the Consolidated Statement of Activities.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Spending Policy — Effective July 2004, the Foundation's Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for current Foundation activities.

The revised spending policy provides that the amount which the Foundation makes available for scholarships, operating expenses and fees will be calculated by multiplying a Percentage by a Base. This computation will be made at the beginning of each fiscal year.

The Base for scholarship distributions will be an average of the market value of the Foundation's investments. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for scholarship distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

Use of Estimates — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Foundation's management, such differences would not be significant.

Advertising and Promotional Expenses — Advertising and promotional costs are charged to expense as they are incurred.

Accounting for Uncertain Tax Positions — The Foundation has adopted the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Foundation is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Foundation believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2017 and 2016.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Cash and cash equivalents at June 30, 2018 and 2017 consist of the following:

	2018	2017
Operating cash	\$ 452,900	\$ 439,906
Restricted cash - Donations	2,191,962	2,077,999
Total cash and cash equivalents	<u>\$ 2,644,862</u>	<u>\$ 2,517,905</u>

Concentrations of Credit Risk — The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, certificates of deposit, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Certain receivables also subject the Foundation to concentrations of credit risk. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

The Foundation maintains cash balances at a local financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. Cash and cash equivalents exceeding federally insured limits totaled \$0 at June 30, 2018 and 2017.

Unconditional Promises to Give — Unconditional promises to give at June 30, 2018 and 2017 consist of the following:

	2018	2017
Pledge receivable - unrestricted		
Receivable in less than one year	\$ 18,275	\$ 15,650
Receivable in one to five years	18,800	25,000
Receivable in six to ten years	-	-
Pledge receivable - temporarily restricted		
Receivable in less than one year	757,163	658,687
Receivable in one to five years	1,888,991	1,629,362
Receivable in six to ten years	5,440	82,835
Pledge receivable - permanently restricted		
Receivable in less than one year	26,180	29,682
Receivable in one to five years	48,375	59,870
Receivable in six to ten years	6,500	9,714
Total unconditional promises to give	<u>2,769,724</u>	<u>2,510,800</u>
Less discounts to net present value	(118,248)	(77,200)
Less allowance for uncollectible receivables	(52,000)	(52,000)
Net unconditional promises to give	<u>\$ 2,599,476</u>	<u>\$ 2,381,600</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Investments — Investments are carried at market value at June 30, 2018 as follows:

	Cost	Fair Value	Unrealized Gain
Common Stock	\$ -	\$ -	\$ -
Mutual funds	5,023,428	6,488,353	1,464,925
Corporate obligations	2,186,382	2,144,974	(41,408)
Bonds	556,519	546,881	(9,638)
Cash equivalents	198,317	198,317	-
	<u>\$ 7,964,646</u>	<u>\$ 9,378,525</u>	<u>\$ 1,413,879</u>

Investments are carried at market value at June 30, 2017 as follows:

	Cost	Fair Value	Unrealized Gain
Common Stock	\$ -	\$ -	\$ -
Mutual funds	4,993,428	6,082,382	1,088,954
Corporate obligations	1,682,929	1,698,033	15,104
Bonds	557,611	565,281	7,670
Cash equivalents	83,965	83,965	-
	<u>\$ 7,317,933</u>	<u>\$ 8,429,661</u>	<u>\$ 1,111,728</u>

Investment return and fees for the years ended June 30, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>
Interest and dividends	\$ 180,713	\$ 139,618
Realized gains	220,274	144,188
Total investment income	<u>\$ 400,987</u>	<u>\$ 283,806</u>
Unrealized gain (loss)	<u>\$ 302,151</u>	<u>\$ 795,480</u>
Investment management fees	<u>\$ (46,950)</u>	<u>\$ (43,777)</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors determined that the Foundation's permanently restricted net assets met the definition of endowment funds under UPMIFA and adopted FSP FAS 117-1.

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's fair value. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Fair Value Measurements — Fair values of assets measured on a recurring basis at June 30, 2018 and 2017 are as follows:

	<u>Fair Value Measurements at Reporting Date Using:</u>			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2018				
Common Stock	\$ -	\$ -	\$ -	\$ -
Mutual funds	6,488,353	6,488,353		
Corporate obligations	2,144,974	2,144,974	-	-
Bonds	546,881	546,881		
Bond Reserve Funds	3,082,494	3,082,494	-	-
Contribution receivable — beneficial interest in charitable trusts	<u>270,955</u>	<u>270,955</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 12,533,657</u>	<u>\$ 12,533,657</u>	<u>\$ -</u>	<u>\$ -</u>
June 30, 2017				
Common Stock	\$ -	\$ -	\$ -	\$ -
Mutual funds	6,082,382	6,082,382		
Corporate obligations	1,698,033	1,698,033	-	-
Bonds	565,281	565,281		
Bond Reserve Funds	2,982,460	2,982,460	-	-
Contribution receivable — beneficial interest in charitable trusts	<u>263,176</u>	<u>263,176</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 11,591,332</u>	<u>\$ 11,591,332</u>	<u>\$ -</u>	<u>\$ -</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Financial assets valued using Level 3 inputs are based on unobservable inputs. There were no Level 2 or Level 3 inputs for the years ended June 30, 2016 and 2015.

Beneficial Interest in Trusts — The Foundation was the beneficiary of certain charitable trusts. The value of such trusts at June 30, 2018 and 2017 are as follows:

	2018	2017
Charitable trust	<u>\$ 270,955</u>	<u>\$ 263,176</u>

The Foundation's leasing activity include property under a direct financing capital lease arrangement expiring over the next 30 years. The component of the Foundation's investment in the capital lease at June 30, 2018 and 2017 is as follows:

	2018	2017
Total lease receivable	<u>\$ 21,167,032</u>	<u>\$ 21,287,032</u>

Minimum lease payments to be received as of June 30, 2018 for the next five years are:

2019	\$ 1,824,663
2020	1,877,444
2021	1,931,344
2022	1,986,075
2023	2,012,213
Thereafter	<u>41,585,815</u>
Total minimum lease payments	51,217,554
Less amount representing interest	<u>30,050,522</u>
Present value of net minimum lease payments	21,167,032
Less current portion	<u>180,000</u>
Long-term portion	<u>\$ 20,987,032</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Property and Equipment, Net — A summary of property and equipment as of June 30, 2018 and 2017 is as follows:

	2018	2017
Land	\$ -	\$ 166,000
Buildings and improvements	1,039,064	1,282,353
Furniture and equipment	<u>17,015</u>	<u>63,463</u>
	1,056,079	1,511,816
Less accumulated depreciation	<u>618,406</u>	<u>812,370</u>
	<u>\$ 437,673</u>	<u>\$ 699,446</u>

Bonds Payable — A summary of long term debt as of June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
The County Commission of Kanawha County, West Virginia		
Student Housing Revenue Bonds Series 2013		
Series 2013 AR-1 (5.75%, matures 2023)	\$ 2,035,000	\$ 2,155,000
Series 2013 AR-2 (6.50%, matures 2033)	6,655,000	6,655,000
Series 2013 AR-3 (6.75%, matures 2045)	<u>16,300,000</u>	<u>16,300,000</u>
	24,990,000	25,110,000
Less unamortized bond discount	<u>(152,398)</u>	<u>(295,860)</u>
	24,837,602	24,814,140
Less current portion	<u>180,000</u>	<u>120,000</u>
Long-term debt	<u>\$ 24,657,602</u>	<u>\$ 24,694,140</u>

During the year ended June 30, 2014, the County Commission of Kanawha, Charleston, West Virginia issued revenue bonds and loaned the proceeds to West Virginia State University Foundation. The Series 2013 AR-1, AR-1, and AR-3 housing revenue bonds were issued to finance the cost of construction of the Judge Damon J. Keith Scholars Hall, a 291 bed residence hall on the campus of West Virginia State University. The University will manage and operate the residence hall for the Foundation, and the bond payments will be paid from the revenue generated from student housing fees.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

The bonds were issued in the aggregate principal amount of \$25,175,000. The bonds consist of “Student Housing Revenue Bonds 2013 AR-1” in the amount of \$2,220,000, “Student Housing Revenue Bonds 2013 AR-2” in the amount of \$6,655,000, and “Student Housing Revenue Bonds 2013 AR-3” in the amount of \$16,300,000. The Series 2013 AR-1 bonds will mature on July 1, 2023, the Series 2013 AR-2 bonds will mature on July 1, 2033, and the Series 2013 AR-3 bonds will mature on July 1, 2045.

The bonds were sold at a discount of \$356,062 and this discount will be amortized over the life of the bonds. For the year ended June 30, 2018, the Foundation recorded discount amortization in the amount of \$15,051.

Bond issuance cost amounted to \$487,625 and will amortize over the life of the bonds. For the years ended June 30, 2018, the Foundation recorded issuance cost amortization in the amount of \$20,611.

For the years ended June 30, 2018 and 2017, the Foundation recorded bond interest of \$1,653,288 and \$1,658,606, respectively. For the years ended June 30, 2018 and 2017, the Foundation recorded capitalized interest of \$0.

Minimum maturities on the bonds payable of the Foundation for the next five fiscal years are as follows:

2019	\$ 180,000
2020	245,000
2021	315,000
2022	390,000
2023	440,000
Thereafter	<u>23,420,000</u>
Total	<u>\$ 24,990,000</u>

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

19. COMPONENT UNIT DISCLOSURES (CONTINUED)

Restrictions and Limitations on Net Asset Balances:

Temporarily Restricted:

Temporarily restricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Athletic participation	\$ 235,663	\$ 443,162
Students' special projects	28,487	35,213
Academic programs	249,527	145,048
General scholarships	2,430,680	2,608,804
WVSU Foundation programs	2,602,199	2,004,523
Investment income and net appreciation	<u>2,477,099</u>	<u>2,138,774</u>
	<u>\$ 8,023,655</u>	<u>\$ 7,375,524</u>

Permanently Restricted:

Permanently restricted net assets at June 30, 2018 and 2017 consisted of the following:

	2018	2017
Endowment principal	\$ 7,072,900	\$ 6,967,135

Compensated Absences — Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Foundation's policy is to recognize these costs when actually paid.

Federal Income Taxes — The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, West Virginia State University Foundation Properties, Inc., is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

20. NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2018 and 2017, the following table represents operating expenses within both natural and functional classifications:

	2018								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	\$ 8,363,937	\$ 2,184,771	\$ 357,227	\$ -	\$ 18,117	\$ -	\$ -	\$ -	\$ 10,924,052
Research	2,356,108	504,089	5,200,340	40,277	13,500	-	-	-	8,114,314
Public service	1,688,454	411,359	1,616,414	42,341	-	-	-	-	3,758,568
Academic support	769,194	98,756	368,052	51,608	4,107	-	-	-	1,291,717
Student services	1,290,894	335,583	485,481	47,984	900	-	-	-	2,160,842
General institutional support	3,797,962	1,101,217	1,292,506	46,961	(128,094)	-	-	-	6,110,552
Operations maintenance of plant	1,223,291	395,907	(3,089,564)	1,239,786	-	-	-	-	(230,580)
Scholarship and fellowship	-	-	-	-	3,075,957	-	-	-	3,075,957
Auxiliary enterprises	1,215,704	290,954	3,845,646	582,399	5,684	-	-	-	5,940,387
Depreciation and amortization expense	-	-	-	-	-	3,499,082	-	-	3,499,082

	2017								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	\$ 8,913,463	\$ 2,207,491	\$ 969,668	\$ 3,900	\$ 47,122	\$ -	\$ -	\$ -	\$ 12,141,644
Research	2,257,082	495,927	3,690,305	20,686	6,600	-	-	-	6,470,600
Public service	1,927,138	446,336	1,771,630	69,350	-	-	-	-	4,214,454
Academic support	739,992	368,841	505,101	25,411	1,140	-	-	-	1,640,485
Student services	1,356,551	382,388	675,908	35,271	2,050	-	-	-	2,452,168
General institutional support	4,108,357	978,530	2,735,492	70,267	-	-	-	-	7,892,646
Operations maintenance of plant	1,198,392	497,198	(148,150)	1,105,017	-	-	-	-	2,652,457
Scholarship and fellowship	-	-	2,500	-	4,839,856	-	-	-	4,842,356
Auxiliary enterprises	1,240,362	205,755	2,896,974	652,530	-	-	-	-	4,995,621
Depreciation and amortization exp	-	-	-	-	-	3,603,447	-	-	3,603,447
Fees assessed by the Commission	-	-	-	-	-	-	-	110,505	110,505
Total	\$ 21,741,337	\$ 5,582,466	\$ 13,099,428	\$ 1,982,432	\$ 4,896,768	\$ 3,603,447	\$ -	\$ 110,505	\$ 51,016,383

WEST VIRGINIA STATE UNIVERSITY

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

21. SERVICE CONCESSION ARRANGEMENTS

The University has adopted GASB Statement No. 60, Accounting and Financial Reporting for Service Concession Arrangements. The University has identified two contracts for services that meet the four criteria of a service concession arrangement (SCA). SCAs are defined as a contract between a government and an operator, another government or 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.

During the entire year ended June 30, 2013 and for the period ending July 31, 2013 of the fiscal year ended June 30, 2014, the University had a contract with AVI Foodsystems, Inc. (AVI) who managed its dining services. The contract began on August 1, 2003 and allowed for nine annual renewals. AVI provided meal plans to students through the University as well as offering cash sales to the University community. The University received annual commission payments from AVI calculated as a contractually agreed percentage of cash sales and the University Paid AVI for the meal plans from fees collected by the University from students. In FY 2014 and 2013, the University received \$40,079 respectively, in commissions.

For the period starting August 1, 2014 of the fiscal year ended June 30, 2014, the University has a contract with Thompson Hospitality who manages its dining services. The contract started August 1, 2013 and allows for six (6) one-year renewals. Thompson Hospitality provides meal plans to student through the University as well as offering cash sales to the University community. The University receives annual commission payments from Thompson calculated as a contractually agreed percentage of cash and credit sales and the University pays Thompson Hospitality for the meal plans based on contractually agree rates from fees collected by the University from students. In FY 2018 and 2017, the University received \$13,128 and \$18,363, respectively in commissions. Initial capital investment and contributions totaling \$1,043,204 were made by Thompson Hospitality and will be billed to the University over the contract periods.

22. DONATION OF ASSETS

The University received a donation of assets (land and buildings) from the WV Department of Administration on June 28, 2013. The net book value of the assets totaled \$52,000 – the historical cost of the land. The buildings donated to the University were condemned by the WV Department of Rehabilitation Services before being turned over to the Department of Administration in FY 2012.

There were no donated assets during the year ended June 30, 2018.

23. OIL & GAS LEASE

The University entered into a lease agreement with Reserve Oil and Gas Company in August 2013. The lease allows for the company to drill up to three wells on campus with 15% royalty to be paid to the University. Royalties in the amount of \$7,978 and \$6,198 were received by the University in FY18 and FY17, respectively.

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

Schedule of Proportionate Share of TRS Net Pension Liability

Measurement Date	University's	University's	State's	Total	University's	University's	University's
	Proportionate					Share as a	Plan Fiduciary
	Share as a	Proportionate	Proportionate	Proportionate	Covered	Share as a	Net Position as a
	Percentage of	Share	Share	Share	Employee	Percentage of	Percentage of
Net Pension Liability		Share	Share	Share	Payroll	Covered Payroll	Total Pension
June 30, 2017	0.03%	\$ 936,039	\$ 2,075,280	\$ 3,011,319	\$ 747,829	125.17%	68%
June 30, 2016	0.03%	1,288,208	2,453,693	3,741,901	810,120	159.01%	61%
June 30, 2015	0.03%	1,032,299	2,355,461	3,387,760	903,085	114.31%	66%
June 30, 2014	0.03%	1,198,042	2,706,856	3,904,898	903,085	132.66%	65%

Schedule of Employer Contributions

Measurement Date	Actuarial	Actual	Contribution	Covered	Actual Contribution
	Determined		Deficiency		as a percentage of
	Contribution	Contribution	(Excess)	Payroll	Covered Payroll
June 30, 2017	\$ 112,174	\$ 112,174	\$ -	\$ 747,829	0.149999532
June 30, 2016	112,518	112,518	-	810,120	13.89%
June 30, 2015	135,463	135,463	-	903,085	15.00%
June 30, 2014	159,923	159,964	(41)	1,066,427	15.00%

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, 2018**

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

REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF OPEB LIABILITY AND CONTRIBUTIONS

Schedule of Proportionate Share of Net OPEB Liability

Measurement Date	University's Proportionate Share as a Percentage of Net OPEB 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 OPEB Liability
June 30, 2017	0.272728825%	\$ 8,260,158	\$ 2,075,280	\$ 10,335,438	\$ 20,882,082	9.94%	25.10%

Schedule of Employer Contributions
(In Thousands)

Measurement Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
June 30, 2017	\$ -	\$ -	\$ -	\$ 20,882,082	0.00%

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, 2018

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

CERTIFICATE REGARDING DEBT SERVICE COVERAGE

Pursuant to Subsection 8(a) of the Loan and Security Agreement dated as of February 1, 2014 (the "Loan Agreement"), by and between the West Virginia State University Board of Governors and Capital One Public Funding, LLC, the duly authorized officer of the Board of Governors and the Certified Public Accountant hereby certifies as follows:

1. Capitalized terms used and not otherwise defined in this Debt Service Coverage Certificate have the respective meanings given them in the Loan Agreement.

2. **Mrs. Kristi Williams** is the duly appointed, qualified and interim **Vice President of Business & Finance** of the Board of Governors (the "Authorized Representative") and, as such, is familiar with the facts herein certified and is authorized and qualified to certify the same and has made or caused to be made such examination or investigation as is necessary to enable the undersigned to express an informed opinion with respect to the subject matter herein.

3. The Authorized Representative has read the reporting requirements set forth in Section 8 of the Loan Agreement and the affirmative covenants set forth in Section 9 of the Loan Agreement and the definitions relating thereto.

4. Delivered herewith is a full, true and correct copy of the audited financial statements of the University for its fiscal year ended June 30, 2017 (the "Audited Annual Financial Statements") together with the executed unqualified opinion of independent certified public accountants with respect thereto, all as required in accordance with Section 8 and Section 9 of the Loan Agreement; the Audited Annual Financial Statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis.

5. No Default or Event of Default has occurred under the Loan Agreement during the period subject to the Audited Annual Financial Statements or thereafter to the date hereof, except None [provide reasonable detail if any Default or Event of Default has occurred and otherwise indicate "*None*"]

6. The audited amount of Pledged Revenues for the immediately preceding Fiscal Year (as reflected in or derived from the Audited Annual Financial Statements) is **\$704,658**. Such Pledged Revenues can be found as part of the Auxiliary Enterprise Revenue line item on page 14 of the financial statements for the fiscal year ending June 30, 2016. (Statement of Revenues, Expenses, and Changes in Net Position).

7. The Maximum Annual Debt Service which will come due on the Note in the current or any succeeding Fiscal Year is **\$243,114**, as reflected in fiscal year 2018 in the attached Final Numbers from the closing of the loan in February 2014.

8. The Debt Service Coverage for the immediately preceding Fiscal Year is determined as follows:

DEBT SERVICE COVERAGE RATIO

A.	Pledged Revenues	\$602,312
B.	Maximum Annual Debt Service	\$243,114
C.	Ratio of Line A to Line B	2.477: 1.00
D.	Line C must not be less than	1.50:1.00
E.	The Board of Governors is in compliance (circle one)	<input checked="" type="radio"/> Yes <input type="radio"/> No



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 State University
Charleston, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Virginia State University and its discretely presented component unit, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise West Virginia State University's basic financial statements, and have issued our report thereon dated October 25, 2018. The financial statements of the West Virginia State University Foundation, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered West Virginia State 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 State University's internal control. Accordingly, we do not express an opinion on the effectiveness of West Virginia State 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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*.

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 the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
October 25, 2018