

WEST VIRGINIA UNIVERSITY

*Financial Statements
for the Years Ended June 30, 2015 and 2014
and Independent Auditors' Reports*

WEST VIRGINIA UNIVERSITY

TABLE OF CONTENTS

| | Page |
|---|-------------|
| INDEPENDENT AUDITORS' REPORT | 1-2 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS (RSI) (UNAUDITED) | 3-21 |
| FINANCIAL STATEMENTS FOR YEARS ENDED JUNE 30, 2015 AND 2014: | |
| Statements of Net Position | 22-23 |
| Statements of Revenues, Expenses and Changes in Net Position | 24-25 |
| Statements of Cash Flows | 26-27 |
| Notes to Financial Statements | 28-84 |
| REQUIRED SUPPLEMENTARY INFORMATION (RSI) | 85 |
| 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 <i>GOVERNMENT AUDITING STANDARDS</i> | 86 |

INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of West Virginia University (the University), a campus of the West Virginia Higher Education Policy Commission as of and for the years ended June 30, 2015 and 2014, and the related statements of revenue, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the University as of June 30, 2015 and 2014, and the changes in financial position and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matters

As discussed in Note 1, the financial statements present only West Virginia University and do not purport to, and do not present fairly the financial position of the West Virginia Higher Education Policy Commission as of June 30, 2015 and 2014, the changes in its financial position, or cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

During fiscal year ended June 30, 2015, West Virginia University adopted the provisions of Governmental Accounting Standards Board Statement (GASB) No. 68, Accounting and Financial Reporting for Pensions and the related GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. As a result of the implementation of these standards, West Virginia University reported a restatement for the change in accounting principle (see Note 2). Our auditors' opinion was not modified with respect to the restatement.

Other Matters

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2015, on our consideration of West Virginia University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the result of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering West Virginia University's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Plymouth Meeting, Pennsylvania
December 14, 2015

WEST VIRGINIA UNIVERSITY

Management's Discussion and Analysis (Unaudited) Year Ended June 30, 2015

Overview

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board ("GASB"). This section of West Virginia University's (the "University" or "WVU") annual financial report provides an overview of the University's financial performance during the fiscal year ended June 30, 2015 as compared to the previous fiscal year. Comparative analysis is also presented for fiscal year 2014 compared to fiscal year 2013.

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

Financial Highlights

At June 30, 2015, the University's total net position increased from the previous year-end by \$49.6 million. During fiscal year 2015, the University adopted two new accounting standards related to pensions, resulting in a change in accounting principle. As a result, the net position at the beginning of fiscal year 2015 was restated by \$13.8 million, representing the cumulative effect of such change in accounting principle. The increase in net position is primarily attributable to significant increases in capital assets, net of depreciation, investments, and amounts receivable at year-end from vendors, students and grantors. This increase in net position was partially offset by increases in bonds payable, accounts payable, real estate purchase agreement payable, other post-employment benefits ("OPEB") liability, net pension liability, unearned revenue, and accrued payroll as well as a decrease in cash balances.

Total revenues in fiscal year 2015 were \$1.1 billion, a 7.7% increase over prior year, primarily due to an increase in capital grants and gifts revenue. Excluding capital grants and gifts revenues, total revenues were \$982.2 million, an increase of 0.70% compared to last year. During fiscal year 2015 increases in net tuition and fee revenues, auxiliary revenues and gift revenues were partially offset by increases in several categories of expenses such as: salaries and wages, benefits, supplies and other services, and depreciation. Total expenses increased 5.2% from prior year.

Total net position had increased from fiscal year 2013 to fiscal year 2014 by \$23.1 million attributable to significant increases in cash and net capital assets, as well as decreases in long-term debt payable, unearned revenue and accrued liabilities.

Net Position

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

Net Position is displayed in three components:

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

Restricted. This category includes assets, the use of which is restricted, either due to externally imposed constraints or because of restrictions imposed by law. Restricted assets are reduced by liabilities and deferred inflows of resources related to those assets. They are further divided into two additional components - nonexpendable and expendable. **Nonexpendable restricted component** includes endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity and invested for the purpose of producing present and future income, which may either be expended or added to principal. **Expendable restricted component** includes resources for which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

Condensed Schedule of Net Position (in thousands)

| | <u>As of June 30</u> | | |
|---------------------------------------|----------------------|---------------------|---------------------|
| | <u>2015</u> | <u>2014</u> | <u>2013</u> |
| Assets | | | |
| Current Assets | \$ 201,172 | \$ 193,429 | \$ 183,160 |
| Capital Assets, Net | 1,531,269 | 1,351,814 | 1,306,753 |
| Other Noncurrent Assets | 339,583 | 265,883 | 321,068 |
| Total Assets | <u>2,072,024</u> | <u>1,811,126</u> | <u>1,810,981</u> |
| Deferred Outflows of Resources | 15,336 | 14,480 | 15,033 |
| TOTAL | <u>\$ 2,087,360</u> | <u>\$ 1,825,606</u> | <u>\$ 1,826,014</u> |
| Liabilities | | | |
| Current Liabilities | \$ 177,775 | \$ 147,186 | \$ 153,792 |
| Noncurrent Liabilities | 980,503 | 822,122 | 839,518 |
| Total Liabilities | <u>1,158,278</u> | <u>969,308</u> | <u>993,310</u> |
| Deferred Inflows of Resources | 37,604 | 642 | 105 |
| TOTAL | <u>\$ 1,195,882</u> | <u>\$ 969,950</u> | <u>\$ 993,415</u> |
| Net Position | | | |
| Net Investment in Capital Assets | \$ 943,937 | \$ 867,614 | \$ 869,235 |
| Restricted for: | | | |
| Nonexpendable | 17,398 | 7,045 | 5,961 |
| Expendable | 7,707 | 23,586 | 21,846 |
| Unrestricted Net (Deficit) | (77,564) | (42,589) | (64,443) |
| TOTAL NET POSITION | <u>\$ 891,478</u> | <u>\$ 855,656</u> | <u>\$ 832,599</u> |

Total assets of the University increased by about \$260.9 million, or 14.4%, to a total of \$2.1 billion as of June 30, 2015. The increase was primarily due to increases in net capital assets, investments, accounts receivable from students, grantors and employees, amounts receivable from public private partnerships, and prepaid expenses. These increases were partially offset by decreases in cash and cash equivalents, amounts due from the Monongalia County Commission and appropriations due from primary government (State of WV).

- Cash and cash equivalents (including restricted cash) decreased by \$61.7 million primarily because cash on deposit with trustees was used to purchase investments. A further reduction in cash was caused by the purchase of land and buildings in Beckley, WV for a new campus, amounts drawn down for capital projects funded by bond proceeds, as well as payment of an annual user fee for OASIS - WV State's newly implemented enterprise resource planning system. Cash and cash equivalents had increased by \$19.1 million from fiscal year 2013 to fiscal year 2014 primarily due to an increase in the deposits with trustees representing matured bond investments.
- Appropriations due from primary government represent both unspent appropriations in the State General funds at fiscal year-end and re-appropriated funds. Such unspent funds at June 30, 2015 were \$3.0 million lower than appropriations due from primary government, in the amount of \$5.9 million, recorded at the end of fiscal year 2014.
- Accounts receivable, net (both current and noncurrent), experienced a significant increase of \$17.5 million over fiscal year 2014 balances. Increases occurred in several areas as follows:
 - amounts receivable from grants sponsoring agencies, including private sponsors such as the WVU Foundation and Sharpe Hospital, increased by approximately \$6.0 million;
 - tuition and fees due from students increased by \$3.8 million mainly due to timing of payments expected from third party sponsors on behalf of the students;
 - \$6.1 million represents an increase in amounts due from the University's employees who were issued a no hardship payment in September 2014 when the University converted all employees to arrears payroll.

These increases in accounts receivable balances were partially offset by an increase in an allowance for doubtful accounts. Net accounts receivable had experienced a decrease of \$3.4 million from fiscal year 2013 to fiscal year 2014 mainly as a result of better collection efforts on both grantor and student accounts, as well as write-off of uncollectible, aged student account balances at the end of fiscal year 2014.

- Accounts receivable from public private partnerships increased by \$6.2 million representing amounts due from the University's private student housing partners for reimbursable expenses, management fees and additional rent related to fiscal year 2015. No such accounts receivable amounts were noted during fiscal year 2014.
- Amounts due from the County Commission, representing unreimbursed construction expenditures, decreased by \$2.8 million. The Monongalia County Commission created an Economic Opportunity Development District, wherein the University bought approximately nine acres of land for the development and construction of a baseball park. WVU serves as the developer of the project, with construction expenditures reimbursed to the University from the proceeds of excise tax revenue bonds issued by the County Commission. Amounts due by the County Commission had increased by \$3.2 million from fiscal year 2013 to fiscal year 2014 primarily because of unreimbursed baseball park construction expenditures incurred by the University at June 30, 2014.
- Prepaid expenses increased by \$3.8 million mainly due to Information Technology Services licenses and system support agreements that were paid in advance during fiscal year 2015 but which will not be used until the next fiscal year. No significant changes were noted in this category from fiscal year 2013 to fiscal year 2014.

- Investments increased by \$118.3 million primarily due to the purchase of U.S. Government securities, U.S. Government-backed money market funds, and FDIC insured certificate of deposits from proceeds of the WVU 2014 Improvement Revenue bonds. Investments had decreased by \$70.2 million from fiscal year 2013 to fiscal year 2014 primarily due to sale of U.S. Treasury notes and bonds to fund construction activity on campus.
- Capital assets, net increased by \$179.5 million primarily due to acquisition of land and buildings, completion of improvements to land, building and infrastructure, and ongoing construction of buildings.
 - During fiscal year 2015, ownership of College Park and University Place – \$34.9 million and \$75.4 million mixed-use facilities including student housing – was transferred to the University by its public-private partners, ACC OP (College Park, WV) LLC and West Virginia Campus Housing LLC, respectively.
 - In June 2015 the University acquired land and buildings for \$8.0 million from the Mountain State University in Beckley, WV for a new campus.
 - During fiscal year 2015, the University purchased approximately six acres of land in the City of Granville, Monongalia County, for the construction of a parking facility to serve the parking needs of its baseball stadium.
 - Improvements to the following buildings were completed during the fiscal year: the Art Museum, Evansdale Library, Milan Puskar meeting rooms, classrooms and offices at the Health Sciences Center, and student residence halls at the Potomac State College (“PSC”) regional campus. The University also completed infrastructure improvement projects in Evansdale and to the PRT system, as well as land improvements to the Baseball Park parking lot and the PSC soccer stadium.
 - Major construction-in-process projects included: Agricultural Sciences Building II; renovations to the Milan Puskar Stadium, Law Center, and the Multiple Sclerosis Research Center; Evansdale traffic flow; upgrades to the PRT; energy performance projects; and several internally developed software projects.
 - The University received donated right-to-use software, valued at \$2.5 million from Schlumberger Corporation during fiscal year 2015.

The increase in capital assets during fiscal year 2015 is consistent with but considerably higher than the increase of \$45.1 million noted in this category from fiscal year 2013 to fiscal year 2014.

The University adopted the provisions of GASB Statement No. 68, “*Accounting and Financial Reporting for Pensions*,” and Statement No. 71, “*Pension Transition for Contributions Made Subsequent to the Measurement Date*” in fiscal year 2015. Accordingly, at June 30, 2015 the University reported deferred outflows related to pensions, in the amount of \$1.4 million, representing employer contributions made by the University during fiscal year 2015 (after the measurement date of June 30, 2014), to a defined benefit pension plan - the WV State Teachers Retirement System (TRS). The University also reported the unamortized balance of a deferred loss on refunding related to the defeasance of the 2004 Bonds as deferred outflows of resources. The deferred loss on refunding is the difference between the reacquisition price and the net carrying amount of the refunded bonds and will be recognized as a component of interest expense over the remaining life of the refunded debt. The reduction in the amount from fiscal year 2014 to 2015 denotes the annual amount amortized to interest expense.

Total liabilities for the year increased by \$188.9 million (or 19.5%). This increase in total liabilities is primarily attributable to increases in bonds payable, real estate purchase agreement payable, OPEB liability, net pension liability, unearned revenue, accounts payable, accrued payroll, accrued liabilities, advances from the Federal government and the recognition of a net pension liability. This increase was partially offset by decreases in the reported debt service assessment payable to the Commission, and leases payable.

- Accounts payable increased by \$10.3 million primarily due to large unpaid invoices at year-end related to the construction of the Agricultural Sciences building, renovations to the Milan Puskar stadium and upgrades to the PRT system. Additional increases were caused by student health insurance premiums due to Aetna, unpaid grants-related invoices, and amounts due to West Virginia Campus Housing for additional rent related to University Place, at year-end. No significant change was noted in accounts payable from fiscal year 2013 to fiscal year 2014.
- Accrued liabilities increased by \$3.9 million primarily as a result of an increase in accrual for bond interest expense payable in the next quarter. An additional increase was due to the expected asbestos remediation outlays recorded as an expense in fiscal year 2015. Accrued liabilities had decreased by \$2.1 million from fiscal year 2013 to fiscal year 2014.
- Accrued payroll increased by \$6.5 million mainly because about 1,600 employees were converted to arrears payroll during fiscal year 2015. Until September 2014, these employees were paid current. The increase reflects payroll and fringes paid in arrears but incurred (services performed) during fiscal year 2015. No significant increase was noted in this category from fiscal year 2013 to fiscal year 2014.
- Unearned revenue increased by \$8.3 million primarily due to student tuition, fees, room and board revenues, for the 2015 summer term, that were received in fiscal year 2015 but will not be earned until the summer term is completed and instruction provided at the beginning of the next fiscal year. An additional increase was caused by research trust funds received in advance from the WVU Foundation. These increases were partially offset by a decrease in season football tickets and parking sold in advance. Unearned revenue had decreased by \$5.7 million from fiscal year 2013 to fiscal year 2014 due to a reduction in revenue received in advance from grant awards.
- Real estate purchase agreement payable increased by \$10.4 million primarily due to a \$13.2 million lease purchase agreement executed with WesBanco Bank, Inc. during fiscal year 2015 to finance the cost of land acquisitions at the University Park in Evansdale campus. This increase was partially offset by annual payments on prior purchase agreements payable as well as a \$2.3 million B&O tax credit received from the City of Morgantown against a purchase agreement recorded previously for the Square at Falling Run property. No significant change was noted in this category from fiscal year 2013 to fiscal year 2014.
- Debt service assessment payable to the Commission decreased by \$4.7 million due to scheduled debt service (principal) payments in fiscal year 2015. This decrease is consistent with the decrease in such liability from fiscal year 2013 to fiscal year 2014 of \$4.8 million.
- Leases payable decreased by \$1.7 million due to scheduled principal payments made during the year. This decrease is consistent with the decrease in such liability from fiscal year 2013 to fiscal year 2012 of \$1.8 million.
- Bonds payable increased by \$130.8 million mainly due to the issuance of \$189.2 million in improvement revenue and refunding bonds during fiscal year 2015 to finance various capital projects on campus and to current refund the 2011 Series C Bonds. The increase was partially offset by scheduled bond principal payments during the year. Bonds payable had experienced a decrease of \$13.3 million from fiscal year 2013 to fiscal year 2014 due to scheduled bond principal payments during fiscal year 2014.
- OPEB liability increased by \$9.1 million due to the accrual of fiscal year 2015 annual required contribution (“ARC”) allocated to WVU by the WV Retiree Health Benefit Trust. The OPEB liability represents WVU’s accumulated unpaid ARC to the Trust. The ARC remains unpaid because State higher education institutions have been instructed not to pay the ARC since the issue is being addressed at the State level. OPEB liability had increased by \$3.3 million from fiscal year 2013 to fiscal year 2014.

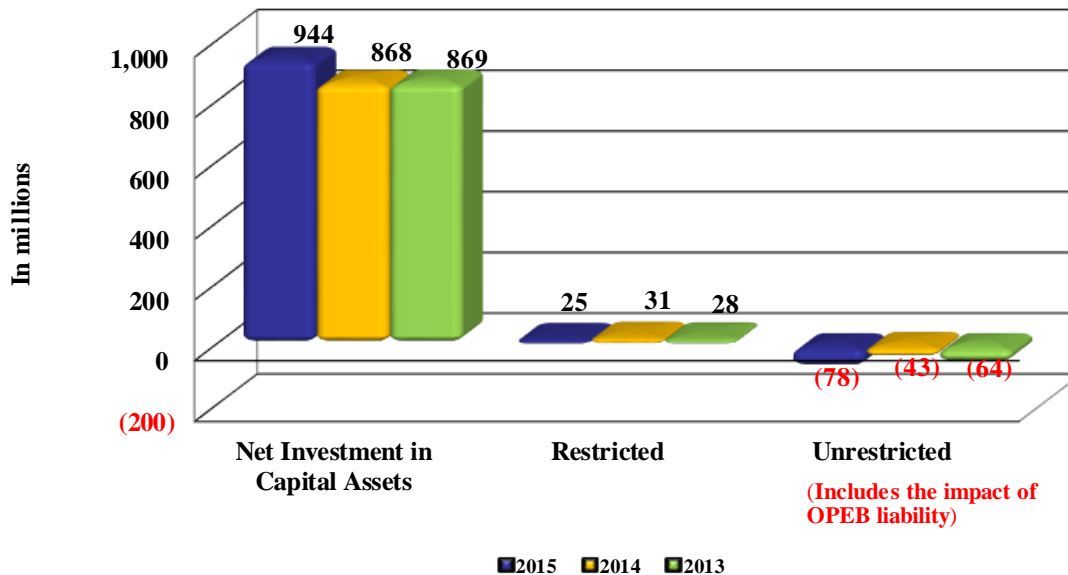
- During fiscal year 2015, the University recorded \$11.3 million as its proportionate share of the net pension liability of the TRS, in accordance with GASB Statements No. 68. The TRS is a cost-sharing multiple employer defined benefit public employee retirement system administered by the WV Consolidated Public Retirement Board. Some employees of the University are enrolled in the TRS. As a participant in the TRS, the University is required to recognize its proportionate share of the collective pension benefits provided through the plan and as employees earn those pension benefits. The proportionate share is calculated based on employer and non-employer contributions to TRS.
- Advances from the federal government increased by \$4.9 million due to a revised methodology used to calculate the liability for all federal loans, including Perkins loans, issued to students. The original federal contribution, adjusted by any accumulated earnings and program expenses during the existence of the program, must be returned to the federal government in case of termination or dissolution of the loan program. Such amounts owed to the federal government are reported as a liability. The University modified its methodology to using the federal and institutional capital contributions for the purpose of allocating the loan assets between federal liability and institutional net position. No such change in the advances from federal government was noted from fiscal year 2013 to fiscal year 2014.

In accordance with the provisions of GASB Statement No. 68, *“Accounting and Financial Reporting for Pensions,”* and Statement No. 71, *“Pension Transition for Contributions Made Subsequent to the Measurement Date,”* during fiscal year 2015, the University recorded deferred inflows related to pensions in the amount of \$2.9 million. These deferred inflows represent the University’s proportionate share of net difference between projected and actual investment earnings on TRS investments, difference between employer contributions and proportionate share of contributions, as well as changes in proportion. During fiscal year 2015, the University entered into an agreement with ACC OP (College Park, WV) LLC to operate College Park, a multi-use facility including student housing, owned by WVU. The agreement met the definition of a service concession arrangement (“SCA”) under the provisions of GASB Statement No. 60, *“Accounting and Financial Reporting for Service Concession Arrangements.”* Accordingly, the University recorded a capital asset (buildings) and a corresponding deferred service concession arrangement for \$34.9 million. The deferred SCA will be amortized over the lease term of forty years to capital grants and gifts revenue. The University also recorded Pell grant monies provided for financially eligible students before the start of the semester as well as reclassified gain on refunding of HSC loans in FY 2013 as deferred inflows of resources.

The University’s current assets of \$201.2 million were sufficient to cover current liabilities of \$177.8 million indicating that the University maintained sufficient available resources to meet its current obligations as of June 30, 2015.

The following is a comparative illustration of net position.

COMPARISON OF NET POSITION June 30, 2015, 2014 and 2013



Net investment in capital assets increased by \$76.3 million mainly due to an increase in capital assets, net, an increase in investments with the bond trustee, and decreases in debt service assessment payable to the Commission and leases payable. This increase was partially offset by increases in bonds payable and real estate purchase agreement payable. Net investment in capital assets had decreased by \$1.6 million from fiscal year 2013 to fiscal year 2014 primarily due to a significant decrease in investments with the bond trustees.

The restricted component of the net position decreased by \$5.5 million mainly because of an increase in liability associated with Perkins and other federal loans, as well as a reduction in the net loans receivable from students resulting from a decrease in the allowance for doubtful accounts, calculated in accordance with a revised methodology adopted by the University during fiscal year 2015. This category had experienced an increase of \$2.8 million from fiscal year 2013 to fiscal year 2014 due to increases in endowed investments related to loans and cash balance in capital projects category.

The unrestricted component of the net position decreased by approximately \$34.9 million primarily due to the recognition of the net pension liability, as well as increases in the OPEB liability, year-end payroll accrual for salaries paid in arrears as a result of the conversion of about 1,600 employees to arrears payroll during fiscal year 2015, large unpaid construction-related invoices at year-end and increase in deferred tuition, fees, room and board revenues related to the 2015 summer term. These increases were partially offset by increases in accounts receivable and prepaid expenses. This component of net position had increased by approximately \$21.9 from fiscal year 2013 to fiscal year 2014 primarily due to increases in investments with the Foundation and appropriations due from the primary government, as well as a decrease in vouchers payable balance at year end.

Revenues, Expenses and Changes in Net Position

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

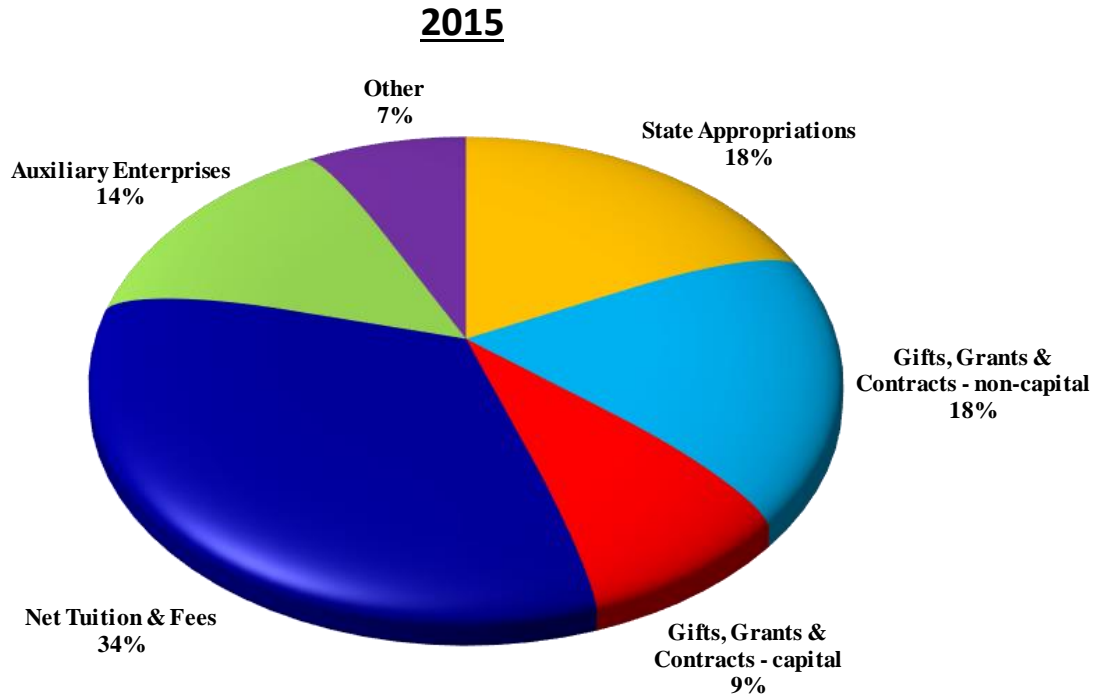
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the West Virginia Legislature (the "Legislature") to the University without the Legislature directly receiving commensurate goods and services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

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

| | Years Ended June 30 | | |
|--|----------------------------|-------------|-------------|
| | 2015 | 2014 | 2013 |
| Operating Revenues | \$ 717,137 | \$ 706,075 | \$ 683,240 |
| Operating Expenses | 1,001,523 | 955,091 | 945,818 |
| Operating Loss | (284,386) | (249,016) | (262,578) |
| Net Nonoperating Revenues | 236,636 | 245,828 | 258,026 |
| Loss before Other Revenues, Expenses, Gains or Losses | (47,750) | (3,188) | (4,552) |
| Capital grants and gifts | 95,747 | 24,150 | 21,560 |
| Capital grants (federal) | - | 2,255 | 10,894 |
| Capital bond proceeds from the State | 6 | 158 | 1,982 |
| Bond proceeds/capital projects proceeds from the Commission | 1,646 | 274 | 4,147 |
| Gain from early extinguishment of debt | - | - | 592 |
| Other expenses | - | (592) | - |
| Increase in Net Position | 49,649 | 23,057 | 34,623 |
| Net Position - Beginning of Year | 855,656 | 832,599 | 797,976 |
| Cumulative Effect of Change in Accounting Principle | (13,827) | - | - |
| Net Position - Beginning of Year, As Restated | 841,829 | 832,599 | 797,976 |
| Net Position - End of Year | \$ 891,478 | \$ 855,656 | \$ 832,599 |

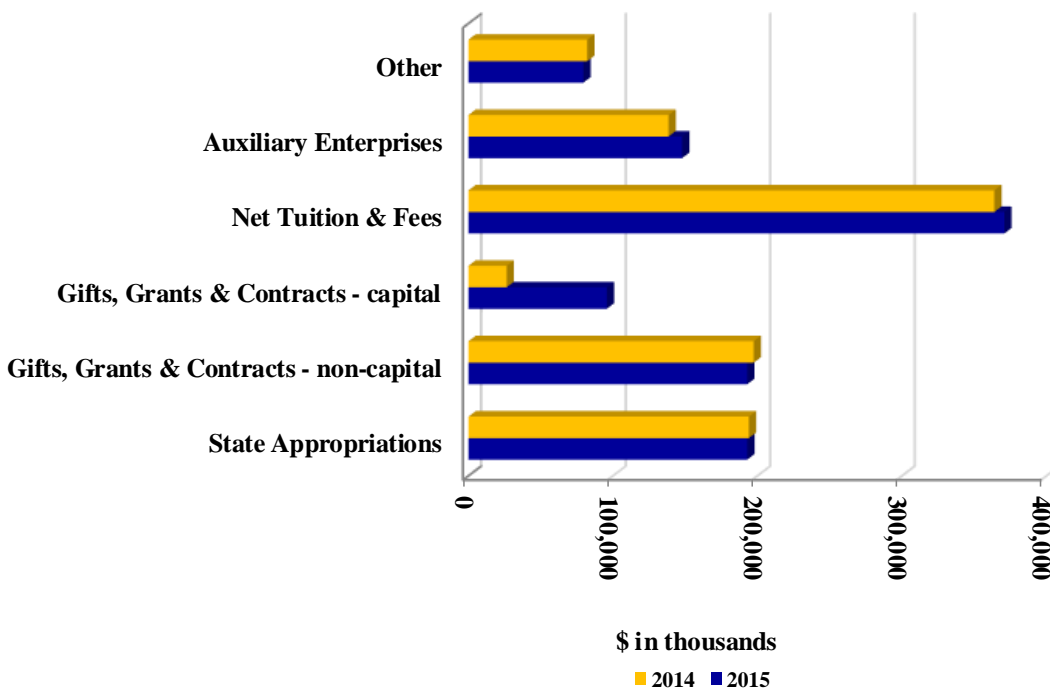
Revenues:

The following chart illustrates the composition of revenues by source for fiscal year 2015.



Total fiscal year 2015 revenues increased significantly compared to fiscal year 2014. The University experienced growth in several categories of revenue sources, most notably in revenues from capital grants and gifts, auxiliary enterprises and other gifts. These increases were partially offset by a decline in non-capital grants and contracts revenues, State appropriations and investment income.

Trend in Revenues



Total revenues for fiscal year 2015 were \$1,079.6 million, which represented an increase of \$77.4 million or 7.7% from the prior year. The most significant sources of revenue for the University are tuition and fees, grants and contracts, and State appropriations. Some highlights of the information presented on the statement of revenues, expenses, and changes in net position are as follows:

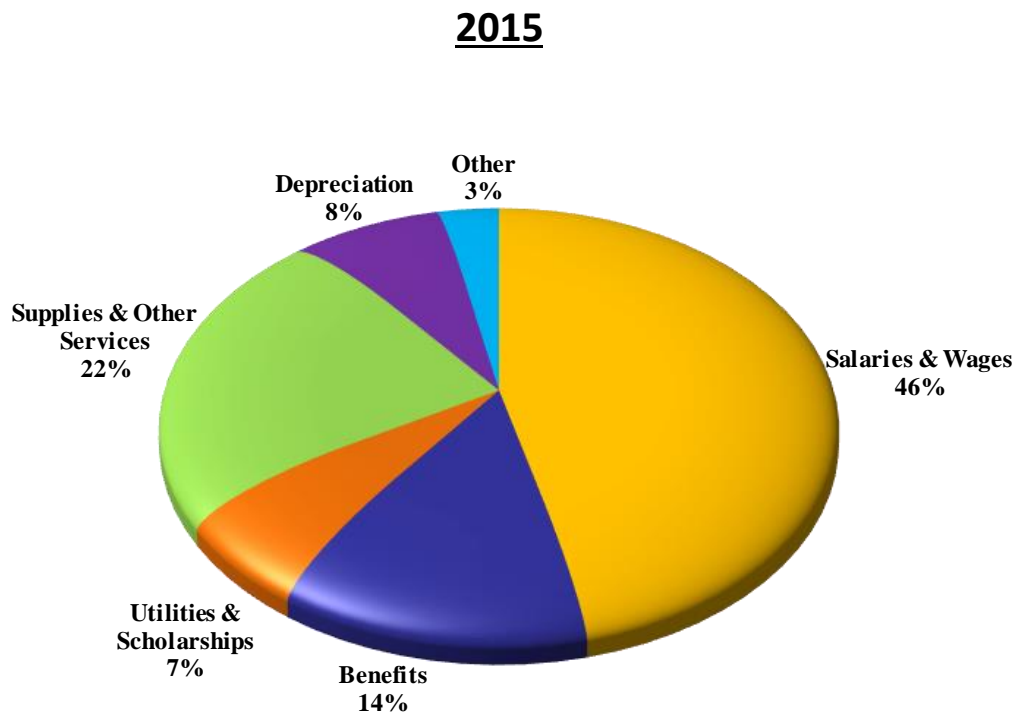
- Tuition and fees, net increased by \$6.9 million primarily due to an increase in the fee rate of 6% for resident and 4% for non-resident students. This increase was partially offset by an increase in the scholarship allowance of \$6.1 million due to more institutional resources used for awarding financial aid. An additional factor offsetting the increase in tuition and fee revenues is an increase in the allowance for doubtful student accounts. This net increase and tuition and fees revenue is consistent with but lower than the net increase of \$17.3 million in the prior year.
- Grants and contracts revenue (non-capital related) decreased by \$4.4 million mainly due to reduced revenues from existing non-governmental and federal awards, including ARRA awards, as well as closure of several awards during fiscal year 2015. This decrease was partially offset by increased revenues from state awards. An increase of \$1.3 million was noted in this revenue category from fiscal year 2013 to fiscal year 2014.
- Auxiliary revenue, net increased by \$9.4 million primarily due to an increase in athletics revenue, auxiliary fee revenue and revenue from public private partnerships. This increase was partially offset by a decrease in room revenue. Athletics revenue increased mainly because of increase in revenues from the Big 12 Athletic Conference, corporate sponsorships, concession receipts, football guarantees, and men's basketball and football camps. This increase in Athletics revenue was partially offset by decreases in third tier media rights, royalty receipts and men's football and basketball season game tickets sales. Auxiliary fee revenue increased due to increases in Personal Rapid Transit ("PRT") fees. Revenue from public private partnerships includes management fees received and due from the University's private developer-partners as well as the University's share of net revenues from the operation of College Park. Room revenue decreased primarily due to a decrease in occupancy in residence halls. This increase in auxiliary revenue is consistent with but higher than the increase of \$3.8 million in this category from fiscal year 2013 to fiscal year 2014.
- Total State support decreased by approximately \$1.1 million from the previous year primarily due to reduced general appropriations from the State. This decrease was partially offset by an increase in soft drink tax revenues during fiscal year 2015. State support had experienced a decrease of \$17.1 million from fiscal year 2013 to fiscal year 2014 as a result of permanent base budget reductions in general appropriations from the State as well as lower soft drink tax revenues.
- Payments on behalf of the University increased by \$3.8 million primarily due to B&O tax credits received from the City of Morgantown against a purchase agreement recorded previously for the acquisition of the Square at Falling Run property. An additional increase was due to recognition of the University's proportionate share of contributions made by the State to the Teacher's Retirement System on behalf of participating employers. No significant change was noted in this revenue category from fiscal year 2013 to fiscal year 2014.
- Gift revenues increased by \$7.4 million primarily due to an increase in activity in the WVU Foundation back bill accounts. The WVU Foundation accounts, including the Research Trust Fund awards, reimburse the University for various expenses incurred, including salaries and supplies. Such reimbursement is recorded as gift revenue to the University. An additional increase is attributable to non-capital donations from West Virginia Campus Housing, LLC for the University Place as well as an increase in WVU Foundation funds used to pay for academic scholarships and debt service payments. Gift revenues did not experience a significant change from fiscal year 2013 to fiscal year 2014.
- Investment income decreased by \$11.6 million primarily due to a significant decline in the fair value of investments with the Foundation. This decrease was partially offset by an increase in realized gains from the

sale of investments with the Foundation. Investment income had experienced an increase of \$4.2 million from fiscal year 2013 to fiscal year 2014.

- Other net non-operating (expenses) revenues changed by \$3.1 million compared to prior year mainly because last year the University had recorded revenue for amounts received for sale of property located at the WVU Research Park to Morgantown GSA, LLC for \$2.9 million. No such revenue was recorded during fiscal year 2015. Other net non-operating revenues had increased by \$2.7 million from fiscal year 2013 to fiscal year 2014.
- Capital grants and gifts, including federal capital grants, increased by \$69.3 million primarily due to the transfer of University Place, a public private student housing partnership with West Virginia Campus Housing, LLC, to WVU, at a value of \$75.4 million. An additional increase is attributable to the donation of \$2.5 million of right-to-use educational software by Schlumberger Corporation. Capital grants and gifts had experienced a decrease of approximately \$6.0 million from fiscal year 2013 to fiscal year 2014 due to significantly reduced revenues from ARRA funded awards.
- Capital projects proceeds from the Commission were recorded during fiscal year 2015 for \$1.6 million. They denote reimbursement from the bond proceeds of the WV HEPC 2012 Bonds for capital projects on the Morgantown campus (Law School renovations) as well as at Potomac State College (Science Hall elevator) and WVU Institute of Technology (Old Main renovations). No such capital payments on behalf of the University were made during the prior year.

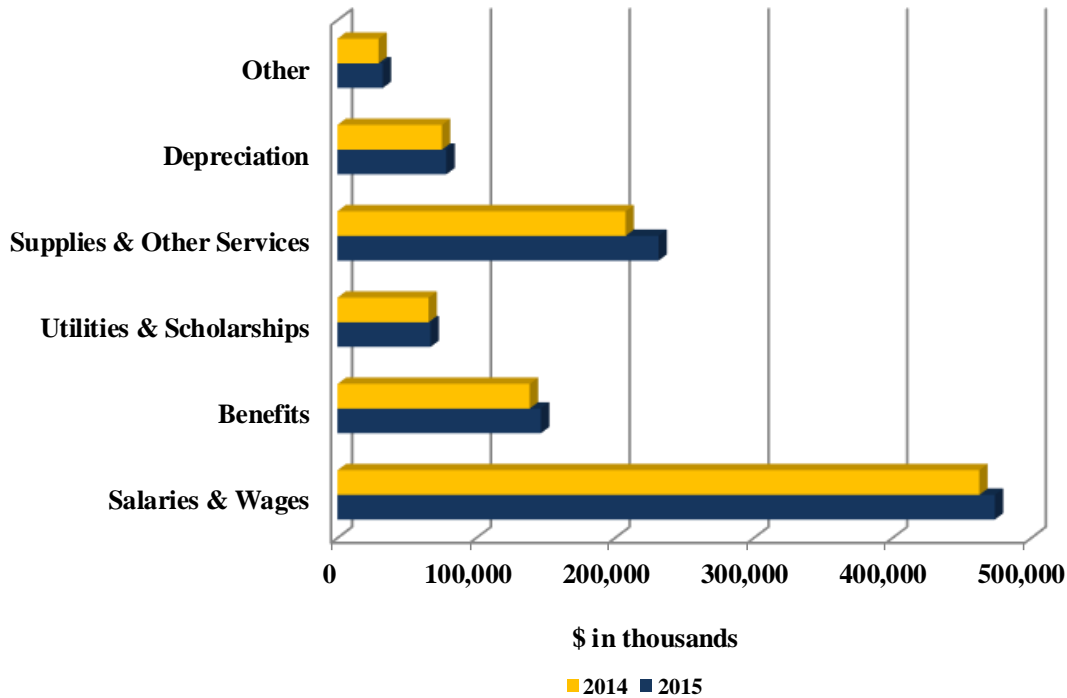
Expenses:

The following graph shows the composition of total expenses by category for fiscal year 2015.



The following chart provides a comparison of expenses by significant category between fiscal years 2015 and 2014.

Trend in Expenses



Total fiscal year 2015 expenses of \$1,029.9 million exceeded those of the prior year by \$50.8 million (or 5.2%). Changes in expense amounts from the prior year are primarily attributed to the following:

- Salaries and wages increased by \$11.2 million from the prior year primarily as a result of an increase in tenure track faculty, non-tenure track faculty and faculty equivalent salaries. This increase is in alignment with one of the five goals of WVU’s strategic plan for 2020 - an investment in hiring and retaining high-quality faculty and researchers. An additional increase in salaries and wages was caused by an increase in the Research Corporation payroll mainly attributable to an increase in number of Research Corporation employees during fiscal year 2015. A comparatively lower increase of \$2.2 million was noted in salaries and wages from fiscal year 2013 to fiscal year 2014.
- Benefits expense increased by \$8.1 million mainly due to an increase in the amount of OPEB expense caused by a significant increase in the annual required contribution rate. Additional increases are attributable to an increase in compensated absences expense resulting from higher annual leave balances at year end, increase in pension expense resulting from implementation of GASB 68, as well as increases in faculty, staff and graduate assistant service related waivers. Benefits expense had experienced a decrease of \$1.0 million from fiscal year 2013 to fiscal year 2014.
- Supplies and other services increased by \$23.7 million attributable to increases in several areas including: computer services, supplies and software as a result of IT purchases of cloud-based data storage systems; payment of an OASIS user fee to support the cost of implementation of a state wide ERP system; Athletics team travel, uniforms and gear, and meals for student athletes; electronic resource subscriptions for the WVU Libraries; routine contracts related to maintenance of donated software; routine maintenance of buildings; medical malpractice insurance; contractual and professional services; vehicle rental; and net adjustments to federal loans liability and corresponding allowance for doubtful loans receivable. Supplies and other services had experienced an increase of \$5.3 million from fiscal year 2013 to fiscal year 2014.

- Depreciation and amortization expense increased by \$3.3 million over prior year primarily due to annual amortization expense related to right-to-use software donated by Schlumberger and Simio Corporations last year as well as partial year amortization of right-to-use software donated by Schlumberger Corporation during fiscal year 2015. Partial year depreciation on University Place, which was transferred to WVU and placed in operation in November 2014, as well as depreciation on construction projects completed and placed in service during fiscal year 2015 also contributed to the increase in depreciation expense. This category had experienced a similar but slightly lower increase of \$1.9 million from fiscal year 2013 to fiscal year 2014.
- Interest on capital-related debt increased by \$3.8 million compared to prior year primarily due to interest expense on improvement and refunding revenue bonds issued during fiscal year 2015 (the 2014 WVU Revenue Bonds). An additional increase is attributable to interest expense on real estate purchase agreement to finance the acquisition of the University Park at Evansdale. The decrease was partially offset by regularly scheduled debt service payments on the remaining 2011 and 2013 Bonds. An increase of \$2.0 million was noted in this category from fiscal year 2013 to fiscal year 2014.

Cash Flows

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

The statement of cash flows is divided into five sections:

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

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

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

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

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

Condensed Schedule of Cash Flows (in thousands)

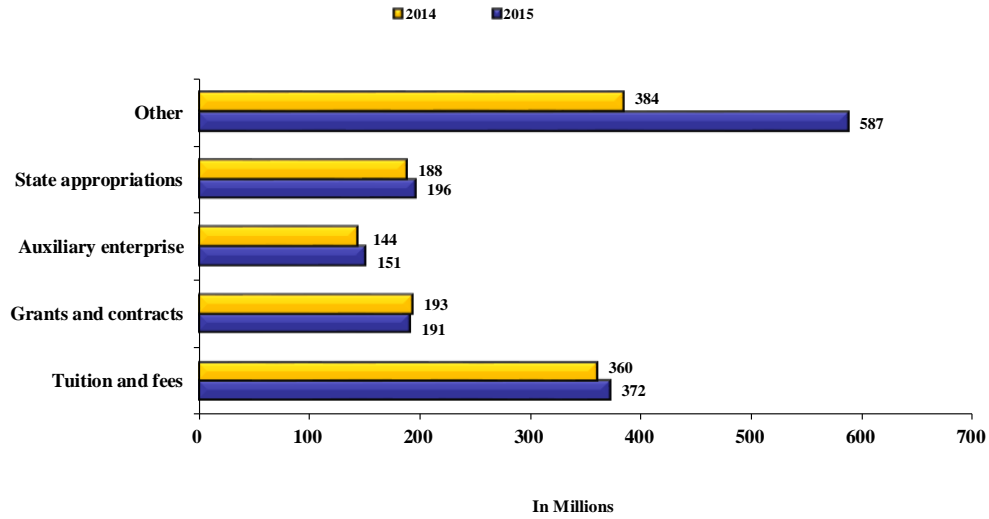
| | Years Ended June 30 | | |
|---|---------------------|-------------------|-------------------|
| | 2015 | 2014 | 2013 |
| Cash Provided By (Used In): | | | |
| Operating Activities | \$ (193,620) | \$ (164,103) | \$ (177,150) |
| Noncapital Financing Activities | 258,319 | 246,967 | 271,041 |
| Capital Financing Activities | (10,918) | (148,355) | (106,624) |
| Investing Activities | (115,434) | 84,603 | 87,003 |
| Increase (Decrease) in Cash and Cash Equivalents | (61,653) | 19,112 | 74,270 |
| Cash and Cash Equivalents, Beginning of Year | 247,580 | 228,468 | 154,198 |
| Cash and Cash Equivalents, End of Year | <u>\$ 185,927</u> | <u>\$ 247,580</u> | <u>\$ 228,468</u> |

Total cash and cash equivalents decreased by \$61.7 million during fiscal year 2015 to \$185.9 million.

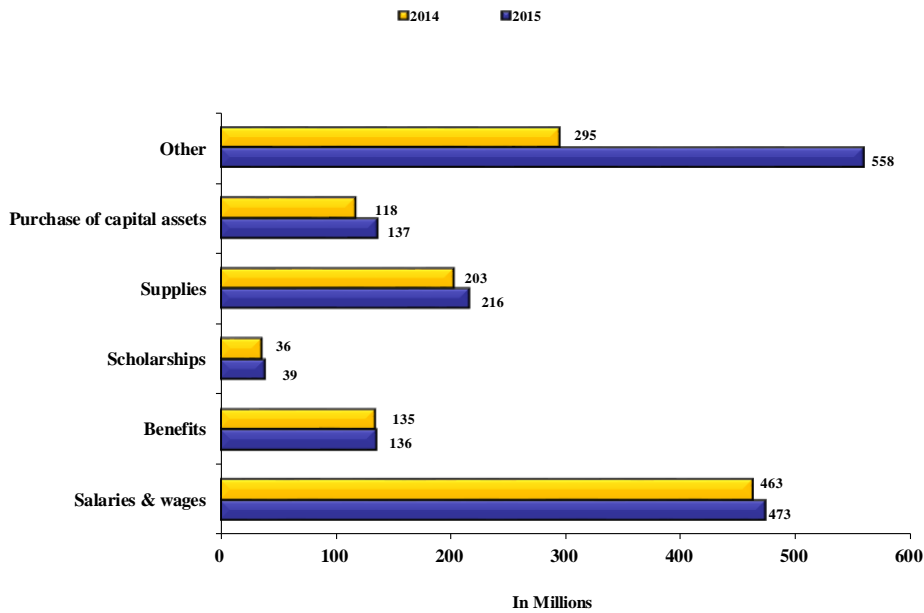
- Net cash used in operating activities increased by \$29.5 million primarily due to an increase in payments to suppliers, payments to employees and payments for public private partnerships and scholarships and fellowships, as well as a decrease in cash inflows from grants and contracts. This increase in cash outflows was partially offset by an increase in cash inflows from tuition and fees and auxiliary enterprise charges. Cash used in operating activities had experienced a decrease of \$13.0 million from fiscal year 2013 to fiscal year 2014.
- Net cash provided by noncapital financing activities increased by \$11.3 million primarily due to an increase in cash inflows from State appropriations and gifts. This increase was partially offset by decreased cash inflow from other non-operating receipts. This category had experienced a decrease of \$30.1 million from fiscal year 2013 to fiscal year 2014.
- Net cash provided by (used in) capital financing activities changed by \$137.4 million primarily due to increase in cash inflows from the issuance of bonds and other capital debt. The increase in cash inflows was partially offset by increased cash outflows for payment of principal and interest on capital debt and leases and increased purchases of capital assets. Capital financing activities had changed by \$35.8 million in fiscal year 2014.
- Net cash provided by (used in) investing activities changed by approximately \$200.0 million primarily due to an increase in purchase of investments from bond proceeds as well as a decrease in cash inflows from redemption of matured investments. In contrast, investing activities had changed by only \$2.4 million in fiscal year 2014.

The following graphs illustrate the sources and uses of cash –

SOURCES OF CASH



USES OF CASH



Capital Asset and Long Term Debt Activity

The University, including the Health Sciences Center and its regional campuses, has a multi-year capital budget including planned capital expenditures of approximately \$468.5 million. The capital plan includes various capital projects to construct, renovate and/or upgrade academic and auxiliary facilities on the University's campuses. These capital projects are being financed through bond proceeds, grants, and other sources of revenues available to the University including internal financing, operational revenue and other financing sources

Significant construction, capital and debt activity in fiscal year 2015 was as follows:

- The University completed improvements to buildings, infrastructure and land as follows: the Art Museum, Evansdale Library, Milan Puskar meeting rooms, classrooms and offices at the Health Sciences Center, student residence halls at the PSC regional campus, Evansdale and PRT infrastructure improvement projects, and land improvements to the Baseball Park parking lot and the PSC soccer stadium. Other on-going capital activity included: construction of the Agricultural Sciences Building II; renovations to the Milan Puskar Stadium, Law Center, and the Multiple Sclerosis Research Center; Evansdale traffic flow; upgrades to the PRT; and several energy performance projects.
- During fiscal year 2015, the University executed the following real estate transactions:
 - Took ownership of College Park and University Place, \$34.9 million and \$75.4 million mixed-use facilities, respectively, including student housing. These facilities were transferred by ACC OP (College Park, WV) LLC and West Virginia Campus Housing LLC, respectively, pursuant to lease and development agreements with them.
 - Acquired land and buildings for \$8.0 million from the Mountain State University in Beckley, WV. The property consists of 14 buildings and 27 houses, over 29.81 acres, including two residence halls, a library, a gym and a student union and bookstore.
 - Acquired 5.6 acres of real property from Mon-View, LLC in the City of Granville, WV for \$2.25 million to construct, operate and maintain a surface parking facility to provide parking for the adjacent baseball park and stadium.
 - The University entered into lease, development, management and operating agreements with University Park at Evansdale LLC (“UPE”) to design, finance and manage the **University Park** (student residence) project.
- The University received donation of right-to-use software from Schlumberger Corporation for educational purposes, valued at \$2.5 million.
- In August 2014, the University entered into a \$13.2 million lease purchase agreement with WesBanco Bank, Inc. for the financing of land acquisitions at the University Park in Evansdale. These parcels of real estate were initially purchased using University funds.
- In November 2014, the University issued improvement revenue bonds, 2014 Series A and Series B (taxable), at a par value of \$139.0 million to finance a portion of the costs of the PRT modernization project and the Athletics project including improvements to the Milan Puskar stadium, the WVU Coliseum and other Athletic facilities. The University also issued variable rate refunding revenue bonds 2014 Series C, in the par amount of \$50.2 million, to currently refund the University's \$50.0 million par value 2011 Series C bonds.

The Commission assesses each public institution of higher education for funds to meet the payment of debt service on various revenue bonds that were issued for the financing of academic and other facilities of the State's universities and colleges, including certain facilities of the University. The bonds remain as a capital obligation of the Commission; however \$62.7 million is reported as debt service assessment payable to the Commission by the University as of June 30, 2015.

At June 30, 2015, the University's bonds were rated as Aa3 and A+ by Moody's and Standard and Poor's respectively.

Economic Outlook

WVU, like many other institutions of higher education, is facing an increasingly challenging operating and financial environment due to a base reduction in state appropriations, an increasingly competitive enrollment environment, an increasingly competitive market for personnel, and reductions in federal support. However, University administration believes that the University is well positioned to meet these challenges through its prudent financial planning and management practices. These practices are designed to promote growth and productivity, elevate quality, manage cost and maintain a stable financial position.

As a public institution, the University's financial position is closely tied to that of the State of West Virginia and is always at the risk of funding reductions due to deteriorating economic conditions or changes in funding priorities. During FY 2015, the State experienced a budget deficit of \$50.0 million in its general revenue funds. While the State achieved a healthy balance of \$869.1 million (or 20% of the State's general fund budget) in its Revenue Shortfall Reserve Fund (Rainy Day Fund), declining revenues, increases in state appropriations for the Medicaid program and the expanding federal deficits have stressed the State's budget. These budget challenges prompted not only a mid-year budget reduction in fiscal year 2015, but also base budget reductions in fiscal year 2016. In October 2015, the Governor announced an additional 4% across-the-board cut due to unexpected and unprecedented drops in the state's severance tax collections.

To address these shortfalls, the University will continue to focus effort to reduce costs, improve the efficiency and effectiveness of its operations and contracts, and maximize revenue opportunities. While continuing its commitment to financially support the 2020 Strategic Plan and the 2012 Ten Year Campus Master Plan, the University will continue to identify cost savings and strive to make budget decisions to bring the University's expenses back in line with its revenues.

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

Although challenging, the University continues to target strategic federal opportunities. One example is through the creation of the University Innovation Corporation (UIC), which will serve as a conduit to link University researchers with defense contracting opportunities (from both government organizations and prime contractors) that require custom accounting systems and facilities with enhanced security to perform task-based work. In addition to the UIC, the newly created WVU Energy Institute serves as the principal route to secure research energy related funding. Two recent examples of the Energy Institute success are the Marcellus Shale Energy and Environment Laboratory and the Utica Shale Energy and Environment Laboratory awards from the U.S. Department of Energy. These successes are accompanied by an award from the Physics Frontier Center to the astrophysics group for gravitational wave research.

As an alternative to traditional federal funding, which is becoming more difficult to obtain, the University's strategy to remain competitive through private sector partnerships continues to produce positive results. This strategy was best exemplified in 2015 as the WVU Research Corporation entered into its third, and a very successful, year of operating the WVU Clinical and Pharmacological Research Center. The University and its Health Sciences Center, through the Corporation, has partnered with Mylan Pharmaceuticals (a global generic pharmaceuticals company) to conduct clinical trials that generated revenues of approximately \$6.0 million in 2015 and is poised for expansion in the future.

The University is also developing a strong support system to encourage entrepreneurial activities. The past two years have seen the creation of the LaunchLab, MakerLab and CodeLab, which provide advice and assistance to students in the areas of startup business strategy, prototyping and mobile app development. The University is also working to develop an internal seed funding program and a Health Sciences Innovation Center to accelerate the commercialization of WVU's faculty research

Moving forward, the University will need to continue expanding its base of funding for the research enterprise and to develop and implement innovative strategies to secure and maintain external funding.

Despite these external economic challenges, the University continues to experience both programmatic and financial success that will position it for stability well into the future. Examples of these successes include:

- **On-going Implementation of the Strategic Plan:**
The University continued the implementation of its *2020 strategic plan for the future*. The plan focuses on five main goals namely: research excellence, educational attainment, diversity, globalization and the well-being of the people of WV. The University aspires to attain and maintain the highest Carnegie research ranking, double the number of its nationally ranked programs and propel its graduates at the forefront of career readiness. Very good progress has been made since the adoption of the plan, and the University continues to strategically invest in its core mission and long-term quality. Some examples of such strategic investments include: creation of faculty positions in key research areas called "Mountains of Excellence"; increases in student financial aid to address access and affordability; focus on student retention and improving graduation rates, including implementation of a program to provide a 4-year graduation bonus to students; support for student success initiatives such as Project 168, which emphasizes hands-on learning, outside-the-box thinking and global exploring; fostering a culture of innovation and entrepreneurship among faculty and students; and a 3% salary increase program for faculty and staff, effective from October 2015.

During fiscal year 2015, the University made a strategic acquisition of property in Raleigh County, WV, which was formerly owned and operated by Mountain State University, to form a new campus. The WVU Beckley campus is expected to contribute to the future of southern WV and the surrounding regions by offering career oriented, flexible academic programs in partnership with communities, businesses, and other educational institutions in the Beckley region. The Beckley campus will also be the future home of WVU Institute of Technology (currently in Montgomery, WV) beginning in fall 2017. This move to Beckley will allow WVU Institute of Technology to achieve greater efficiencies, cost savings, increased opportunities for collaboration, and continue its legacy of providing crucial educational programming in innovative ways.

- **Effective Financial Management:**
The University continues to implement innovative financial management practices through the creation of new revenue streams and cost reduction strategies. The University has implemented strategies such as merging or eliminating departments; changing and streamlining business processes; evaluating hiring strategies; reducing workforce through attrition, retirements and separation; reducing the scope of certain services; charging for optional services; and making new local, regional and global affiliations. The University has established a Bureaucracy SWOT Committee (<http://bureaucracybusters.wvu.edu/>) with the sole mission of cutting bureaucracy to create savings, which can then be directed into the core mission of the

University. As a result, many business processes and systems have been streamlined, and several others are under evaluation for simplification.

- **Maintaining Student Demand:**

Although preliminary fall 2015 enrollment numbers suggest a slight decline in the student headcount (31,406), the academic profile of the incoming freshman class continues to improve, both in terms of the average grade point average and the average standardized test scores. The University has also increased its need-based aid by \$2.25 million to help students and their families with educational costs. President E. Gordon Gee has expressed a desire to increase the number of students enrolled to 40,000 students system-wide, and at the same time increase the number and quality of the academic profile of the freshman class.

- **Value/Price Competitiveness:**

For the fiscal year 2015, WVU-Main Campus tuition and fees were increased by 10% for resident students and 5% for non-resident students. Despite the increases, WVU's current tuition levels remain competitive in the higher education marketplace and WVU is consistently recognized as one of the best buys in the nation.

- **Building for the Future:**

The University has engaged in several public-private partnerships to develop safe, modern, and affordable residential and retail facilities in support of the 2020 Plan. During fiscal year 2015, College Park and University Place became operational. In August 2015, University Park at Evansdale was opened. These three student housing complexes, at three different locations in Morgantown, added 2,820 new beds, including residence hall style and apartment style beds and townhomes, providing students with convenient retail and other amenities.

The University also partnered with Monongalia County and City of Morgantown to construct a baseball park, home of WVU's baseball team and the West Virginia Black Bears. The operation of the baseball park is expected to generate over \$81 million in tax revenues for the city, county and state over the next 40 years.

The University completed an Art Museum that has given the University's unique art collection a fitting home, and recently dedicated a newly constructed Advanced Engineering Research building, providing state-of-the-art research laboratories and learning spaces to meet the needs of high technology learning and discovery. In late Fall of 2015, Evansdale Crossing will open as a student services hub and will also include an innovation launch pad, classrooms, and other student amenities. Spring of 2016 will see the opening of the University's new Agricultural Sciences building. These strategic investments in facilities are designed to give our students the best possible living and learning environment.

- **Solving Long Term Liabilities:**

The State legislature has addressed one of the most significant financial challenges facing state agencies with positive results. In FY 2012 the legislature and Public Employees Insurance Agency implemented a series of actions to significantly reduce the OPEB Annual Required Contribution (from State agencies) and, in turn, the total OPEB liability. These actions included limiting the annual increase on the employer's share of the retiree's premium and allocating \$30 million of annual funding to the OPEB Trust Fund beginning in FY 2016 and a change in the applied discount rate. These steps will have a significant positive impact on WVU's financial position and performance. Over time, as the State funds the OPEB trust, this accrual will become a credit and gradually reverse the current liability of \$176.3 million to zero.

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

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2015 AND 2014**

(Dollars in Thousands)

| | 2015 | 2014 |
|---|----------------------------|----------------------------|
| ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | | |
| Current Assets: | | |
| Cash and cash equivalents | \$ 129,537 | \$ 136,383 |
| Appropriations due from primary government | 3,023 | 5,929 |
| Accounts receivable, net of allowances for doubtful accounts of \$7,175 and \$5,358 | 48,086 | 36,633 |
| Account receivable - public private partnerships, current portion | 2,859 | - |
| Due from the Higher Education Policy Commission | 2,409 | 408 |
| Due from the County Commission | 342 | 3,172 |
| Service agreement receivable from BridgeValley and Parkersburg CTC's | 25 | 128 |
| Loans receivable, current portion | 5,126 | 5,283 |
| Inventories | 2,101 | 1,637 |
| Prepaid expenses | 7,372 | 3,589 |
| Notes receivable from BridgeValley and Parkersburg CTC's, current portion | 291 | 267 |
| Other current assets | 1 | - |
| Total current assets | <u>201,172</u> | <u>193,429</u> |
| Noncurrent Assets: | | |
| Restricted cash and cash equivalents | 56,390 | 111,197 |
| Investments | 239,650 | 121,382 |
| Other accounts receivable | 7,896 | 1,823 |
| Account receivable - public private partnerships | 3,371 | - |
| Loans receivable, net of allowances for doubtful accounts of \$5,976 and \$7,135 | 29,848 | 28,762 |
| Notes receivable from BridgeValley and Parkersburg CTC's | 2,428 | 2,719 |
| Capital assets, net | <u>1,531,269</u> | <u>1,351,814</u> |
| Total noncurrent assets | <u>1,870,852</u> | <u>1,617,697</u> |
| TOTAL ASSETS | <u><u>2,072,024</u></u> | <u><u>1,811,126</u></u> |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Deferred loss on refunding | 13,958 | 14,480 |
| Deferred outflows related to pensions | <u>1,378</u> | <u>-</u> |
| TOTAL DEFERRED OUTFLOWS OF RESOURCES | <u>15,336</u> | <u>14,480</u> |
| TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES | <u><u>\$ 2,087,360</u></u> | <u><u>\$ 1,825,606</u></u> |

(continued)

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF NET POSITION (CONTINUED)
AS OF JUNE 30, 2015 AND 2014
(Dollars in Thousands)**

| | 2015 | 2014 |
|--|---------------------|-------------------|
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION | | |
| Current Liabilities: | | |
| Accounts payable | \$ 43,302 | \$ 33,008 |
| Accrued liabilities | 11,051 | 7,134 |
| Accrued payroll | 28,520 | 22,000 |
| Deposits | 3,299 | 3,317 |
| Unearned revenue | 45,300 | 37,000 |
| Due to the Commission | 64 | 120 |
| Compensated absences | 24,241 | 23,103 |
| Real estate purchase agreements payable, current portion | 581 | 362 |
| Debt service assessment payable to the Commission, current portion | 4,617 | 4,700 |
| Leases payable, current portion | 1,880 | 1,909 |
| Bonds payable, current portion | 14,191 | 13,817 |
| Notes payable, current portion | 729 | 716 |
| Total current liabilities | <u>177,775</u> | <u>147,186</u> |
| Noncurrent Liabilities: | | |
| Real estate purchase agreement payable | 15,935 | 5,725 |
| Other post employment benefits liability | 176,334 | 167,261 |
| Net pension liability | 11,267 | - |
| Advances from federal government | 31,659 | 26,707 |
| Debt service assessment payable to the Commission | 58,037 | 62,655 |
| Leases payable | 18,612 | 20,293 |
| Bonds payable | 624,628 | 494,156 |
| Notes payable | 19,613 | 20,342 |
| Other noncurrent liabilities | 24,418 | 24,983 |
| Total noncurrent liabilities | <u>980,503</u> | <u>822,122</u> |
| TOTAL LIABILITIES | <u>1,158,278</u> | <u>969,308</u> |
| DEFERRED INFLOWS OF RESOURCES | | |
| Deferred federal Pell grants | 89 | 121 |
| Deferred gain on refunding | 476 | 521 |
| Deferred service concession arrangements | 34,151 | - |
| Deferred inflows related to pensions | 2,888 | - |
| TOTAL DEFERRED INFLOWS OF RESOURCES | <u>37,604</u> | <u>642</u> |
| TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES | <u>\$ 1,195,882</u> | <u>\$ 969,950</u> |
| NET POSITION | | |
| Net investment in capital assets | \$ 943,937 | \$ 867,614 |
| Restricted for: | | |
| Nonexpendable: | | |
| Scholarships and fellowships | 85 | 85 |
| Loans | 16,838 | 6,485 |
| Other | 475 | 475 |
| Total nonexpendable | <u>17,398</u> | <u>7,045</u> |
| Expendable: | | |
| Scholarships and fellowships | 803 | 580 |
| Sponsored programs | 487 | 488 |
| Loans | 5,589 | 18,697 |
| Capital projects | 2 | 3,165 |
| Other | 826 | 656 |
| Total expendable | <u>7,707</u> | <u>23,586</u> |
| Unrestricted net deficit | <u>(77,564)</u> | <u>(42,589)</u> |
| TOTAL NET POSITION | <u>\$ 891,478</u> | <u>\$ 855,656</u> |

See notes to financial statements.

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

(Dollars in Thousands)

| | 2015 | 2014 |
|--|------------------|------------------|
| OPERATING REVENUES | | |
| Student tuition and fees, net of scholarship allowances of \$60,024 and \$53,901 | \$ 370,791 | \$ 363,820 |
| Federal land grants | 8,140 | 8,130 |
| Local land grants | 1,297 | 1,171 |
| Federal grants and contracts | 69,195 | 72,447 |
| State grants and contracts | 38,897 | 36,089 |
| Local grants and contracts | 217 | 228 |
| Nongovernmental grants and contracts | 54,130 | 58,088 |
| Sales and services of educational departments | 17,540 | 17,684 |
| Auxiliary enterprises, net of scholarship allowances of \$11,133 and \$10,687 | 147,805 | 138,405 |
| Interest on student loans receivable | 893 | 853 |
| Net service agreement revenue from BridgeValley and Parkersburg CTC's | 388 | 600 |
| Other operating revenues (including revenue from outsourced enterprise of \$1,210 and \$1,635) | 7,844 | 8,560 |
| Total operating revenues | <u>717,137</u> | <u>706,075</u> |
| OPERATING EXPENSES | | |
| Salaries and wages | 473,801 | 462,562 |
| Benefits | 146,625 | 138,555 |
| Scholarships and fellowships | 37,858 | 37,431 |
| Utilities | 29,232 | 28,204 |
| Supplies and other services | 231,338 | 207,591 |
| Depreciation and amortization | 78,500 | 75,194 |
| Loan cancellations and write-offs | 392 | 1,290 |
| Assessments by the Commission for operations | 2,837 | 2,806 |
| Other operating expenses | 940 | 1,458 |
| Total operating expenses | <u>1,001,523</u> | <u>955,091</u> |
| OPERATING LOSS | <u>(284,386)</u> | <u>(249,016)</u> |

(continued)

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

(Dollars in Thousands)

| | 2015 | 2014 |
|--|-------------------|-------------------|
| NONOPERATING REVENUES (EXPENSES) | | |
| State appropriations | \$ 189,379 | \$ 190,343 |
| State Lottery appropriations | 3,538 | 3,649 |
| Payments on behalf of the University | 4,104 | 295 |
| Gifts | 34,752 | 27,357 |
| Federal Pell grants | 30,444 | 30,504 |
| Investment income (including unrealized (loss) gain of (\$4,286) and \$11,798) | 2,834 | 14,384 |
| Interest on capital asset-related debt | (21,290) | (17,459) |
| Assessments by the Commission for debt service | (6,087) | (5,986) |
| Debt issuance costs | (712) | - |
| Other nonoperating (expenses) revenues - net | (326) | 2,741 |
| Net nonoperating revenues | <u>236,636</u> | <u>245,828</u> |
| LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES | (47,750) | (3,188) |
| Capital grants and gifts | 95,747 | 24,150 |
| Capital grants (federal) | - | 2,255 |
| Capital bond proceeds from State | 6 | 158 |
| Bond/capital projects proceeds from the Higher Education Policy Commission | 1,646 | 274 |
| Other expenses | - | (592) |
| INCREASE IN NET POSITION | 49,649 | 23,057 |
| NET POSITION - BEGINNING OF YEAR | 855,656 | 832,599 |
| CUMULATIVE EFFECT OF CHANGE IN ACCOUNTING PRINCIPLE | <u>(13,827)</u> | <u>-</u> |
| NET POSITION--BEGINNING OF YEAR, AS RESTATED | <u>841,829</u> | <u>832,599</u> |
| NET POSITION - END OF YEAR | <u>\$ 891,478</u> | <u>\$ 855,656</u> |

See notes to financial statements.

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**

(Dollars in Thousands)

| | 2015 | 2014 |
|--|-------------------|-------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Tuition and fees | \$ 372,038 | \$ 359,549 |
| Federal and local land grants | 9,438 | 9,301 |
| Grants and contracts | 160,391 | 162,300 |
| Payments to suppliers | (216,464) | (202,762) |
| Payments to employees | (473,299) | (463,016) |
| Payments for benefits | (135,971) | (134,503) |
| Payments for utilities | (30,145) | (28,238) |
| Payments for scholarships and fellowships | (39,219) | (36,255) |
| Loan advances returned to federal government | (138) | (51) |
| Cancellations of loans to students | (99) | (139) |
| Interest earned on loans to students | 893 | 853 |
| Auxiliary enterprise charges | 151,387 | 143,924 |
| Sales and service of educational departments | 17,004 | 16,916 |
| Payments of net operating expenses from BridgeValley and Parkersburg CTC's | 270 | 484 |
| Net payments for public private partnerships | (5,577) | - |
| Assessments by Commission for operations | (2,837) | (2,806) |
| Other (payments) receipts | (1,292) | 10,340 |
| | <u>(193,620)</u> | <u>(164,103)</u> |
| Net cash used in operating activities | | |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| State appropriations | 192,285 | 186,714 |
| State lottery appropriations | 3,538 | 1,349 |
| Gifts | 31,901 | 26,557 |
| Federal Pell grants | 30,412 | 30,520 |
| William D. Ford direct lending receipts | 215,590 | 212,129 |
| William D. Ford direct lending payments | (215,446) | (213,493) |
| Other nonoperating receipts | 39 | 3,191 |
| | <u>258,319</u> | <u>246,967</u> |
| Net cash provided by noncapital financing activities | | |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES | | |
| Payments on Commission debt assessment payable | (4,700) | (4,797) |
| Bond/capital projects proceeds from the Higher Education Policy Commission | 87 | 846 |
| Assessments by the Commission for debt service | (6,087) | (5,986) |
| Reimbursements from the County Commission | 18,630 | 215 |
| Proceeds from University bonds | 194,802 | - |
| Bond issuance costs | (712) | - |
| Capital bond proceeds from State | 164 | - |
| Capital gifts and grants received | 13,364 | 16,614 |
| Capital grants - federal received | - | 2,255 |
| Purchases of capital assets | (136,731) | (118,413) |
| Proceeds from issuance of capital debt | 13,250 | - |
| Proceeds from land swap | - | 135 |
| Ballpark construction costs | (15,637) | (3,387) |
| Principal paid on capital debt and leases | (64,401) | (14,245) |
| Interest paid on capital debt and leases | (22,947) | (21,592) |
| | <u>(10,918)</u> | <u>(148,355)</u> |
| Net cash used in capital financing activities | | |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment income | 7,303 | 4,139 |
| Purchase of investments | (186,359) | (1,422) |
| Redemption of matured bond investments | 64,035 | 83,498 |
| Purchase of Research Corporation investments | (413) | (1,612) |
| | <u>(115,434)</u> | <u>84,603</u> |
| Net cash (used in) provided by investing activities | | |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (61,653) | 19,112 |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | <u>247,580</u> | <u>228,468</u> |
| CASH AND CASH EQUIVALENTS - END OF YEAR | <u>\$ 185,927</u> | <u>\$ 247,580</u> |

(continued)

WEST VIRGINIA UNIVERSITY

**STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED JUNE 30, 2015 AND 2014**
(Dollars in Thousands)

| | 2015 | 2014 |
|---|---------------------|---------------------|
| Reconciliation of operating loss to net cash used in operating activities: | | |
| Operating loss | \$ (284,386) | \$ (249,016) |
| Adjustments to reconcile operating loss to net cash used in operating activities: | | |
| Depreciation and amortization expense | 78,500 | 75,194 |
| Donated/noncapitalized expense | 5,746 | 3,443 |
| Expenses paid on behalf of the University | 1,851 | 295 |
| Changes in assets and liabilities: | | |
| Accounts receivable, net | (23,429) | 3,492 |
| Due from the Commission | (440) | 417 |
| Loans receivable, net | (930) | 1,151 |
| Prepaid expenses | (3,697) | 22 |
| Inventories | (464) | 24 |
| Accounts payable | 2,873 | 4,355 |
| Accrued liabilities | 17,491 | 2,561 |
| Deposits | (20) | (6) |
| Unearned revenue | 8,302 | (5,685) |
| Due to the Commission | (56) | (43) |
| Compensated absences | 1,137 | (251) |
| Defined benefit pension plan | (1,050) | - |
| Advances from federal government | 4,952 | (56) |
| Net cash used in operating activities | <u>\$ (193,620)</u> | <u>\$ (164,103)</u> |
| Noncash Transactions: | | |
| Construction in progress additions in accounts payable | <u>\$ 10,942</u> | <u>\$ 4,327</u> |
| Donated capital assets | <u>\$ 78,690</u> | <u>\$ 5,863</u> |
| Unrealized (loss) gain on investments | <u>\$ (4,286)</u> | <u>\$ 11,798</u> |
| Capitalization of interest | <u>\$ 2,077</u> | <u>\$ 1,881</u> |
| Donated noncapitalized assets | <u>\$ 2,853</u> | <u>\$ 800</u> |
| Bond and real estate agreements payable discounts, premiums, and losses | <u>\$ 990</u> | <u>\$ 890</u> |
| Loss on dispositions | <u>\$ 547</u> | <u>\$ 410</u> |
| Land swap | <u>\$ -</u> | <u>\$ 278</u> |
| Other post employment benefits liability | <u>\$ 9,073</u> | <u>\$ 3,267</u> |
| Expenses paid on behalf of the University | <u>\$ 4,104</u> | <u>\$ 295</u> |
| Adjustment to medical malpractice liability | <u>\$ 5,425</u> | <u>\$ -</u> |
| Deferred gain on refunding | <u>\$ 45</u> | <u>\$ -</u> |
| Deferred service concession arrangements - net | <u>\$ 34,151</u> | <u>\$ -</u> |
| Reconciliation of cash and cash equivalents to the statements of net assets: | | |
| Cash and cash equivalents classified as current assets | \$ 129,537 | \$ 136,383 |
| Cash and cash equivalents classified as noncurrent assets | 56,390 | 111,197 |
| | <u>\$ 185,927</u> | <u>\$ 247,580</u> |

See notes to financial statements.

WEST VIRGINIA UNIVERSITY

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2015 AND 2014

1. ORGANIZATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

The accompanying financial statements present all funds under the authority of West Virginia University, including Potomac State College, West Virginia University Institute of Technology (WVUIT), West Virginia University Beckley and the West Virginia University Research Corporation (the "Corporation"). The basic criteria for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the ability of the University to significantly influence operations and accountability for fiscal matters of related entities. (See Note 23 for condensed financial statements). Related foundations and other affiliates of the University (see Notes 19 and 20) are not part of the University reporting entity and are not included in the accompanying financial statements as the University has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of these entities under GASB.

- b. Basis of Accounting* – For financial reporting purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements of the University have been prepared on the accrual basis of accounting with a flow of economic resources measurement focus. Revenues are reported when earned and expenses are reported when materials or services are received. All accounts and transactions between the University and the Corporation have been eliminated.
- c. Cash and Cash Equivalents* – For purposes of the statement of net position, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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

Cash in bank accounts is invested in daily repurchase agreements or the insured cash sweep program.

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

Cash and cash equivalents also include cash on hand.

- d. Appropriations Due from Primary Government* – For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the Treasurer, but are obligations of the State.
- e. Investments* – Investments, other than alternative investments, are presented at fair value, based upon quoted market values. The alternative investments are carried at estimated fair value. These valuations include assumptions and methods that were reviewed by University management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The University believes that the carrying amount of its alternative investments is a reasonable estimate of fair value. The

majority of the assets underlying the alternative investments have a readily determinable market value. Because certain alternative investments are not readily marketable, and the estimated value is subject to uncertainty, the reported value may differ from the value that would have been used had a ready market existed.

Investments are made in accordance with and subject to the provisions of the Uniform Prudent Investor Act codified as article six-C, chapter forty-four of the West Virginia Code.

- f. Accounts Receivable* – Accounts receivable primarily includes amounts due from students for tuition and fees, amounts due from sponsoring agencies for grants and contracts, and other miscellaneous receivables.
- g. Allowance for Doubtful Accounts* – It is the University’s policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying account and loan balances, the historical collectability experienced by the University on such balances and such other factors which, in management’s judgment, require consideration in estimating doubtful accounts.
- h. Loans Receivable* – Loans receivable includes amounts due from students for student loans.
- i. Inventories* – Inventories are stated at the lower-of-cost or market, cost primarily determined on the first-in, first-out method and average cost.
- j. Noncurrent Restricted Cash, Cash Equivalents, and Investments* – Cash and investments that are (1) externally restricted to make debt service payments or long-term loans to students or to maintain sinking funds or reserve funds or to purchase capital or other noncurrent assets or settle long-term liabilities, or (2) permanently restricted components of net position are classified as a noncurrent asset on the statement of net position.

Investments held for more than one year and not used for current operations are also classified as a noncurrent asset.
- k. Capital Assets* – Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, infrastructure and intangible assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings, infrastructure and land improvements, and 3 to 15 years for furniture, equipment, and library books. The estimated useful life of intangible assets varies. The University’s capitalization threshold for equipment is \$5,000. The accompanying financial statements reflect all adjustments required by GASB.
- l. Deposits* – Deposits include housing and tuition deposits made by students.
- m. Unearned Revenue* – Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue, including items such as tuition, football ticket sales, orientation fees, room and board, financial aid deposits, and advance payments on sponsored awards. Financial aid deposits are separately classified.

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

GASB requires entities to accrue for employees’ rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The University’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees of the University also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick and annual leave. Generally, two days of accrued leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on or after July 1, 2001 will no longer receive sick and/or annual leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple employer, cost sharing plan sponsored by the State (see Note 8).

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and 5 years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire. Employees hired 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.

- o. *Voluntary Separation Incentives Plan* – Effective November 4, 2011, the University adopted the Voluntary Separation Incentives Plan (the “VSIP”), which was approved by the West Virginia Legislative Joint Committee on Pensions and Retirement on July 23, 2012. The VSIP provides incentives for the voluntary separation of employees from the University when a review of programmatic needs or organizational development

indicates that the University and the employee would benefit from such an offer. Eligibility to participate in the plan is limited to employees who have received a voluntary separation incentives offer. Continued eligibility to participate in the VSIP is conditioned upon the employee's fulfillment of all employment obligations. To participate, the employee must agree to separate from employment with the Board, but there is not a requirement that an employee commence his pension or otherwise retire from active employment. An employee granted incentives under this plan will be ineligible for reemployment with any State of West Virginia institution of higher education during or after his plan benefit period concludes, including contract employment in excess of \$5,000 per fiscal year. One or more of the following voluntary separation incentives could be offered by the University to participants: 1) payment of a lump sum, 2) continuation of full salary for a predetermined period of time prior to the employee's separation and a reduction in the employee's hours of employment during the predetermined period of time, or 3) continuation of insurance coverage, pursuant to the provisions of West Virginia Code 5-16-1, for a predetermined period of time. The University's total liability as of June 30, 2015 and June 30, 2014 was \$273,000 and \$152,000, respectively, which is recorded as a component of accrued liabilities on the statement of net position. This includes approximately \$18,000 and \$4,000, respectively, for employee benefits as of June 30, 2015 and June 30, 2014.

- p. Noncurrent Liabilities* – Noncurrent liabilities include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; (2) OPEB liability, net pension liability, and other liabilities that will not be paid within the next fiscal year; and (3) projected claim payments for self insurance.
- q. 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 9.)
- r. Net Position* – GASB establishes standards for external financial reporting for public colleges and universities and require that financial statements be presented on a basis to focus on the University as a whole. The components of net position are classified according to external donor restrictions or availability of assets for satisfaction of University obligations. The University's components of net position are classified as follows:

Net investment in capital assets: This represents the University's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital

assets, such amounts are not included as a component of net investment in capital assets, net of related debt.

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

The West Virginia State Legislature (the “Legislature”), as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, “Fees and Other Money Collected at State Institutions of Higher Education” of the West Virginia Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliary and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature. At June 30, 2015 and 2014, the University had no restricted balances remaining in these funds.

Restricted – nonexpendable: This includes endowment and similar type funds which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal.

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

- s. *Classification of Revenue* – The University has classified its revenues according to the following criteria:

Operating Revenues: Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local and nongovernmental grants and contracts, and (4) federal land grants, and (5) sales and services of educational activities. Other operating revenues include revenue from leasing of the University’s academic bookstores and retail stores to Barnes & Noble College Bookstores, Inc.

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

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

- t. *Use of Restricted Net Position* – The University has adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted components of net position are available. The University attempts to utilize restricted components of net position first when practicable. The University did not have any designated components of net position as of June 30, 2015 or 2014.
- u. *Scholarship Discounts and Allowances* – Student tuition and fee revenues are reported net of scholarship discounts and allowances on the statement of revenues, expenses, and changes in net position. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf.

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

- v. *Federal Financial Assistance Programs* – The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities. Direct student loan receivables are not included in the University's statement of net position, as the loans are repayable directly to the U.S. Department of Education. The University received and disbursed approximately \$215.5 million in fiscal year 2015 and approximately \$213.5 million in fiscal year 2014 under the Direct Loan Program on behalf of the U.S. Department of Education; these amounts are not included as revenues and expenses on the statement of revenues, expenses, and changes in net position.

The University also makes loans to students under the Federal Perkins Loan Program. The University disbursed approximately \$4.6 million in fiscal year 2015 and approximately \$3.7 million in fiscal year 2014 under this program.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Educational Opportunity Grant and Federal Work Study Programs. The activity of these programs is recorded in the accompanying financial statements. In fiscal years 2015 and 2014, the University received and disbursed \$33.5 million and \$33.5 million, respectively, under these other federal student aid programs.

- w. *Government Grants and Contracts* – Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The University recognizes revenue associated with direct costs as the related costs are incurred. Recovery of related indirect costs is generally recorded at fixed rates negotiated for a period of one to three years.
- x. *Income Taxes* – The University is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service. The Corporation has received from the Internal Revenue Service an exemption from taxation under Section 501 (c) (3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.
- y. *Cash Flows* – Any cash and cash equivalents escrowed, restricted for noncurrent assets, or in funded reserves are included as cash and cash equivalents for the purpose of the statement of cash flows.
- z. *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, 2015 and 2014, the University had a deferred loss on refunding of \$13,958,000 and \$14,480,000, respectively, and deferred outflows of resources related to pensions of \$1,378,000 as of June 30, 2015 (see Note 9). Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refunding.
- aa. *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, 2015 and 2014, the University had deferred Federal Pell grants of \$89,000 and \$121,000, respectively, and a deferred gain on refunding of \$476,000 and \$521,000, respectively. As of June 30, 2015, the University also had deferred service concession arrangements of \$34,151,000 (see Note 21) and deferred inflows related to pensions of \$2,888,000 (see Note 9).
- bb. *Risk Management* – BRIM provides general liability, medical malpractice liability, property, and auto insurance coverage to the University and its employees, including those physicians employed by the University and related to the University’s academic medical center hospital. Such coverage is provided to the University through a self-insurance program maintained by BRIM for general liability, medical malpractice liability, and auto insurance coverage. BRIM maintains a self-insurance program to pay the first \$1,000,000 of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1,000,000. The BRIM self-insurance programs may involve experience and exposure related premiums.

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

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

Under the program, the HSC entered into an agreement with BRIM whereby the HSC has on deposit \$3.0 million as of both June 30, 2015 and 2014, in an escrow account created in the state treasury from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the HSC. The HSC also has on deposit \$21.2 million and \$26.0 million as of June 30, 2015 and 2014, respectively, in an investment earnings account with the West Virginia University Foundation, Incorporated (the "Foundation") that is used to cover the liabilities under this program by replenishing the escrow account after BRIM withdraws indemnity and expense payments.

Based on an actuarial valuation of this self-insurance program and premium levels determined by BRIM, the University has recorded a liability of \$20.4 million and \$20.0 million to reflect projected claim payments at June 30, 2015 and 2014, respectively.

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

- cc. *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.
- dd. *Risks and Uncertainties* – The University utilizes various investment instruments that are exposed to risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in the fair values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the financial statements and accompanying notes.
- ee. *Reclassifications* – Certain reclassifications have been made to the 2014 financial statements to conform to the current year presentation. This includes reclassification of the "no hardship payment" from accrued payroll to other noncurrent accounts receivable (see Note 4).

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

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

gg. *Recent Statements Issued by the GASB* – The GASB has issued Statement No. 72, *Fair Value Measurement and Application*, effective for fiscal years beginning after June 15, 2015. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The University has not yet determined the effect that the adoption of GASB Statement No. 72 may have on its financial statements.

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

This statement establishes standards of accounting and financial reporting for defined benefit pensions and defined contribution pensions that are provided to the employees of state and local governmental employers and are not within the scope of Statement 68. This statement also establishes requirements for pensions that are provided through pension plans that are administered through trusts or equivalent arrangements that meet certain criteria. This statement also establishes requirements for governments that hold assets accumulated for purposes of providing pensions through defined benefit pension plans that are not administered through trusts that meet certain criteria and amends certain provisions for pension plans that are within the scope of Statement 67 and for pensions that are within the scope of Statement 68. The University has not yet determined the effect that the adoption of GASB Statement No. 73 may have on its financial statements.

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

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

The GASB has also issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, which is effective for fiscal years beginning after June 15, 2015. This statement establishes the hierarchy of GAAP for state and local governments. The University has not yet determined the effect that the adoption of GASB Statement No. 76 may have on its financial statements.

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

3. CASH AND CASH EQUIVALENTS

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

2015

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

2014

| | <u>Current</u> | <u>Noncurrent</u> | <u>Total</u> |
|---|-------------------|-------------------|-------------------|
| Cash on deposit with the Treasurer: | | | |
| West Virginia University - Nonauxiliaries | \$ 60,027 | \$ 560 | \$ 60,587 |
| West Virginia University - Auxiliaries | 43,232 | - | 43,232 |
| Cash on deposit with Trustee | - | 107,637 | 107,637 |
| Deposits with BRIM Escrow Account Treasurer | - | 3,000 | 3,000 |
| Cash in Bank | 33,050 | - | 33,050 |
| Cash on Hand | 74 | - | 74 |
| | <u>\$ 136,383</u> | <u>\$ 111,197</u> | <u>\$ 247,580</u> |

Cash on Deposit with the Treasurer. Cash on deposit with the Treasurer includes deposits in the State Treasury bank account and investments with the WV Money Market Pool. These bank balances are insured by the Federal Deposit Insurance Corporation (FDIC) or collateralized by securities held by the bank in the name of the State. The investments are pooled by the Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (the BTI). These funds are transferred to the BTI, and the BTI invests in the WV Money Market Pool in accordance with West Virginia Code, policies set by the BTI, provisions of bond indentures and trust agreements when applicable. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. Balances in the investment pools are recorded at fair value or amortized cost which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the Legislature and is subject to oversight by the Legislature. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements. See Note 5 for additional disclosure relative to the BTI investments.

Cash on Deposit with Trustee. Cash on deposit with Trustee represents funds available for various projects, repair and replacement and debt service held by the Trustee and related to the 2011, 2013 and 2014 University specific bond issues and the Energy Performance Phase

III B contract (see Notes 10 and 11). These funds are FDIC insured or invested in specific U.S. government securities or U.S. government backed Money Market funds.

Deposits with BRIM Escrow Account Treasurer. The University is required to maintain a cash balance of \$3.0 million. The Treasurer invests these funds in the WV Money Market Pool (for investment risks, see Note 5).

Cash in bank. The carrying amount of cash in bank at June 30, 2015 and 2014 was \$37.5 million and \$33.0 million, respectively, as compared with bank balances of \$39.2 million and \$35.6 million, respectively. The difference was primarily caused by items in transit and outstanding checks. Bank accounts are FDIC insured up to \$250,000 per Federal Employer Identification Number and they are collateralized with the bank through a Repurchase Agreement in the name of the State or the Corporation.

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

4. ACCOUNTS RECEIVABLE

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

| | <u>2015</u> | <u>2014</u> |
|---|------------------|------------------|
| Student tuition and fees, net of allowances for doubtful accounts of \$5,127 and \$3,349 | \$ 5,719 | \$ 2,759 |
| Grants and contracts receivable, net of allowances for doubtful accounts of \$545 and \$444 | 29,706 | 23,647 |
| Due from West Virginia University Hospitals, Incorporated | 1,949 | 1,926 |
| Auxiliary services, net of allowances for doubtful accounts of \$1,420 and \$1,560 | 2,584 | 1,704 |
| Investment earnings receivable | 7 | 8 |
| Other, net of allowances for doubtful accounts of \$83 and \$5 | 7,823 | 5,680 |
| Due from the Foundation | 59 | 137 |
| Due from other State agencies | 239 | 772 |
| Total accounts receivable | <u>\$ 48,086</u> | <u>\$ 36,633</u> |

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

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

5. INVESTMENTS

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

2015

| Investment Type | Fair Value |
|---|-------------------|
| U.S. Treasury Notes and U.S. Government Backed Money Market Funds | \$ 142,962 |
| Mutual Bond Funds | 17,415 |
| Cash/Mutual Money Market Funds | 1,388 |
| Mutual Stock Funds | 63,079 |
| Fixed Income Funds | 7,307 |
| Land and Other Real Estate Held As Investments | 477 |
| Oter Alternative Investments | 7,022 |
| | <u>\$ 239,650</u> |

2014

| Investment Type | Fair Value |
|---|-------------------|
| U.S. Treasury Notes and U.S. Government Backed Money Market Funds | \$ 21,002 |
| Mutual Bond Funds | 23,442 |
| Cash/Mutual Money Market Funds | 1,559 |
| Mutual Stock Funds | 65,242 |
| Fixed Income Funds | 4,814 |
| Land and Other Real Estate Held As Investments | 477 |
| Oter Alternative Investments | 4,846 |
| | <u>\$ 121,382</u> |

Investments with the BTI – Amounts with the BTI as of June 30, 2015 and 2014 are comprised of three investment pools (the WV Money Market Pool, the WV Government Money Market pool and the WV Short Term Bond Pool) which the University may invest in.

Investments with the Foundation – As of June 30, 2015 and 2014, the University's investments held with the Foundation were \$89.7 million and \$93.9 million, respectively. The investments held with the Foundation include the unrestricted investments, the Corporation's investments, and the BRIM investments as follows:

| | Unrestricted | Corporation | BRIM | Total |
|---------------------|---------------------|--------------------|-------------|--------------|
| As of June 30, 2015 | \$ 58,279 | \$ 10,168 | \$ 21,290 | \$ 89,737 |
| As of June 30, 2014 | 57,715 | 10,165 | 26,014 | 93,894 |

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

Unrestricted Investments – In 2005, the Legislature passed Senate Bill 603 (“S.B. 603”). S.B. 603 granted the University the ability to invest a limited amount of funds with the Foundation. In 2011, the Legislature passed Senate Bill 330 (“S.B. 330”) which increased the maximum investment amount to \$40 million. In 2013, the Legislature passed Senate Bill 444 (“S.B. 444”) which increased the maximum investment amount to \$70 million. In 2015, the Legislature passed Senate Bill 425 (“S.B. 425”) which allowed all monies of the University to be invested with the Foundation except for General Revenue funds. As allowed by legislation, the University invested with the Foundation \$25.0 million in October 2006, \$4.0 million in October 2009, and \$11.0 million in October 2011. As of June 30, 2014 and 2015, the University has not yet taken advantage of this increased investment authority.

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

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

Investments with Trustees –The unspent bond proceeds from the 2011 and 2014 series bonds are invested in U.S. government securities or U.S. government backed money market funds. Such restricted investments were \$143.0 million and \$21.0 million at June 30, 2015 and 2014, respectively.

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

Other – The University also has investments - the Wood investments – from the estate of donors with restricted purposes.

Credit Risk

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

WV Money Market Pool — For the years ended June 30, 2015 and 2014, the WV Money Market Pool has been rated AAAm by Standard & Poor's. 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.

At June 30, 2015 and 2014, the WV Money Market Pool investments had a total carrying value of \$1,890,872,000 and \$1,960,118,000, respectively, of which the University's ownership represents 2.65% and .13%, respectively.

Other Investments— The investment management agency agreement with the Foundation states that each public debt instrument selected for investment shall be subject to proper credit analysis prior to inclusion in the portfolio.

In addition, funds are deposited in the Insured Cash Sweep (ICS) program to maximize investment earnings and for FDIC insurance coverage. The ICS investments are classified as cash and cash equivalents.

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

2015

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

2014

| Portfolio | Description | Fair Value | Rating |
|---------------------------------|--|------------------|--------|
| Mutual Bond Funds: | | | |
| BRIM | Brandywine Global Fixed Income | \$ 2,028 | BBB+ |
| Unrestricted | Brandywine Global Fixed Income | 4,744 | BBB+ |
| Corporation | Brandywine Global Fixed Income | 1,065 | BBB+ |
| BRIM | Harbor Bond Fund | 595 | A2 |
| BRIM | iShares Barclays 3-7 Year Treasury | 1,594 | AA+ |
| Unrestricted | iShares Barclays 3-7 Year Treasury | 3,729 | AA+ |
| Corporation | iShares Barclays 3-7 Year Treasury | 1,421 | AA+ |
| BRIM | iShares Barclays 7-10 Year Treasury | 393 | AA+ |
| Unrestricted | iShares Barclays 7-10 Year Treasury | 1,045 | AA+ |
| Corporation | iShares Barclays 7-10 Year Treasury | 192 | AA+ |
| Cash/Mutual Money Market Funds: | | | |
| BRIM | State Street Cash - SSGA Money Market | 510 | AAAm |
| Unrestricted | State Street Cash - SSGA Money Market | 876 | AAAm |
| Corporation | State Street Cash - SSGA Money Market | 173 | AAAm |
| Fixed Income Funds: | | | |
| Unrestricted | Income Research and Management | 3,883 | AA |
| Corporation | IR&M Core Bond | 930 | AA- |
| Other Alternative Investments: | | | |
| BRIM | CF Multi-Strategy Bond Fund | 1,727 | A+ |
| Unrestricted | CF Multi-Strategy Bond Fund | 1,637 | A+ |
| Corporation | CFI Multi-Strategy Bond Investors Fund | 1,352 | A+ |
| | | <u>\$ 27,894</u> | |

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

Interest Rate Risk

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

All the amounts with BTI are subject to interest rate risk.

No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. Government and its agencies.

WV Money Market Pool — At June 30, 2015 and 2014, the WV Money Market Pool investments had a total carrying value of \$1,890,872,000 and \$1,960,118,000, respectively, with a weighted average maturity of 49 days and 36 days, respectively.

Other Investments. The following table shows the maturities for other investments at June 30 (dollars in thousands):

2015

| Investment Type | Investment Maturities | | | | |
|--|------------------------------|---------------------------|------------------|-------------------|---------------------------|
| | Fair Value | Less Than One Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| U.S. Treasury Notes and U.S. Govt Backed | | | | | |
| Money Market Funds | \$142,962 | \$ 75,638 | \$67,324 | \$ - | \$ - |
| Mutual Bond Funds | 17,298 | 5,943 | 4,534 | 4,322 | 2,499 |
| Cash/Mutual Money Market Funds | 1,387 | 1,387 | - | - | - |
| Fixed Income Funds | 7,307 | 425 | 4,118 | 1,616 | 1,148 |
| Other Alternative Investments | 6,778 | - | 6,778 | - | - |
| | <u>\$175,732</u> | <u>\$ 83,393</u> | <u>\$82,754</u> | <u>\$ 5,938</u> | <u>\$ 3,647</u> |

2014

| Investment Type | Investment Maturities | | | | |
|--|------------------------------|---------------------------|------------------|-------------------|---------------------------|
| | Fair Value | Less Than One Year | 1-5 Years | 6-10 Years | More Than 10 Years |
| U.S. Treasury Notes and U.S. Govt Backed | | | | | |
| Money Market Funds | \$ 21,003 | \$ 21,003 | \$ - | \$ - | \$ - |
| Mutual Bond Funds | 23,437 | 6,245 | 8,100 | 6,493 | 2,599 |
| Cash/Mutual Money Market Funds | 1,559 | - | 1,559 | - | - |
| Fixed Income Funds | 4,814 | 322 | 2,801 | 929 | 762 |
| Other Alternative Investments | 4,715 | 863 | 1,787 | 1,169 | 896 |
| | <u>\$ 55,528</u> | <u>\$ 28,433</u> | <u>\$14,247</u> | <u>\$ 8,591</u> | <u>\$ 4,257</u> |

Interest rate risk is managed by limiting the time period or duration of the specific investment. At June 30, 2015, the U.S. Treasury Notes have maturities through November 30, 2017 and interest rates which range from .2% to 1.1%. At June 30, 2014, the U.S. Treasury Notes have maturities through January 31, 2015 and interest rates which range from .5% to 2.63%.

Concentration of Credit Risk

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

At June 30, 2015 and 2014, the University's investments were not subject to concentration of credit risk.

Custodial Credit Risk

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

None of these amounts with the BTI are subject to custodial credit risk.

For other investments at June 30, 2015, no investments were subject to custodial credit risk. For other investments at June 30, 2014, there was custodial credit risk related to the SSgA Money Market, which is uninsured and registered in State Street's name.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Disclosure is not required for external investment pools unless the fund represents a significant portion of the University's investments.

None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

For the other investments, the University's exposure to foreign currency risk is as follows at June 30 (dollars in thousands):

| Currency | 2015 | 2014 |
|------------------------|-----------|-----------|
| Australian Dollar | \$ 927 | \$ 756 |
| Bermuda Dollar | - | 5 |
| Brazilian Real | 524 | 959 |
| British Pence | 639 | - |
| British Pound Sterling | 1,875 | 3,999 |
| Canadian Dollar | 561 | 273 |
| Chilean Peso | 442 | 654 |
| Chinese Yuan Renminbi | - | 217 |
| Danish Krone | 254 | 126 |
| Euro | 5,032 | 4,983 |
| Great Britain Pound | 1,336 | - |
| Hong Kong Dollar | 679 | 294 |
| Hungarian Forint | 37 | 36 |
| Indian Rupee | 704 | 533 |
| Indonesian Rupiah | 146 | 75 |
| Japanese Yen | 2,652 | 2,210 |
| Kuwaiti Dinar | - | 5 |
| Malaysian Ringgit | 239 | 220 |
| Mexican Peso | 998 | 1,399 |
| New Turkish Lira | 222 | - |
| New Zealand Dollar | 24 | 15 |
| Norwegian Krone | 480 | 95 |
| Other | - | 92 |
| Philippine Peso | 138 | 90 |
| Polish Zloty | 378 | 101 |
| Russian Ruble | 70 | 123 |
| South African Cent | 341 | - |
| South African Rand | 306 | 679 |
| South Korean Won | 572 | 609 |
| Swedish Krona | 811 | 375 |
| Swiss Franc | 2,036 | 2,304 |
| Taiwan Dollar | 161 | 132 |
| Thai Baht | 287 | 244 |
| Turkish Lira | - | 230 |
| US Dollar | 10,241 | 12,008 |
| | \$ 33,112 | \$ 33,841 |

6. CAPITAL ASSETS

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

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

| 2014 | Beginning Balance | Additions | Reductions | Ending Balance |
|---|------------------------------|-------------------|--------------------|---------------------------|
| Capital assets not being depreciated or amortized: | | | | |
| Land | \$ 77,717 | \$ 3,478 | \$ (411) | \$ 80,784 |
| Construction in progress | 96,785 | 93,469 | (72,059) | 118,195 |
| Total capital assets not being depreciated or amortized | <u>\$ 174,502</u> | <u>\$ 96,947</u> | <u>\$ (72,470)</u> | <u>\$ 198,979</u> |
| Other capital assets: | | | | |
| Land improvements | \$ 37,339 | \$ 5,002 | \$ - | \$ 42,341 |
| Buildings | 1,214,300 | 58,542 | (275) | 1,272,567 |
| Equipment | 182,890 | 16,804 | (7,622) | 192,072 |
| Library books | 135,274 | 5,888 | (206) | 140,956 |
| Software | 58,297 | 2,174 | (308) | 60,163 |
| Infrastructure | 271,365 | 6,531 | - | 277,896 |
| Other assets | 112,770 | 4,354 | (972) | 116,152 |
| Intangible assets | 150 | - | - | 150 |
| Total other capital assets | <u>2,012,385</u> | <u>99,295</u> | <u>(9,383)</u> | <u>2,102,297</u> |
| Less accumulated depreciation or amortization for: | | | | |
| Land improvements | (18,386) | (2,304) | - | (20,690) |
| Buildings | (319,819) | (23,654) | - | (343,473) |
| Equipment | (113,495) | (15,290) | 5,450 | (123,335) |
| Library books | (109,854) | (7,319) | 205 | (116,968) |
| Software | (50,319) | (2,692) | 211 | (52,800) |
| Infrastructure | (218,324) | (4,858) | - | (223,182) |
| Other assets | (49,921) | (19,075) | - | (68,996) |
| Intangible assets | (16) | (2) | - | (18) |
| Total accumulated depreciation and amortization | <u>(880,134)</u> | <u>(75,194)</u> | <u>5,866</u> | <u>(949,462)</u> |
| Other capital assets, net | <u>\$ 1,132,251</u> | <u>\$ 24,101</u> | <u>\$ (3,517)</u> | <u>\$ 1,152,835</u> |
| Capital Assets Summary: | | | | |
| Capital assets not being depreciated or amortized | \$ 174,502 | \$ 96,947 | \$ (72,470) | \$ 198,979 |
| Other capital assets | 2,012,385 | 99,295 | (9,383) | 2,102,297 |
| Total cost of capital assets | <u>2,186,887</u> | <u>196,242</u> | <u>(81,853)</u> | <u>2,301,276</u> |
| Less accumulated depreciation and amortization | <u>(880,134)</u> | <u>(75,194)</u> | <u>5,866</u> | <u>(949,462)</u> |
| Capital assets, net | <u>\$ 1,306,753</u> | <u>\$ 121,048</u> | <u>\$ (75,987)</u> | <u>\$ 1,351,814</u> |

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

The University has been approved to receive \$26,500,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2015 and 2014, \$26,500,000 and \$26,492,438 of such proceeds have been received, respectively. The West Virginia Development Office is responsible for repayment of the debt.

The University capitalized interest on borrowings, net of interest earned on related debt of approximately \$2.1 million and \$1.9 million during fiscal years 2015 and 2014, respectively.

7. LONG-TERM LIABILITIES

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

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

| 2014 | Beginning | Additions | Reductions | Ending | Due within |
|--|-------------------|------------------|--------------------|-------------------|------------|
| | Balance | | | Balance | |
| Real estate purchase agreement payable | \$ 6,449 | \$ - | \$ (362) | \$ 6,087 | \$ 362 |
| Other post employment benefits liability | 163,994 | 3,267 | - | 167,261 | |
| Advances from federal government | 26,763 | - | (56) | 26,707 | |
| Debt service assessment payable | | | | | |
| to the Commission | 72,152 | - | (4,797) | 67,355 | 4,700 |
| Leases payable | 24,035 | - | (1,833) | 22,202 | 1,909 |
| Bonds payable | 521,246 | - | (13,273) | 507,973 | 13,817 |
| Notes payable | 21,759 | - | (701) | 21,058 | 716 |
| Other noncurrent liabilities | 24,076 | 10,277 | (9,370) | 24,983 | - |
| Total long-term liabilities | <u>\$ 860,474</u> | <u>\$ 13,544</u> | <u>\$ (30,392)</u> | <u>\$ 843,626</u> | |

8. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2015, 2014, and 2013, the noncurrent liability related to OPEB was \$176.3 million, \$167.3 million, and \$164.0 million, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$22.0 million and \$13.0 million, respectively, during 2015, \$17.1 million and \$13.9 million, respectively, during 2014, and \$14.5 million and \$11.6 million, respectively, during 2013. As of the years ended June 30, 2015, 2014, and 2013, there were 731, 702, and 657 retirees, respectively, receiving these benefits.

9. 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, 2015 (dollars in thousands):

| | <u>TRS</u> |
|--------------------------------------|------------|
| Net Pension Liability | \$ 11,267 |
| Deferred Outflows of Resources | 1,378 |
| Deferred Inflows of Resources | 2,888 |
| Revenues | 1,504 |
| Pension Expense | 1,832 |
| Contributions Made by the University | 1,378 |

TRS

Plan Description

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

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

Benefits Provided

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

the authority to establish and amend the provisions of the plan, including contribution rates, to the Legislature.

Contributions

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

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

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

1. 15% of gross salary of their State-employed members hired prior to July 1, 1991;
2. 15% of School Aid Formula (SAF) covered payroll of county-employed members;
3. 7.5% of SAF-covered payroll of members of the TDCRS;
4. a certain percentage of fire insurance premiums paid by State residents; and
5. under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the TRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2014, the University's proportionate share attributable to this special funding subsidy was \$1,503,959.

The University's contributions to TRS for the years ended June 30, 2015, 2014, and 2013, were approximately \$1,378,000, \$1,374,000, and \$1,683,000, respectively.

Assumptions

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

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return of 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.75–5.25% and non-teachers 3.40–6.50%, based on age.
- Inflation rate of 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 Legislature. However, the retirement system makes no automatic provision for such increases.

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

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in TRS' target asset allocation as of June 30, 2014, are summarized below.

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

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

Discount rate. The discount rate used to measure the total TRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, TRS' fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on TRS' investments was applied to all periods of projected benefit payments to determine the total pension liability. In the event of benefit payments that are not covered by the pension plan's fiduciary net position, a municipal bond rate of 3.66% is to be used to discount the benefit payments not covered by the plan's fiduciary net position. The rate equals the S&P Municipal Bond 20 Year High Grade Rate Index at June 30, 2014.

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

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

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

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

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

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

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

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

For the year ended June 30, 2015, the University recognized TRS pension expense of \$327,654. At June 30, 2015, deferred outflows of resources and deferred inflows of resources related to the TRS pension are as follows (dollars in thousands).

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

The University will recognize the \$1,378,000 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the TRS net pension liability in the year ended June 30, 2016. 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.

| <u>Fiscal Year Ended</u> | <u>Amortization</u> |
|--------------------------|---------------------|
| June 30, 2016 | \$ 657 |
| June 30, 2017 | 657 |
| June 30, 2018 | 657 |
| June 30, 2019 | 657 |
| June 30, 2020 | 260 |
| | <u>\$ 2,888</u> |

Payables to the Pension Plan

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

10. LEASES PAYABLE

- a. *Operating* – Future annual minimum rental payments on operating leases for years subsequent to June 30, 2015 are as follows (dollars in thousands):

| Fiscal Year Ending | |
|---------------------------|------------------|
| June 30, | |
| 2016 | \$ 6,482 |
| 2017 | 4,710 |
| 2018 | 4,019 |
| 2019 | 3,596 |
| 2020 | 2,266 |
| 2021-2025 | 11,902 |
| 2026-2030 | 9,880 |
| 2031-2035 | 1,980 |
| 2036-2040 | 5 |
| 2041-2045 | 5 |
| 2046-2050 | 5 |
| 2051-2055 | 5 |
| 2056-2058 | 3 |
| | <hr/> |
| Total | <u>\$ 44,858</u> |

Total rental expense for the years ended June 30, 2015 and 2014 was \$7.4 million and \$7.4 million, respectively. The University leases 6 floors of a seven floor office building from the Foundation. Rental expense under the operating lease is \$1,975,000 per year through 2031. The University does not have any non-cancelable leases.

- b. *Capital* – The University leases certain property, plant and equipment under capital leases. Net book value of leased assets totaled \$25.6 million and \$25.1 million at June 30, 2015 and 2014, respectively. Future annual minimum lease payments and the present value of minimum lease payments on capital leases are as follows (dollars in thousands):

| Fiscal Year | |
|---|-----------|
| Ending June 30, | |
| 2016 | \$ 2,378 |
| 2017 | 7,784 |
| 2018 | 1,690 |
| 2019 | 1,709 |
| 2020 | 1,752 |
| 2021-2025 | 6,144 |
| 2026-2030 | 1,350 |
| 2031-2035 | 125 |
| 2036-2040 | 125 |
| 2041-2044 | 100 |
| Minimum lease payments | 23,157 |
| Less amount representing interest | (2,665) |
| Present value of minimum lease payments | 20,492 |
| Current Portion | 1,880 |
| Noncurrent Portion | \$ 18,612 |

11. BONDS PAYABLE

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

| | Original Interest Rate | Annual Principal Installment Due | 2015 Principal Amount Outstanding | 2014 Principal Amount Outstanding |
|---|---------------------------------------|---|--|--|
| Revenue Refunding Bonds, 2004 Series B, due through 2021 | 3.5-5.0% | \$ 0 to \$ 6,685 | \$ - | \$ 4,785 |
| Revenue Improvement Bonds, 2011 Series A, due through 2026 | 3.87% | \$ 35 to \$ 62 | 10,979 | 11,456 |
| Revenue Improvement Bonds, 2011 Series B, due through 2037 | 4.14% | \$ 0 to \$ 21,800 | 172,335 | 177,385 |
| Revenue Improvement Bonds, 2011 Series C, due through 2042 | variable rate | \$ 0 to \$ 10,470 | - | 50,000 |
| Revenue Bonds (Taxable), 2012 Series A, due through 2042 | 4.50% | \$ 35 to \$ 62 | 12,659 | 12,896 |
| Revenue Bonds (Taxable), 2012 Series B, due through 2032 | variable rate | \$ 0 to \$ 50 | 4,323 | 4,517 |
| Revenue Refunding and Improvement Bonds, 2013 Series A, due through 2043 | 3.55% | \$ 0 to \$ 13,715 | 137,905 | 138,325 |
| Revenue Refunding and Improvement Bonds (Taxable), 2013 Series B, due through 2043 | 3.00% | \$ 995 to \$ 7,440 | 70,030 | 71,185 |
| Improvement Revenue Bonds, 2014 Series A, due through 2045 | 4.30% | \$ 855 to \$ 30,285 | 60,000 | - |
| Improvement Revenue Bonds (Taxable), 2014 Series B, due through 2043 | 4.50% | \$ 10,075 to \$ 24,105 | 79,050 | - |
| Improvement Revenue Bonds, 2014 Series C, due through 2042 | 0.58% | \$ 9,730 to \$ 10,705 | 50,190 | - |
| Unamortized Bond Discount | | | (129) | (81) |
| Unamortized Bond Premium | | | 41,477 | 37,505 |
| Net Bonds Payable | | | 638,819 | 507,973 |
| Current Portion | | | 14,191 | 13,817 |
| Noncurrent Portion | | | <u>\$ 624,628</u> | <u>\$ 494,156</u> |

Bond Indenture, Pledged Revenues and Board Authorization

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

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

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

2004 Bonds

On November 1, 2004 the Board issued \$220.0 million in revenue bonds as follows:

2004 Series A Federally Taxable Revenue Refunding and Improvement Bonds in the aggregate principal amount of \$25,900,000. The 2004 A Bonds are federally taxable variable rate auction rate certificates and were issued in two subseries designated as 2004 Subseries A-1 and 2004 Subseries A-2. These bonds were used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bonds 1997 Series A, and the \$3,250,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds 1997 Athletic Facilities Series A, (2) to finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series A Bonds; and (3) to pay all or a portion of the costs relating to the issuance of the 2004 Series A Bonds.

2004 Series B Revenue Refunding Bonds in the amount of \$55,430,000 with an average interest rate of 4.7%. These bonds were issued (1) to advance refund the \$4,250,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Athletic Facilities Series B, the \$10,735,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Revenue Bonds 1997 Series B, the \$3,000,000 State of West Virginia, University of West Virginia Board of Trustees, Refunding Revenue Bonds

1997 Student Union Series A, and the \$38,000,000 State of West Virginia, University of West Virginia Board of Trustees, Revenue Bonds 1997 Student Union Series B, and (2) to pay the costs of issuance of the 2004 Series B Bonds.

2004 Series C Revenue Improvement Bonds in the amount of \$138,710,000 with an average interest rate of 4.9%. These bonds were issued to finance a portion of the costs of certain improvements at the University, including capitalized interest and reimbursement to the University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the costs of issuance.

The bond proceeds of \$226.1 million included net original issue premium on the 2004 Bonds in the amount of \$5.3 million and \$0.8 million in accrued interest.

When the 2004 bonds were issued, it was estimated that the advance refunding of the 1997 series bonds would result in a reduction in the University's total debt service payments over the next 19 years of approximately \$8.4 million. The refunding resulted in an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$1.9 million. The reacquisition price exceeded the net carrying amount of the old debt by \$6.7 million. This amount was netted against the new debt and deferred and amortized as interest expense over the remaining life of the refunded debt, which is shorter than the life of the new debt issued.

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

2011 Bonds

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

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

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

2011 Series C In October 2011, the Board issued the 2011 Series C Improvement Variable Rate Revenue Bonds in the aggregate principal amount of \$50,000,000 with an interest rate based on the SIFMA index plus 65 basis points. During fiscal year 2015 and 2014, the

average interest rate was .70% and .71%, respectively. The rate at June 30, 2015 and June 30, 2014 was .60% and .71%, respectively.

On October 1, 2014, these bonds were refunded with the 2014 Series C bonds as required by the original issuance. The proceeds of the 2011 Bonds were used to (a) finance a portion of the costs of certain capital projects at the University, including reimbursement to the University for certain capital expenditures related thereto made prior to the issuance of the 2011 Bonds, (b) refinance certain tax-exempt lease-purchase agreements entered into by the University and (c) pay the costs of issuance of the 2011 Bonds.

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

During fiscal year 2013, the Board issued \$228.6 million in revenue bonds as follows:

2012 Bonds

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

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

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

2013 Bonds

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

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

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

2014 Bonds

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

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

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

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

Bond Summary

For the years ended June 30, 2015 and June 30, 2014, the University recorded a deferred loss on refunding of \$13,958,000 and \$14,480,000, respectively, on the statement of net position.

Total principal and interest payments remaining to be paid at June 30, 2015 and 2014 were \$1,036.5 billion and \$754.5 million, respectively. Total gross pledged revenue for fiscal year 2015 and 2014 was \$168.8 million and \$150.6 million, respectively.

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

| Fiscal Year Ending June 30, | <u>Principal</u> | <u>Interest</u> | <u>Total Payments</u> |
|--------------------------------|-------------------|-------------------|---------------------------|
| 2016 | \$ 12,530 | \$ 25,057 | \$ 37,587 |
| 2017 | 13,358 | 24,799 | 38,157 |
| 2018 | 13,805 | 24,393 | 38,198 |
| 2019 | 14,253 | 23,936 | 38,189 |
| 2020 | 14,769 | 23,439 | 38,208 |
| 2021-2025 | 81,680 | 108,304 | 189,984 |
| 2026-2030 | 93,937 | 88,706 | 182,643 |
| 2031-2035 | 105,528 | 65,319 | 170,847 |
| 2036-2040 | 114,024 | 39,028 | 153,052 |
| 2041-2045 | 133,587 | 16,050 | 149,637 |
| Bonds Payable | <u>597,471</u> | <u>\$ 439,031</u> | <u>\$ 1,036,502</u> |
| Unamortized Bond Discount | (129) | | |
| Unamortized Bond Premium | <u>41,477</u> | | |
| Net Bonds Payable | <u>638,819</u> | | |
| Current Portion | <u>14,191</u> | | |
| Noncurrent Portion | <u>\$ 624,628</u> | | |

12. NOTES PAYABLE

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

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

- 1) 30% of the total HSC facilities and administrative revenues, up to a total of \$6.8 million (“threshold amount”) received by the Corporation in any single fiscal year.
- 2) 70% of the total HSC facilities and administrative revenues above the threshold amount received by the Corporation in such fiscal year.

Total principal to be paid at June 30, 2015 and June 30, 2014 was approximately \$20.3 million and \$21.1 million, respectively. Total interest paid through June 30, 2015 and June 30, 2014 was approximately \$1,018,000 and \$618,000, respectively. Total facilities and administrative revenues earned by HSC during fiscal year 2015 and 2014 were \$7.8 and \$7.5 million, respectively. Total pledged revenue as of June 30, 2015 and June 30, 2014 was \$2.8 and \$2.5 million, respectively.

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

| Fiscal Year | |
|------------------------|------------------|
| Ending June 30, | |
| 2016 | \$ 729 |
| 2017 | 744 |
| 2018 | 758 |
| 2019 | 773 |
| 2020 | 787 |
| 2021-2025 | 4,174 |
| 2026-2030 | 4,596 |
| 2031-2035 | 5,061 |
| 2036-2038 | <u>2,720</u> |
| | 20,342 |
| Current Portion | <u>729</u> |
| Noncurrent Portion | <u>\$ 19,613</u> |

13. REAL ESTATE PURCHASE AGREEMENTS PAYABLE

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

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

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

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

14. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

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

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

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

15. UNRESTRICTED NET POSITION (DEFICIT)

The University did not have any designated unrestricted components of net position as of June 30, 2015 or 2014.

| | 2015 | 2014 |
|---|--------------------|--------------------|
| Total unrestricted net position before OPEB liability and net pension liability | \$ 110,037 | \$ 124,672 |
| Less: OPEB liability | 176,334 | 167,261 |
| Less: net pension liability | 11,267 | - |
| Total unrestricted net deficit | <u>\$ (77,564)</u> | <u>\$ (42,589)</u> |

16. DEFINED CONTRIBUTION PENSION PLANS

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

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

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

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

| Fiscal Year Ending June 30, | <u>WVU</u> | <u>Employees</u> | <u>Total</u> |
|--------------------------------|------------|------------------|--------------|
| 2015 | \$ 24,765 | \$ 24,765 | \$ 49,530 |
| 2014 | 24,146 | 24,146 | 48,292 |
| 2013 | 23,887 | 23,887 | 47,774 |

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

| Fiscal Year Ending June 30, | <u>WVU</u> | <u>Employees</u> | <u>Total</u> |
|--------------------------------|------------|------------------|--------------|
| 2015 | \$ 302 | \$ 302 | \$ 604 |
| 2014 | 271 | 271 | 542 |
| 2013 | 284 | 284 | 568 |

The University's total payroll for fiscal years 2015, 2014, and 2013 was \$473.8 million, \$462.6 million, and \$460.3 million, respectively; total covered employees' salaries in TIAA-CREF and the Educators Money were \$306.9 million and \$5.0 million in fiscal year 2015, \$406.0 million and \$4.5 million in fiscal year 2014, and \$401.0 million, and \$4.7 million in fiscal year 2013, respectively.

17. NONMONETARY TRANSACTIONS

During fiscal year 2014, the University entered into a like-kind exchange agreement with M&J Property Holdings, LLC ("M&J") that involved a transfer of a parcel of the University's property in the Seventh Ward, City of Morgantown, Monongalia County, WV for another parcel of property also located in the Seventh Ward owned by M&J. Accounting for the property exchange was based on the net book value of the University's property. A gain of \$13,000 was recorded on the exchange.

18. COMMITMENTS

- a. Purchase Commitment* – The University has signed an agreement providing for the purchase of steam through the year 2030 from a nearby facility that commenced operations in late 1992. Under the agreement, the University has an annual minimum steam purchase requirement, purchased at an operating rate calculated in accordance with the agreement. This operating rate is adjusted quarterly based on actual production costs and other cost indices. Management believes that the rate is comparable to market rates. At June 30, 2015, the University is committed to an additional \$62,000 purchase to meet the minimum steam purchase requirement for the contract year ended September 30, 2015. The University anticipates substantially meeting the minimum steam purchase requirement for the remaining term of its commitment; however, payments in future years will be dependent on actual operating costs and other cost indices in those years.
- b. Construction Commitments* – The University has entered into contracts for the construction and improvement of various facilities. These outstanding contractual commitments totaled approximately \$72.9 million at June 30, 2015.
- c. Other Commitments* – The University is involved in legal action in regards to normal business activities. Management does not feel that these actions are material and pose a financial threat to the University and, accordingly, no liability is accrued at June 30, 2015 and 2014.

19. AFFILIATED ORGANIZATIONS

The University has affiliations with separately incorporated organizations including West Virginia United Health System, Inc., which includes West Virginia University Hospitals, Incorporated; Blanchette Rockefeller Neurosciences Institute; West Virginia University Alumni Association, Incorporated (the "Association"); the Center for Entrepreneurial Studies and Development, Incorporated; West Virginia University Medical Corporation; the Physician's Office of Charleston; University Healthcare Physicians, Inc.; the West Virginia University Dental Corporation; Potomac State College Alumni Association; Tech Foundation, Incorporated; WV Campus Housing, LLC; and ACC OP LLP. Oversight responsibility for these entities rests with independent Boards and management not

otherwise affiliated with the University. These organizations do not meet the criteria for determination as component units of the University as described in GASB standards. Accordingly, the financial statements of all such organizations are not included in the accompanying financial statements.

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

Related Party Transactions

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

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

Total funds disbursed to the Morgantown practice plan and total funds collected from the Morgantown practice plan totaled \$729,000 and \$15.2 million in fiscal year 2015 and \$1.4 million and \$14.8 million in fiscal year 2014, respectively. Accounts receivable at June 30, 2015 and 2014 includes \$139,000 and \$1.2 million, respectively, due from the Morgantown practice plan for such items as mission support, reimbursement for medical malpractice insurance, facility rental fees, utility cost reimbursement, and faculty teaching support. Amounts due to the Morgantown practice plan at June 30, 2015 and 2014 include \$0 and \$0, respectively, for such items as Institute of Occupational and Environmental Health payments.

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

educationally oriented clinical practice settings and opportunities, and providing other practice management services.

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

Total funds collected from the Charleston practice plan totaled \$3.0 million in fiscal year 2015 and \$5.3 million in fiscal year 2014, respectively. Accounts receivable at June 30, 2015 and 2014 includes \$774,000 and \$104,000, respectively, for such items as medical malpractice insurance and salary support. There were no amounts due to the Charleston practice plan at June 30, 2015 or 2014. There were no funds disbursed to the Charleston practice plan in fiscal year 2015 or 2014.

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

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

Total funds collected from the Eastern practice plan totaled \$2.0 million in fiscal year 2015 and \$1.6 million in fiscal year 2014, respectively. Accounts receivable at June 30, 2015 and 2014 includes \$327,000 and \$251,000 for such items as medical malpractice insurance and salary support. Amounts due to the Eastern practice plan at June 30, 2015 or 2014 were \$157,000 and \$0, respectively. There were no funds disbursed to the Eastern practice plan in fiscal year 2015 or 2014.

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

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

Total funds collected from the dental practice plan totaled \$867,000 in fiscal year 2015 and \$443,000 in fiscal year 2014, respectively. Accounts receivable at June 30, 2015 and 2014 includes \$426,000 and \$6,000, respectively, for such items as medical malpractice insurance, facility rental fees, clinic supplies and student expenses. There were no amounts due to the dental practice plan at June 30, 2015 or 2014. There were no funds disbursed to the dental practice plan in fiscal year 2015 or 2014.

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

During fiscal years 2015 and 2014, \$34.9 million and \$35.0 million, respectively, was received from WVUH for such items as residents’ support, reimbursement for medical malpractice insurance for the residents, reimbursement of salaries and fringe benefits for hospital employees paid by the University, reimbursement for electricity and steam costs, and rent. Accounts receivable at June 30, 2015 and 2014 include \$1.4 million and \$1.4 million, respectively, due from WVUH for such items. During fiscal years 2015 and 2014, \$322,000 and \$368,000, respectively, was paid to WVUH for rent and other services. Accounts payable at June 30, 2015 and 2014 include \$3,000 and \$6,000, respectively, due to WVUH for such items.

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

Employees of the Association are paid through the University. The University funds a portion of their salary through State funds and graduate fees. The University funded \$247,000 and \$286,000 for the years ended June 30, 2015 and 2014, respectively. The remaining payroll is billed to the Association. The Association owed the University \$99,000 and \$142,000 related to payroll and postage as of June 30, 2015 and 2014, respectively.

The Association reimburses the University up to \$50,000 per year for the alumni magazine. These payments were \$50,000 for both years ended June 30, 2015 and 2014.

The Alumni Center provides University departments with meeting rooms and catered events throughout the year. Catering and rental revenue received from the University was approximately \$941,000 and \$1,043,000 for the years ended June 30, 2015 and 2014, respectively.

The University charged the Association \$807,000 and \$915,000 for catering services for the years ended June 30, 2015 and 2014, respectively. The Association owed the University \$149,000 and \$335,000 for catering services as of June 30, 2015 and 2014, respectively.

The University owed the Association \$13,000 and \$13,000 for reimbursement of utilities as of June 30, 2015 and 2014, respectively.

In addition, the Association purchases football tickets and sky box and basketball tickets from the University. The Association paid the University \$135,000 and \$130,000 for the years ended June 30, 2015 and 2014, respectively. The Association owed the University \$0 and \$0 for the years ended June 30, 2015 and 2014, respectively.

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

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

- g. *West Virginia University at Parkersburg and BridgeValley Community and Technical College* — In 2008, the University entered into an agreement with Siemens Building Technologies, Inc. to perform Phase II of the Energy Performance contract. The contract was to install certain energy enhancement equipment in buildings on the University's campuses, including Parkersburg and WVUIT. The cost of the contract was financed with a lease purchase agreement between the University and Suntrust Leasing Corporation ("Suntrust").

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

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

The original amount of the notes related to Parkersburg and BridgeValley was \$3,316,991 and \$211,691, respectively, with an interest rate of 3.98%. The term of the

notes were 16 years with the last payment due in January 2024. The new agreements between the University and Parkersburg and BridgeValley used the same terms. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2015 was \$2,518,092 and \$160,705, respectively. The outstanding notes receivable due from Parkersburg and BridgeValley at June 30, 2014 was \$2,731,913 and \$174,351, respectively. Interest earned during fiscal year 2015 for the notes related to Parkersburg and BridgeValley was \$105,964 and \$6,763, respectively. Interest earned during fiscal year 2014 for the notes related to Parkersburg and BridgeValley was \$113,661 and \$7,254, respectively. This interest is recorded as investment income on the statement of revenues, expenses, and changes in net position.

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

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

The outstanding notes receivable due from BridgeValley at June 30, 2015 and 2014 was \$40,000 and \$80,000, respectively.

- h. *West Virginia Campus Housing, LLC (“WVCH”)* — In fiscal year 2013, the University entered into a public-private arrangement with Paradigm and WVCH for the design, construction, financing, management and operation of University Place (student housing and commercial facilities). In October 2012, the University acquired 39 parcels of real property with improvements from Paradigm in the Sunnyside area for \$14.6 million. Subsequently, in February 2013, the University entered into lease and development, sublease and joint operating agreements with Paradigm and WVCH. This project was completed in November 2014.
- i. *ACC OP LLP* — In fiscal year 2014, the University entered into an agreement with ACC OP LLP (ACC) to finance, design, construct, furnish, equip, and operate a student housing facility. The agreement will be in place for 40 years with the option to extend the agreement for two additional 10 year terms, at which time the facility is required to be returned back to the University in substantially the same condition it was transferred to them at the start of the agreement. This project was completed at the start of the fall semester 2014. The agreement stipulates that ACC OP will retain all rents collected at the facility and will provide a percentage of net revenue annually to the University.

20. WEST VIRGINIA UNIVERSITY FOUNDATION, INCORPORATED

The Foundation is a separate non-profit organization incorporated in the State of West Virginia that has as its purpose “to aid, strengthen and further in every proper and useful way the work and services of West Virginia University . . . and its affiliated non-profit organizations . . .” Oversight of the Foundation is the responsibility of an independently elected Board of Directors. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over

funds administered by the Foundation. The Foundation does not meet the criteria for determination as a component unit of the University as described by GASB. The economic resources held by the Foundation do not entirely or almost entirely benefit the University. Most of the University's endowments are under the control and management of the Foundation.

The Foundation's assets totaled \$1.5 billion and \$1.4 billion at June 30, 2015 and 2014, respectively, with net assets of \$803.7 million and \$772.7 million, respectively. Gifts, grants, pledges and bequests to the Foundation totaled \$86.0 million and \$72.7 million in fiscal years 2015 and 2014, respectively.

Total funds expended by the Foundation in support of University activities totaled \$62.8 million and \$58.7 million in fiscal years 2015 and 2014, respectively. This support is primarily recorded as gifts and capital grants and gifts and the related expenditures are primarily recorded as salaries and wages, benefits and capital assets in the University's financial statements.

21. SERVICE CONCESSION ARRANGEMENT

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

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

During fiscal year 2015, the University recorded a capital asset with a fair market value of \$34,952,000 and a deferred inflow of resources. This deferred inflow is being amortized to capital grant and gift revenue over the term of the agreement (40 years). The University has recorded an accounts receivable of \$295,000 at June 30, 2015 for reimbursable project expenses. The University has also recognized management fee revenue and its share of the net revenue of \$70,000 and \$547,000, respectively, which is included in revenue from auxiliary enterprises on the statement of revenues, expenses and changes in net position.

22. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2015 or 2014.

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

At June 30, 2015 and 2014, the University has recorded a liability of \$1.3 million and \$27,000, respectively, for asbestos removal in accordance with the provisions of GASB.

The University has consented to the reduction of its distributions from future Big 12 revenues (of which, \$4 million and \$5 million is recorded as an other noncurrent liability as of June 30, 2015 and June 30, 2014, respectively) if the Foundation does not make required payments under its \$10 million promissory note with the Big 12.

23. BLENDED COMPONENT UNIT

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

2015

Statement of Net Position

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

Statement of Revenues, Expenses and Changes in Net Position

| | WVU Excluding Component Unit | WVU Research Corporation | Eliminations | Total |
|---|------------------------------------|--------------------------------|----------------|-------------------|
| Operating Revenues | | | | |
| Student Tuition and Fees, net | \$ 370,791 | \$ - | \$ - | 370,791 |
| Federal Land Grants | 8,140 | - | - | 8,140 |
| Local Land Grants | 1,297 | - | - | 1,297 |
| Federal Grants and Contracts | 7,173 | 62,022 | - | 69,195 |
| State Grants and Contracts | 11,414 | 27,483 | - | 38,897 |
| Local Grants and Contracts | 12 | 205 | - | 217 |
| Nongovernmental Grants and Contracts | 28,311 | 25,819 | - | 54,130 |
| Sales and Services of Educational Departments | 17,004 | 536 | - | 17,540 |
| Auxiliary Enterprises, net | 147,805 | - | - | 147,805 |
| Interest on Student Loans Receivable | 893 | - | - | 893 |
| Net Operating Revenue from the Corporation | 3,040 | - | (3,040) | - |
| Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's | 388 | - | - | 388 |
| Other Operating Revenues | 7,713 | 131 | - | 7,844 |
| Total Operating Revenues | 603,981 | 116,196 | (3,040) | 717,137 |
| Operating Expenses | | | | |
| Depreciation and Amortization | 77,386 | 1,114 | - | 78,500 |
| Net Operating Expenses to WVU | - | 3,040 | (3,040) | - |
| Other Operating Expenses | 812,903 | 110,120 | - | 923,023 |
| Total Operating Expenses | 890,289 | 114,274 | (3,040) | 1,001,523 |
| Operating (Loss) Income | (286,308) | 1,922 | - | (284,386) |
| Nonoperating Revenues (Expenses) | | | | |
| State Appropriations | 189,379 | - | - | 189,379 |
| State Lottery Appropriations | 3,538 | - | - | 3,538 |
| Payments on Behalf of the University | 4,073 | 31 | - | 4,104 |
| Gifts | 31,140 | 3,612 | - | 34,752 |
| Federal Pell Grants | 30,444 | - | - | 30,444 |
| Investment Income | 2,718 | 116 | - | 2,834 |
| Interest on Capital Asset-Related Debt | (20,936) | (354) | - | (21,290) |
| Assessments by Commission for Debt Service | (6,087) | - | - | (6,087) |
| Debt Issuance Costs | (712) | - | - | (712) |
| Other Nonoperating Expenses - Net | (326) | - | - | (326) |
| Net Nonoperating Revenues | 233,231 | 3,405 | - | 236,636 |
| (Loss) Income before Other Revenues, Expenses, Gains, or Losses | (53,077) | 5,327 | - | (47,750) |
| Capital Grants and Gifts | 92,184 | 3,563 | - | 95,747 |
| Capital Bond Proceeds from State | 6 | - | - | 6 |
| Bond/Capital Projects Proceeds from the Higher Education Policy Commission | 1,646 | - | - | 1,646 |
| Transfer of Assets (from) to the University | (1,295) | 1,295 | - | - |
| Increase in Net Position | 39,464 | 10,185 | - | 49,649 |
| Net Position at Beginning of Year | 808,357 | 47,299 | - | 855,656 |
| Cumulative Effect of Change in Accounting Principle | (13,827) | - | - | (13,827) |
| Net Position at Beginning of Year, as Restated | 794,530 | 47,299 | - | 841,829 |
| Net Position at End of Year | \$ 833,994 | \$ 57,484 | \$ - | \$ 891,478 |

Statement of Cash Flows

| | WVU Excluding Component Unit | WVU Research Corporation | Total |
|---|------------------------------------|--------------------------------|--------------------|
| Cash Provided By (Used In): | | | |
| Operating Activities | \$ (198,142) | \$ 4,522 | \$ (193,620) |
| Noncapital Financing Activities | 254,706 | 3,613 | 258,319 |
| Capital Financing Activities | (6,323) | (4,595) | (10,918) |
| Investing Activities | (115,387) | (47) | (115,434) |
| Increase (Decrease) in Cash and Cash Equivalents | \$ (65,146) | \$ 3,493 | \$ (61,653) |
| Cash and Cash Equivalents, Beginning of Year | \$ 225,937 | \$ 21,643 | \$ 247,580 |
| Cash and Cash Equivalents, End of Year | \$ 160,791 | \$ 25,136 | \$ 185,927 |

2014

Statement of Net Position

| | WVU Excluding Component Unit | WVU Research Corporation | Eliminations | Total |
|--|------------------------------------|--------------------------------|-------------------|---------------------|
| Assets | | | | |
| Current Assets | \$ 152,576 | \$ 40,853 | \$ - | \$ 193,429 |
| Accounts Receivable - Corporation - Current Portion | 9,407 | - | (9,407) | - |
| Total Current Assets | 161,983 | 40,853 | (9,407) | 193,429 |
| Capital Assets, net | 1,308,692 | 43,122 | - | 1,351,814 |
| Accounts Receivable - Corporation | - | - | - | - |
| Other Noncurrent Assets | 255,709 | 10,174 | - | 265,883 |
| Total Noncurrent Assets | 1,564,401 | 53,296 | - | 1,617,697 |
| Total Assets | \$ 1,726,384 | \$ 94,149 | \$ (9,407) | \$ 1,811,126 |
| Deferred Outflows of Resources | \$ 14,480 | \$ - | \$ - | \$ 14,480 |
| Total Assets and Deferred Outflows of Resources | \$ 1,740,864 | \$ 94,149 | \$ (9,407) | \$ 1,825,606 |
| Liabilities and Deferred Inflows of Resources | | | | |
| Current Liabilities | \$ 130,606 | \$ 16,580 | \$ - | \$ 147,186 |
| Noncurrent Liabilities | 801,780 | 20,342 | - | 822,122 |
| Total Liabilities | \$ 932,386 | \$ 46,329 | \$ (9,407) | \$ 969,308 |
| Deferred Inflows of Resources | \$ 121 | \$ 521 | \$ - | \$ 642 |
| Total Liabilities and Deferred Inflows of Resources | \$ 932,507 | \$ 46,850 | \$ (9,407) | \$ 969,950 |
| Net Position | | | | |
| Net Investment in Capital Assets | \$ 846,083 | \$ 21,531 | \$ - | \$ 867,614 |
| Restricted Nonexpendable | 7,045 | - | - | 7,045 |
| Restricted Expendable | 23,586 | - | - | 23,586 |
| Unrestricted Net Deficit | (68,357) | 25,768 | - | (42,589) |
| Total Net Position | \$ 808,357 | \$ 47,299 | \$ - | \$ 855,656 |

Statement of Revenues, Expenses and Changes in Net Position

| | WVU Excluding Component Unit | WVU Research Corporation | Eliminations | Total |
|---|------------------------------------|--------------------------------|----------------|-------------------|
| Operating Revenues | | | | |
| Student Tuition and Fees, net | \$ 363,820 | \$ - | \$ - | 363,820 |
| Federal Land Grants | 8,130 | - | - | 8,130 |
| Local Land Grants | 1,171 | - | - | 1,171 |
| Federal Grants and Contracts | 6,910 | 65,537 | - | 72,447 |
| State Grants and Contracts | 11,908 | 24,181 | - | 36,089 |
| Local Grants and Contracts | - | 228 | - | 228 |
| Nongovernmental Grants and Contracts | 29,193 | 28,895 | - | 58,088 |
| Sales and Services of Educational Departments | 16,916 | 768 | - | 17,684 |
| Auxiliary Enterprises, net | 138,405 | - | - | 138,405 |
| Interest on Student Loans Receivable | 853 | - | - | 853 |
| Net Operating Revenue from the Corporation | 4,320 | - | (4,320) | - |
| Net Service Agreement Revenue from BridgeValley and Parkersburg CTC's | 600 | - | - | 600 |
| Other Operating Revenues | 8,367 | 193 | - | 8,560 |
| Total Operating Revenues | 590,593 | 119,802 | (4,320) | 706,075 |
| Operating Expenses | | | | |
| Depreciation and Amortization | 74,098 | 1,096 | - | 75,194 |
| Net Operating Expenses to WVU | - | 4,320 | (4,320) | - |
| Other Operating Expenses | 773,234 | 106,663 | - | 879,897 |
| Total Operating Expenses | 847,332 | 112,079 | (4,320) | 955,091 |
| Operating (Loss) Income | (256,739) | 7,723 | - | (249,016) |
| Nonoperating Revenues (Expenses) | | | | |
| State Appropriations | 190,343 | - | - | 190,343 |
| State Lottery Appropriations | 3,649 | - | - | 3,649 |
| Payments on Behalf of the University | 295 | - | - | 295 |
| Gifts | 24,609 | 2,748 | - | 27,357 |
| Investment Income | 13,362 | 1,022 | - | 14,384 |
| Interest on Capital Asset-Related Debt | (17,117) | (342) | - | (17,459) |
| Assessments by Commission for Debt Service | (5,986) | - | - | (5,986) |
| Debt Issuance Costs | - | - | - | - |
| Other Nonoperating Revenues - Net | 2,741 | - | - | 2,741 |
| Net Nonoperating Revenues | 242,400 | 3,428 | - | 245,828 |
| (Loss) Income before Other Revenues, Expenses, Gains, or Losses | (14,339) | 11,151 | - | (3,188) |
| Capital Grants and Gifts | 23,008 | 1,142 | - | 24,150 |
| Capital Bond Proceeds from State | 158 | - | - | 158 |
| Bond/Capital Projects Proceeds from the Higher Education Policy Commission | 274 | - | - | 274 |
| Gain from Early Extinguishment of Debt | - | - | - | - |
| Other Expenses | - | (592) | - | (592) |
| Transfer of Assets to the University | 8,363 | (8,363) | - | - |
| Increase in Net Position | 17,464 | 5,593 | - | 23,057 |
| Net Position at Beginning of Year | 790,893 | 41,706 | - | 832,599 |
| Net Position at End of Year | \$ 808,357 | \$ 47,299 | \$ - | \$ 855,656 |

Statement of Cash Flows

| | WVU Excluding Component Unit | WVU Research Corporation | Total |
|---|------------------------------------|--------------------------------|-------------------|
| Cash Provided By (Used In): | | | |
| Operating Activities | \$ (169,054) | \$ 4,951 | \$ (164,103) |
| Noncapital Financing Activities | 238,233 | 2,748 | 240,981 |
| Capital Financing Activities | (136,289) | (6,080) | (142,369) |
| Investing Activities | 84,417 | 186 | 84,603 |
| Increase (Decrease) in Cash and Cash Equivalents | \$ 17,307 | \$ 1,805 | \$ 19,112 |
| Cash and Cash Equivalents, Beginning of Year | \$ 208,630 | \$ 19,838 | \$ 228,468 |
| Cash and Cash Equivalents, End of Year | \$ 225,937 | \$ 21,643 | \$ 247,580 |

24. SEGMENT INFORMATION

See Note 11 for descriptive information for the University's segment.

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

(Dollars in Thousands)

| | AUXILIARIES As of/Year Ended 2015 | AUXILIARIES As of/Year Ended 2014 |
|---|---|---|
| CONDENSED SCHEDULES OF NET POSITION | | |
| Assets and Deferred Outflows of Resources: | | |
| Current Assets | \$ 64,861 | \$ 44,570 |
| Noncurrent and Capital Assets * | 960,341 | 707,078 |
| Total Assets | <u>1,025,202</u> | <u>751,648</u> |
| Deferred Outflows of Resources: | | |
| Deferred Loss on Refunding | 13,958 | 14,480 |
| Deferred Outflows Related to Pensions | 86 | |
| Total Assets and Deferred Outflows of Resources | <u>\$ 1,039,246</u> | <u>\$ 766,128</u> |
| Liabilities, Deferred Inflows, and Net Position: | | |
| Current Liabilities | \$ 44,093 | \$ 42,556 |
| Long-Term Liabilities | 687,210 | 549,117 |
| Total Liabilities | <u>731,303</u> | <u>591,673</u> |
| Deferred Inflows of Resources: | | |
| Deferred service concession arrangements | 34,151 | - |
| Deferred inflows related to pensions | 179 | - |
| Total Liabilities and Deferred Inflows of Resources | <u>\$ 765,633</u> | <u>\$ 591,673</u> |
| Net Position: | | |
| Net investment in capital assets | \$ 332,870 | \$ 211,214 |
| Restricted | 195,591 | 128,293 |
| Unrestricted | (254,848) | (165,052) |
| Total Net Position | <u>\$ 273,613</u> | <u>\$ 174,455</u> |
| CONDENSED SCHEDULES OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION | | |
| Auxiliary and Capital Fees | \$ 31,333 | \$ 31,280 |
| Operating Revenues | 131,472 | 122,806 |
| Operating Expenses | (139,374) | (127,880) |
| Net Operating Income | 23,431 | 26,206 |
| Nonoperating Revenues/Expenses: | | |
| Investment Income | 911 | 372 |
| Net Transfers (from) to Other Funds | 2,536 | (28,213) |
| Other Nonoperating Income | 85,788 | 5,091 |
| Gifts | 12,222 | 8,771 |
| Other Nonoperating Expenses | (6,419) | (4,864) |
| Interest Expense * | (19,311) | (17,551) |
| Increase (Decrease) in Net Position | 99,158 | (10,188) |
| Net Position - Beginning of Year | 174,455 | 184,643 |
| Net Position - End of Year | <u>\$ 273,613</u> | <u>\$ 174,455</u> |

(continued)

CONDENSED SCHEDULES OF CASH FLOWS

| | | | | |
|---|----|----------|----|----------|
| Net Cash Provided by Operating Activities | \$ | 4,292 | \$ | 27,824 |
| Net Cash Flows Provided by | | | | |
| Noncapital Financing Activities | | 12,222 | | 8,771 |
| Net Cash Flows Used in | | | | |
| Capital and Related Financing Activities | | (54,994) | | (25,893) |
| Net Cash Flows Provided by | | | | |
| Investing Activities | | 576 | | 282 |
| (Decrease) Increase in Cash | | (37,904) | | 10,984 |
| Cash - Beginning of Year | | 147,848 | | 136,864 |
| Cash - End of Year | \$ | 109,944 | \$ | 147,848 |

Reconciliation of cash

| | | | | |
|--------------------------------------|----|---------|----|---------|
| Cash classified as current assets | \$ | 57,316 | \$ | 40,596 |
| Cash classified as noncurrent assets | | 52,628 | | 107,252 |
| | \$ | 109,944 | \$ | 147,848 |

* Interest of \$1,675,000 and \$1,533,000 was capitalized for fiscal year 2015 and 2014, respectively.

25. FUNCTIONAL CLASSIFICATION OF EXPENSES
(Dollars in Thousands)

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

| Functional Classification | Year Ended June 30, 2015 | | | | | | | Total | | |
|--|--------------------------|------------|----------------------------|-----------|---------------------------|-------------------------------|---------------------------------|----------|-------------------------------|--------------------------|
| | Salaries & Wages | Benefits | Scholarships & Fellowships | Utilities | Supplies & Other Services | Depreciation and Amortization | Loan Cancellations & Write Offs | | Assessments by the Commission | Other Operating Expenses |
| Instruction | \$ 204,449 | \$ 61,932 | \$ - | \$ 256 | \$ 30,248 | \$ - | \$ - | \$ - | \$ 40 | \$ 296,925 |
| Research | 62,730 | 28,122 | - | 411 | 39,042 | - | - | - | - | 130,305 |
| Public Service | 34,774 | 8,731 | - | 164 | 14,587 | - | - | - | 183 | 58,439 |
| Academic Support | 25,006 | 6,048 | - | 106 | 13,675 | - | - | - | 11 | 44,846 |
| Student Services | 20,376 | 8,529 | - | 31 | 11,667 | - | - | - | - | 40,603 |
| Operation and Maintenance of Plant | 23,426 | 8,732 | - | 20,610 | 20,824 | - | - | - | - | 73,592 |
| General Institutional Support | 56,745 | 15,201 | - | 36 | 42,158 | - | - | - | 307 | 114,447 |
| Student Financial Aid | - | - | 37,858 | - | - | - | - | - | - | 37,858 |
| Auxiliary Enterprises | 46,295 | 9,330 | - | 7,618 | 59,137 | - | - | - | 399 | 122,779 |
| Depreciation and Amortization | - | - | - | - | - | 78,500 | - | - | - | 78,500 |
| Assessments by Commission for Operations | - | - | - | - | - | - | - | 2,837 | - | 2,837 |
| Loan Cancellations and Write Offs | - | - | - | - | - | - | 392 | - | - | 392 |
| Total Expenses | \$ 473,801 | \$ 146,625 | \$ 37,858 | \$ 29,232 | \$ 231,338 | \$ 78,500 | \$ 392 | \$ 2,837 | \$ 940 | \$ 1,001,523 |

| Functional Classification | Year Ended June 30, 2014 | | | | | | | Total | | |
|--|--------------------------|------------|----------------------------|-----------|---------------------------|-------------------------------|---------------------------------|----------|-------------------------------|--------------------------|
| | Salaries & Wages | Benefits | Scholarships & Fellowships | Utilities | Supplies & Other Services | Depreciation and Amortization | Loan Cancellations & Write Offs | | Assessments by the Commission | Other Operating Expenses |
| Instruction | \$ 197,293 | \$ 57,140 | \$ - | \$ 233 | \$ 28,035 | \$ - | \$ - | \$ - | \$ 145 | \$ 282,846 |
| Research | 63,029 | 27,598 | - | 580 | 38,083 | - | - | - | 153 | 129,443 |
| Public Service | 35,031 | 8,475 | - | 150 | 14,427 | - | - | - | 261 | 58,344 |
| Academic Support | 24,808 | 6,013 | - | 98 | 15,642 | - | - | - | 178 | 46,739 |
| Student Services | 22,473 | 8,433 | - | 29 | 10,420 | - | - | - | 169 | 41,524 |
| Operation and Maintenance of Plant | 23,798 | 8,614 | - | 19,369 | 21,239 | - | - | - | 47 | 73,067 |
| General Institutional Support | 52,129 | 13,106 | - | 41 | 30,416 | - | - | - | 132 | 95,824 |
| Student Financial Aid | - | - | 37,431 | - | - | - | - | - | - | 37,431 |
| Auxiliary Enterprises | 44,001 | 9,176 | - | 7,704 | 49,329 | - | - | - | 373 | 110,583 |
| Depreciation and Amortization | - | - | - | - | - | 75,194 | - | - | - | 75,194 |
| Assessments by Commission for Operations | - | - | - | - | - | - | - | 2,806 | - | 2,806 |
| Loan Cancellations and Write Offs | - | - | - | - | - | - | 1,290 | - | - | 1,290 |
| Total Expenses | \$ 462,562 | \$ 138,555 | \$ 37,431 | \$ 28,204 | \$ 207,591 | \$ 75,194 | \$ 1,290 | \$ 2,806 | \$ 1,458 | \$ 955,091 |

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

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

| Measurement Date | University's Proportionate Share as a Percentage of Net Pension Liability | University's Proportionate Share | State's Proportionate Share | Total Proportionate Share | University's Covered Employee Payroll | University's Proportionate Share as a Percentage of Covered Payroll | University's Plan Fiduciary Net Position as a Percentage of Total Pension |
|------------------|---|--|-----------------------------------|---------------------------------|--|---|---|
| June 30, 2014 | 0.326562% | \$ 11,267 | \$ 25,456 | \$ 36,723 | \$ 4,877 | 231% | 65.95% |

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, 2014 | \$ 1,486 | \$ 1,504 | (18) | \$ 4,877 | 30.84% |

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

**Notes to Required Supplementary Information
For the Year Ended June 30, 2015**

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 CPRB Comprehensive Annual Financial Report.



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

Board of Governors
West Virginia University
Morgantown, West Virginia

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of West Virginia University, a campus of West Virginia Higher Education Policy Commission as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise West Virginia University's basic financial statements, and have issued our report thereon dated December 14, 2015.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. 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

Plymouth Meeting, Pennsylvania
December 14, 2015