

West Virginia Higher Education Fund

(A Component Unit of the State of West Virginia)

Combined Financial Statements as of and
for the Years Ended June 30, 2013 and 2012,
Additional Information as of and for the
Year Ended June 30, 2013, and
Independent Auditors' Reports

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

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INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education
Policy Commission:

We have audited the accompanying combined financial statements of the West Virginia Higher Education Fund (the "Fund") which comprise the combined statements of net position as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We did not audit the financial statements of Bluefield State College, Blue Ridge Community and Technical College, Bridgemont Community and Technical College, Concord University, Eastern West Virginia Community and Technical College, Fairmont State University, Glenville State College, Kanawha Valley Community and Technical College, Mountwest Community and Technical College, New River Community and Technical College, Pierpong Community and Technical College, Shepherd University, Southern West Virginia Community and Technical College, West Liberty University, West Virginia Northern Community College, West Virginia School of Osteopathic Medicine, and West Virginia State University (collectively, the "Other Institutions") for the year ended June 30, 2013, which statements reflect total assets, total net position, and total revenues constituting approximately 30%, 40%, and 31%, respectively, of the Fund in 2013. We did not audit the financial statements of Bluefield State College, Bridgemont Community and Technical College, Concord University, Glenville State College, Kanawha Valley Community and Technical College, Mountwest Community and Technical College, New River Community and Technical College, Southern West Virginia Community and Technical College, West Virginia Northern Community College, and West Virginia School of Osteopathic Medicine for the year ended June 30, 2012, which statements reflect total assets, total net position, and total revenues constituting approximately 15%, 24%, and 26%, respectively, of the Fund in 2012. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts of the Other Institutions included in the Fund as of and for the years ended June 30, 2013 and 2012, is based solely on the report of the other auditors. We also did not audit the financial statements of the discretely presented component units as defined in Note 2 to the financial statements. The discretely presented component units' statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the discretely presented component units' financial statements, is based solely on the reports of such other auditors. We, and the

auditors for the Other Institutions, conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The component units' financial statements were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those assessments, the auditor considers internal control relevant to the Fund's preparation and fair presentation of the combined 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 Fund'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 estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinion

In our opinion, based on our audit and the reports of the other auditors, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Fund and the discretely presented component units of the Fund as of June 30, 2013 and 2012, and the respective changes in their net position/net assets and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Fund early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

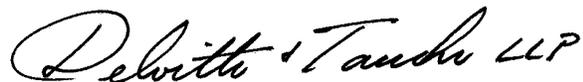
Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4-18 be presented to supplement the combined financial statements. Such information, although not a part of the combined financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the combined 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 combined financial statements, and other knowledge we obtained during our audit of the combined 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.

Report on Additional Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The additional consolidating information on pages 78-81 are presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual columns, and are not a required part of the combined financial statements. These schedules are the responsibility of the Fund's management and were derived from and relate directly to the underlying accounting and other records used to prepare the combined financial statements. Such schedules have been subjected to the auditing procedures applied in our audits of the combined financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the combined financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such schedules are fairly stated in all material respects in relation to the combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2013, on our consideration of the Fund's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Fund's internal control over financial reporting and compliance.

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 22, 2013

**West Virginia Higher Education Fund
Management's Discussion and Analysis
Fiscal Year 2013 (Unaudited)**

Overview of the Combined Financial Statements and Financial Analysis

The West Virginia Higher Education Fund (the "Fund") is comprised of twenty public colleges and universities and two administrative units. The Fund is a discretely presented component unit of the State of West Virginia. The supervision and management of the affairs of each institution is the responsibility of individual Governing Boards, while the West Virginia Higher Education Policy Commission (the "Commission") and the West Virginia Council for Community and Technical College Education (the "Council") are responsible for the development and implementation of a higher education policy agenda.

Governmental Accounting Standards Board (GASB) standards require the audited financial statements of certain institutions' component units to be separately presented as a discrete component unit in the Fund's financial statements for the fiscal years ended June 30, 2013 and 2012. These component units are private nonprofit organizations that report under FASB standards. A supplemental information schedule is provided presenting these statements on a consolidated GASB basis to meet the State of West Virginia reporting requirements.

The following discussion and analysis of the Fund's Combined Financial Statements provides an overview of its financial activities for Fiscal Years 2013 and 2012 and is required supplemental information. The emphasis of discussions about these statements will focus on current year data in comparison to prior year. There are three financial statements presented: the Combined Statement of Net Position; the Combined Statement of Revenues, Expenses, and Changes in Net Position; and the Combined Statement of Cash Flows.

Combined Statement of Net Position

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

From the data presented, readers of the Combined Statement of Net Position are able to determine the assets available to continue the operations of the Fund. They are also able to determine how much the Fund owes vendors, employees, investors and lending institutions. Finally, the Combined Statement of Net Position provides a picture of the net position (assets and deferred outflows minus liabilities and deferred inflows).

Net position is divided into three major categories. The first category, net investment in capital assets, provides the Fund's equity in land, buildings, furniture, and equipment owned by the Fund, offset by outstanding debt obligations related to those capital assets. The next net position category is restricted, which is divided into two categories, nonexpendable and expendable. The nonexpendable restricted category is used for an endowment program where funds are invested and the earnings are available for expenditure but the original principal is not. The expendable restricted category reflects amounts that are available for expenditure by the Fund but have a specific purpose. The final category is unrestricted. The

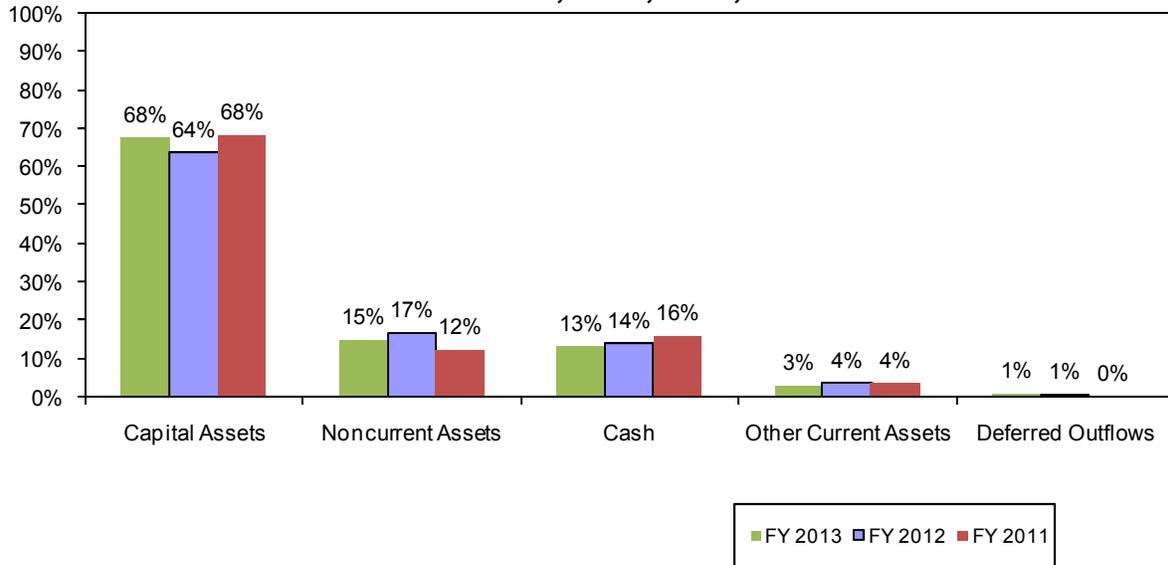
unrestricted category is used to record amounts that are available to be used for any lawful purpose of the Fund.

Condensed Combined Schedules of Net Position
(In thousands of dollars)

	June 30 2013	June 30 2012 As Amended	June 30 2011 As Amended	Change From 2012 to 2013
Assets and Deferred Outflows				
Current Assets	\$ 599,971	\$ 625,050	\$ 604,666	\$ (25,079)
Capital Assets, net	2,491,265	2,293,955	2,061,272	197,310
Other Noncurrent Assets	554,520	599,182	378,831	(44,662)
Deferred Outflows	36,345	24,397	11,329	11,948
Total Assets	<u>\$ 3,682,101</u>	<u>\$ 3,542,584</u>	<u>\$ 3,056,098</u>	<u>\$ 139,517</u>
Liabilities and Deferred Inflows				
Current Liabilities	\$ 316,394	\$ 340,735	\$ 290,273	\$ (24,341)
Noncurrent Liabilities	1,608,540	1,552,447	1,176,565	56,093
Deferred Inflows	3,150	2,969	777	181
Total Liabilities	<u>1,928,084</u>	<u>1,896,151</u>	<u>1,467,615</u>	<u>31,933</u>
Net Position				
Net Investment in Capital Assets	1,553,141	1,403,775	1,280,917	149,366
Restricted-expendable	149,860	153,502	188,402	(3,642)
Restricted-nonexpendable	24,658	17,746	15,427	6,912
Unrestricted	26,358	71,410	103,738	(45,052)
Total Net Position	<u>1,754,017</u>	<u>1,646,433</u>	<u>1,588,483</u>	<u>107,584</u>
Total	<u>\$ 3,682,101</u>	<u>\$ 3,542,584</u>	<u>\$ 3,056,098</u>	<u>\$ 139,517</u>

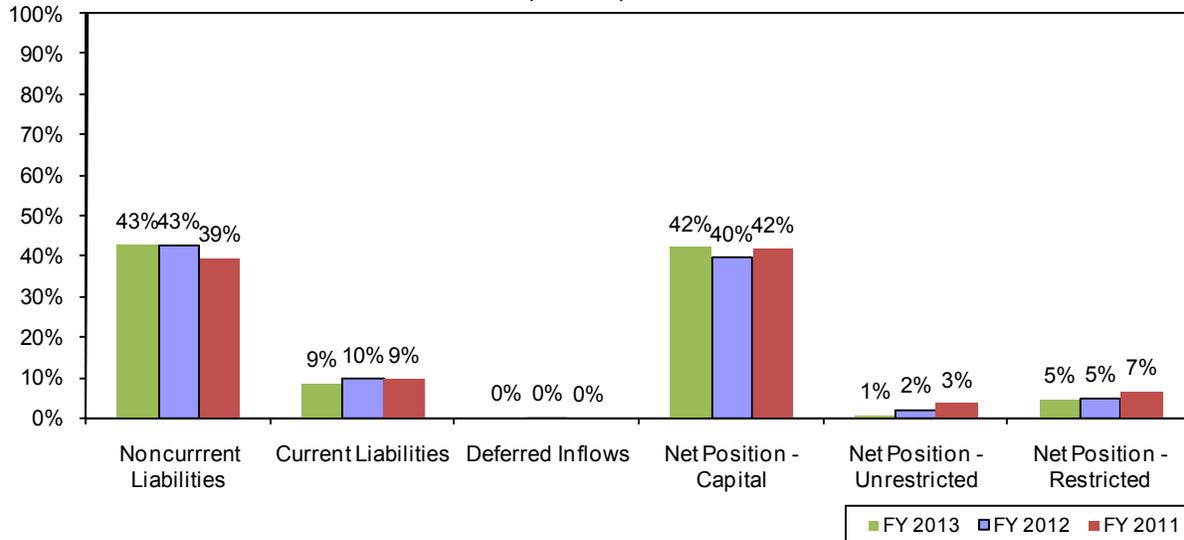
Assets and Deferred Outflows Composition

As of June 30, 2013, 2012, and 2011



Liabilities, Deferred Inflows and Net Position Composition

As of June 30, 2013, 2012 and 2011



Major items of note in the Combined Statement of Net Position include:

- Total current assets of \$600.0 million exceeded total current liabilities of \$316.4 million as of June 30, 2013 for net working capital of \$283.6 million as compared to net working capital of \$284.3 million as of June 30, 2012. Current assets decreased by \$25.1 million from the prior year, while current liabilities decreased by \$24.3 million.
- The major components of current assets include cash and cash equivalents of \$485.0 million and \$497.0 million and net accounts receivable of \$71.2 million and \$83.2 million as of June 30, 2013 and 2012, respectively. The majority of the cash and cash equivalents represent interest earning assets invested through the office of the West Virginia State Treasurer which invested with Board of Treasury Investments at both June 30, 2013 and 2012.
- The major components of current liabilities include \$73.3 million and \$89.4 million of unearned revenue, \$79.9 million and \$72.8 million in accounts payable, \$63.1 million and \$54.9 million of accrued liabilities, \$42.1 million and \$41.1 million in accrued compensated absences, and \$34.4 million and \$32.3 million in current portion of bonds payable as of June 30, 2013 and 2012, respectively.
- The changes from last year in the level of current assets and liabilities reflect normal fluctuations in business operations; current construction projects activities, increases in grant activities, and the general growth of the higher education institutions.
- Noncurrent assets total \$3,045.8 million and \$2,893.1 million and noncurrent liabilities total \$1,608.5 million and \$1,552.4 million as of June 30, 2013 and 2012, respectively. Noncurrent

assets increased by \$152.7 million over the prior year while noncurrent liabilities increased by \$56.1 million.

- The primary noncurrent asset is \$2,491.3 million and \$2,294.0 million of net capital assets as of June 30, 2013 and 2012, respectively. Also included as noncurrent assets are cash and cash equivalents primarily for capital purposes of \$222.7 million and \$172.8 million, investments for capital purposes totaling \$276.1 million and \$367.2 million, and net loans to students of \$46.0 million and \$46.6 million as of June 30, 2013 and 2012, respectively.
- Major components of noncurrent liabilities include long-term bonds payable totaling \$1,140.1 million and \$1,088.8 million, capital leases of \$32.4 million and \$35.5 million, advances from federal sponsors of \$41.4 million and \$41.3 million, notes payable of \$28.6 million and \$29.1 million, and accruals for other post employment benefit liability of \$287.1 million and \$282.0 million as of June 30, 2013 and 2012, respectively.
- The increase in other post employment benefit liability of \$5.1 million is primarily attributed to continued lack of payments on behalf of West Virginia Higher Education Fund. As a result of 2012 legislation, this liability will continue to increase until FY 2017, when the liability will begin to be reduced as a result of credits applied to previously billed annual required contribution amounts. The liability is estimated to be funded by 2037. The increase for FY2013 was significantly less than in previous years as a result of plan benefit and actuarial changes, which reduced the cost per policy from \$794/month to \$79/month.
- Deferred outflows of resources increased from \$24.4 million to \$36.3 million. The increase was attributed to deferred losses on refunding of bond issues.
- The net position of the Fund total \$1,754.0 million and \$1,646.4 million as of June 30, 2013 and 2012, respectively, an increase of \$107.6 million.
 - Net investment in capital assets total \$1,553.1 million and \$1,403.8 million as of June 30, 2013 and 2012, respectively.
 - Restricted expendable net position total \$149.9 million and \$153.5 million and include \$32.9 million and \$45.9 million for sponsored projects, \$68.3 million and \$59.3 million for capital projects, and \$26.9 million and \$26.1 million for loan programs as of June 30, 2013 and 2012, respectively.
 - Unrestricted net position total \$26.4 million and \$71.4 million as of June 30, 2013 and 2012, respectively, and represent net position available to the Fund for any lawful purpose of the Fund.
 - The increase in Net Position is more fully explained in the following section.

Condensed Combined Statement of Revenues, Expenses, and Changes in Net Position

Changes in total net position as presented on the Combined Statement of Net Position are based on the activity presented in the Combined Statement of Revenues, Expenses, and Changes in Net Position. The purpose of the statement is to present the revenues of the Fund, both operating and nonoperating, and the expenses of the Fund, operating and nonoperating, and any other revenues, expenses, gains or losses of the Fund.

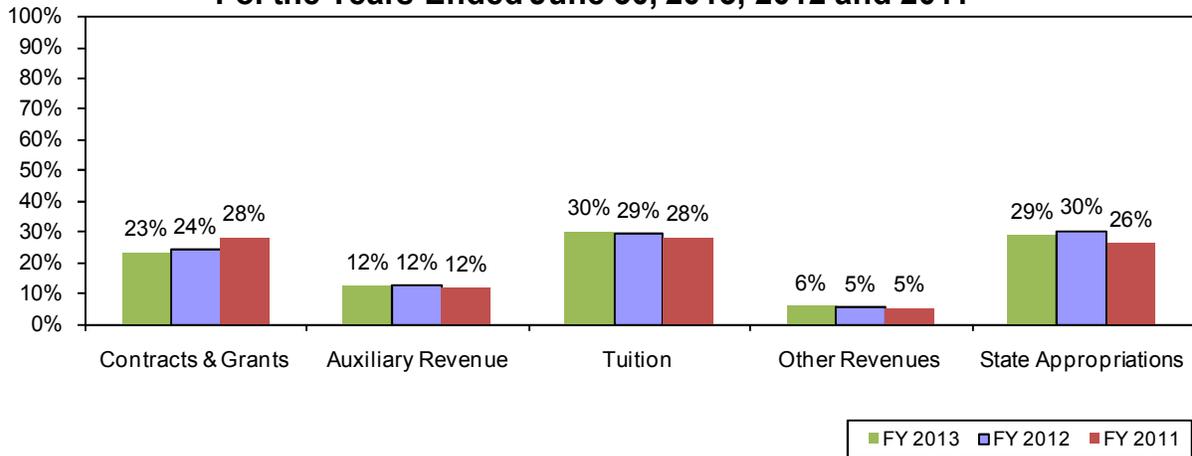
Operating revenues represent the receipts earned from providing goods and service to the various customers and constituencies served by the Fund, including fees from students and revenue in the form of Federal and State grants used to support operations and various initiatives. Operating expenses are those expenses incurred in the form of staff salaries, benefits and various goods and services to carry out the mission of the Fund. Revenues for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the West Virginia State Legislature to the Fund 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.

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

	FY 2013	FY 2012 As Amended	FY 2011 As Amended
Operating Revenues	\$ 1,116,808	\$ 1,077,472	\$ 1,050,921
Operating Expenses	<u>1,732,447</u>	<u>1,768,803</u>	<u>1,712,683</u>
Operating (Loss) Income	(615,639)	(691,331)	(661,762)
Net Nonoperating Revenues (Expenses)	<u>645,289</u>	<u>614,735</u>	<u>631,531</u>
Income (Loss) Before Other Revenues, Expenses, Gains, Losses, or Transfers	29,650	(76,596)	(30,231)
Capital Grants, Appropriations and Gifts	39,197	95,759	63,375
Capital Bond Proceeds from th State	19,936	31,302	25,784
State Capital Grants (Federal)	<u>18,801</u>	<u>7,485</u>	<u>11,994</u>
Increase in Net Position	107,584	57,950	70,922
Net Position-Beginning of Year	<u>1,646,433</u>	<u>1,588,483</u>	<u>1,517,562</u>
Net Position-End of Year	<u>\$ 1,754,017</u>	<u>\$ 1,646,433</u>	<u>\$ 1,588,483</u>

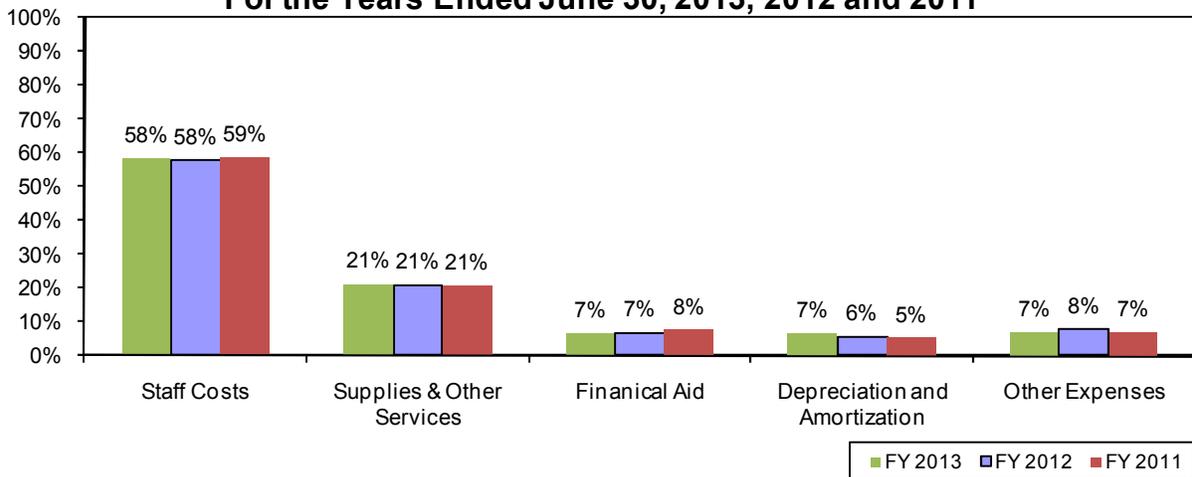
Total Revenues

For the Years Ended June 30, 2013, 2012 and 2011



Total Operating Expenses

For the Years Ended June 30, 2013, 2012 and 2011



Major items of note in the Combined Statement of Revenue, Expenses and Changes in Net Position include:

- Operating Revenues of the Fund totaled \$1,116.8 million and \$1,077.5 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$39.3 million.

- Student tuition and fees revenues totaled \$545.9 million in FY 2013, an increase of \$29.0 million or 5.6% in FY 2013. Tuition is reported net of scholarship allowances totaling \$162.5 million and \$144.3 million for the years ended June 30, 2013 and 2012, respectively. This increase is a combination of increases in tuition rates offset by a decrease in the number of students.
- Federal grant and contracts totaled \$132.2 million and \$152.7 million for the years ended June 30, 2013 and 2012, respectively. The decrease of \$20.5 million represents the decline in federal research and financial aid support.
- Auxiliary enterprises generated revenues of \$223.7 million and \$220.0 million, net of \$24.1 million and \$22.7 million of scholarship allowances for the years ended June 30, 2013 and 2012, respectively. FY 2013 net auxiliary revenues increased by \$3.7 million or 1.7%, reflecting primarily increases in rates.
- State grants and contracts totaled \$68.0 million and \$42.3 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$25.7 million. Private grants and contracts totaled \$75.5 million and \$67.8 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$7.7 million. These changes represent normal fluctuations in grant activities.
- Operating expenses totaled \$1,732.4 million and \$1,768.8 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$36.4 million.
 - Staff salary costs totaled \$816.1 million and \$786.6 million, an increase of \$29.5 million or 3.8%. This increase is attributed to salary increases and an additional year of service of annual increment. Benefit costs decreased by \$70.7 million in FY 2013, or 23.4% from FY 2012 and is primarily due to the decrease in OPEB expenses described above.
 - Supplies and other services totaled \$383.2 million and \$386.8 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$3.6 million or less than 1 percent.
 - Scholarships and fellowships totaled \$120.1 million and \$126.7 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$6.6 million or 5.2%. This is primarily a result of decreases in Pell Grant revenues.
 - Depreciation and amortization on capital assets totaled \$119.0 million and \$103.9 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$15.1 million. The increase is related to the completion of capital projects funded by recent bond issues.
- The result from operations was a net operating loss of \$615.6 million and \$691.3 million for the years ended June 30, 2013 and 2012, respectively, which excludes State appropriations of \$523.3 million and \$518.9 million and Federal Pell grants of \$135.5 million and \$145.3 million for the years ended June 30, 2013 and 2012, respectively. The net operating loss decrease of \$75.7 million in FY 2013 was the outcome of the decrease in operating expenses of \$36.4 million, plus the \$39.3 million increase in operating revenue.
- Net non-operating revenue totaled \$645.3 million and \$614.7 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$30.6 million.

- State general revenue and lottery appropriations totaled \$523.3 million and \$518.9 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$4.4 million. The FY2013 increase is due primarily to appropriations provided for added employee insurance costs.
- Interest incurred on indebtedness totaled \$45.8 million and \$51.5 million, a decrease of \$5.7 million. This is attributable to the refinancing of higher rate bond issuances as total bonds, capital leases and notes indebtedness increased by \$50.0 million.
- Investment income totaled \$15.0 million and \$3.5 million for the years ended June 30, 2013 and 2012, respectively, an increase of \$11.5 million from the prior year. This change is due to improving investment returns realized by the Board of Treasury Investments (BTI) and investments managed by the West Virginia University Foundation.
- Student financial aid payments to other institutions totaled \$13.1 million and \$16.1 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$3.0 million.
- Other revenues consist of capital grants and gifts totaling \$39.2 million and \$95.8 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$56.6 million. The prior year amount included a donation of right-to-use software in the amount of \$71.2 million from Siemens to West Virginia University. Additionally other revenues consist of capital bond proceeds from the State totaling \$19.9 million from the sale of bonds by the West Virginia Economic Development Authority known as the EAST (Economic, Arts, Science, and Tourism) Bonds for the year ended June 30, 2013, and \$31.3 million for the year ended June 30, 2012. This will be further explained in a later section. Finally, State Capital Grants (Federal) totaled \$18.8 million and \$7.5 million, for the years ended June 30, 2013 and 2012, respectively, an increase of \$11.3 million.
- The activity for FY 2013 resulted in an increase of net position totaling \$107.6 million, as compared to the \$58.0 million increase in net position during FY 2012.
- As reported below on a functional expenditure basis, expenditures for Educational and General Expenses were \$1,294.7 million and \$1,340.3 million for the years ended June 30, 2013 and 2012, respectively, a decrease of \$45.6 million or 3.4% from FY 2012. Cost of instruction constitutes 40.4% of total educational and general expenses. Institutional Support decreased by 7.8% over FY 2012.

Functional Expenditure Comparisons
(in thousands of dollars)

	FY13	% of	FY12	% of	FY11	% of
	Total	E&G Total	Total	E&G Total	Total	E&G Total
Instruction	\$ 524,038	40.4%	\$ 533,719	39.9%	\$ 514,631	39.7%
Research	150,165	11.6%	161,836	12.1%	169,439	13.1%
Public Service	90,047	7.0%	96,802	7.2%	96,174	7.4%
Academic Support	93,595	7.2%	95,398	7.1%	92,927	7.2%
Student Services	91,065	7.0%	90,016	6.7%	86,053	6.6%
Plant Operations	135,369	10.5%	134,401	10.0%	134,070	10.3%
Institutional Support	210,426	16.3%	228,166	17.0%	204,199	15.7%
Total E & G Expenses	<u>1,294,705</u>	<u>100.0%</u>	<u>1,340,338</u>	<u>100.0%</u>	<u>1,297,493</u>	<u>100.0%</u>
Financial Aid	119,521		125,878		132,010	
Auxiliary Enterprises	190,585		190,169		178,704	
Depreciation	119,009		103,863		92,108	
Other	8,627		8,555		12,368	
Total Operating Expenses	<u>\$ 1,732,447</u>		<u>\$1,768,803</u>		<u>\$ 1,712,683</u>	

Combined Statement of Cash Flows

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

Condensed Combined Schedules of Cash Flows
(In thousands of dollars)

	FY 2013	FY 2012	FY 2011	Change From 2012 to 2013
Cash (Used In) Provided By:				
Operating Activities	\$ (494,919)	\$ (488,493)	\$ (471,976)	\$ (6,426)
Noncapital Financing Activities	687,806	660,588	657,398	27,218
Capital and Related Financing Activities	(311,210)	62,775	(179,955)	(373,985)
Investing Activities	<u>106,300</u>	<u>(229,145)</u>	<u>31,359</u>	<u>335,445</u>
Increase (Decrease) in Cash and Cash Equivalent	(12,023)	5,725	36,826	(17,748)
Cash and Cash Equivalents, beginning of year	<u>497,006</u>	<u>491,281</u>	<u>454,455</u>	<u>5,725</u>
Cash and Cash Equivalents, end of year	<u>\$ 484,983</u>	<u>\$ 497,006</u>	<u>\$ 491,281</u>	<u>\$ (12,023)</u>

Major items of note in the Combined Statement of Cash Flows include:

- Cash provided from operating revenues was exceeded by cash expended for operating activities by \$494.9 million and \$488.5 million for the years ended June 30, 2013 and 2012, respectively, primarily due to the reporting of State appropriations and Federal Pell grants as noncapital financing activities. Primary sources of cash from Operating Activities during FY 2013 and 2012, respectively, were Student tuition and fees of \$541.5 million and \$527.4 million; Contracts and grants of \$281.0 million and \$282.0 million; and Auxiliary enterprise charges of \$219.8 million and \$214.8 million. Primary uses of cash for FY 2013 and 2012, respectively, included payments to and on behalf of employees of \$1,038.3 million and \$999.7 million and payments to suppliers of \$381.0 million and \$391.6 million.
- Net cash provided from noncapital financing activities for FY 2013 and 2012, respectively, totaled \$687.8 million and \$660.6 million, of which \$523.8 million and \$511.6 million was from State General Revenue and Lottery appropriations, \$135.9 million and \$145.7 million was from Federal Pell Grants.
- Net cash used by capital and related financing activities for FY 2013 totaled \$311.2 million. The largest source was the proceeds of bond issuances totaling \$309.7 million. Other sources include withdrawals from noncurrent cash and cash equivalents of \$119.6 million, capital bond proceeds from the State of \$25.9 million, capital grants and gifts received of \$18.1 million and State capital grants (federal) received of \$11.6 million offset by uses of noncurrent cash and cash equivalents totaling \$169.5 million, purchases of capital assets totaling \$308.5 million, principal and interest paid on notes, bonds and leases of \$124.2 million and the payoff of refinanced bonds defeasance totaling \$192.7 million.
- Net cash provided by investing activities for FY 2013 totaled \$106.3 million compared to net cash used by investing activities of \$229.1 million for FY 2012. The FY 2013 change is a result of a decrease in the net purchase of investments for funding capital projects primarily from bond proceeds.
- Net cash for FY 2013 decreased by \$12.0 million compared to increase in net cash for FY 2012 of \$5.7 million. This increase is the net result of all the previous activity discussed.

Capital Asset and Long-Term Debt Activity

The Fund continued to expand its capital facilities to further its mission of providing quality programs to students and to provide expanded research capabilities. Expenditures for capital assets totaled \$308.5 million in FY 2013, as compared to \$227.1 million in FY 2012. Institutional projects at all the institutions are under way due to institutional bond issues in FY 2003, 2004, 2005, 2006, 2008, 2010, 2012 and 2013, system bond issues in FY 2009, 2010, 2011 and 2012, and a State bond issue in FY 2011. For FY 2013, expenditures at West Virginia University and Marshall University accounted for \$181.2 million of the \$308.5 million total. For FY 2012, expenditures at West Virginia University and Marshall University accounted for \$123.8 million of the \$227.7 million total.

During Fiscal Year 2013, West Virginia University engaged in multiple construction projects including the construction of the Animal Facility Annex, Advanced Engineering Research building, Agricultural Sciences Building, College of Physical Activities and Sports Sciences building and the Student Health building.

During Fiscal year 2013, West Virginia University executed the following real estate transactions:

- Acquired 39 parcels of real property with improvements from Paradigm Development Group, LLC (Paradigm) in the Sunnyside area for \$14.6 million. Subsequently, West Virginia University entered into lease and development, sublease and joint operating agreements with Paradigm and WV Campus Housing, LLC (WVCH), for the design, construction, lease, sublease, management and operation of University Place (student housing and commercial facilities). Amounts received and incurred by WVCH for the construction of University Place were immaterial at June 30, 2013 and therefore, WVCH has not been included as a component unit in West Virginia University's financial statements.
- Acquired residential and commercial properties in the Evansdale area from RCL Evansdale Holdings, LLC (RCL) for \$7.9 million and from M&J Property Holdings, LLC (M&J) for \$5.3 million, for the construction of University Park (student housing and related amenities). West Virginia University had leased the property from M&J for four months before purchasing it for future development. West Virginia University also executed pre-development and collaboration agreements with RCL and M&J related to the development of University Park; however, no firm commitments existed as of June 30, 2013.
- Acquired 25 acres of real property known as Square at Falling Run or the "Loop" for \$5.4 million from several parties. This acquisition also included a payment due to the City of Morgantown in August 2026 for \$4.2 million less credits from certain B&O taxes generated as well as an annual Tax Increment Financing (TIF) District Guaranty for \$120,000 through October 2033.
- During fiscal year 2012, West Virginia University had acquired the Suncrest Center consisting of two office buildings, a two-level parking garage and land. At June 30, 2012, the unpaid balance of the purchase price of \$26.4 million was secured by a vendor's lien. During fiscal year 2013, the full purchase price was paid and West Virginia University received \$13.2 million from the WVU Hospitals in exchange for transferring an undivided 50% interest in the property to them.
- West Virginia University selected ACC OP DEVELOPMENT LLC to design, finance and manage the College Park (student residence) project and entered into an interim services agreement for certain pre-development activities. West Virginia University also entered into a pre-development agreement with Fresh Capital, LLC for the development of the Evansdale Crossing project. No firm commitments existed as of June 30, 2013 for these two projects.

Major asset additions in FY2012 at West Virginia University included software and the purchase of the Suncrest Center mentioned above.

Construction of an indoor athletic complex was initiated at Marshall University during FY 2013. Completed projects included the multifloor parking structure on Sixth Avenue, as well as various renovation and maintenance projects at the Fine Arts building, Old Main, Corbly Hall, and Twin Towers. In addition, construction activity continued on the Biotech Incubator and Applied Engineering Complex and the Veterans Memorial Soccer Complex.

The FY 2012 Marshall University projects included the Translational Genomic Research Center at Cabell Huntington Hospital as well as various renovation and maintenance projects at the Drinko Library, Smith Hall, Henderson Center, Gullickson Hall, Science Building, and Twin Towers. Marshall University also initiated projects including the Biotech Incubator & Applied Engineering Complex, a multi-floor parking structure and a soccer complex. The remaining expenditures for both FY 2013 and 2012 reflect on-going capital projects at the other State colleges, universities and community and technical colleges.

Funding for capital projects comes from a variety of sources, including student tuition and other operating revenues, fund raising, bond proceeds, capital lease financing, and other external financing arrangements. The Institutions have participated in a number of System Bonds issued in previous years, with a balance outstanding of \$93.1 million as of June 30, 2013. This includes the State College and University System Bonds prior to the Facilities 2004 System Bonds and the 2007 Refunding Bonds, which are funded from tuition collections at the institutions. The remaining Facilities 2004 System Bonds of \$6.8 million, the Council 2009 Revenue Bonds of \$74.1 million, the Facilities 2010 System bonds of \$74.2 million and the 2012 System Bonds of \$130.5 million are funded from excess lottery revenue. There have been no significant changes in credit ratings or debt limitations that may affect future financing for the Fund. Further details concerning the long-term liabilities of the Fund are included in Notes 7 through 12 of the Notes to the Combined Financial Statements.

Lastly, the West Virginia Higher Education Policy Commission (the "Commission") entered into an agreement on February 25, 2010 with the Union Carbide Corporation (UCC) a wholly-owned subsidiary of The Dow Chemical Company (Dow) for the donation of property known as Union Carbide Corporation's Technology Park in the City of South Charleston, County of Kanawha, and State of West Virginia. This property consists of 258 acres, several major buildings and infrastructure. On December 15, 2010, the deed for the property transferred to the Commission. The Commission has opened the Tech Park to other business to enhance economic development opportunities. Kanawha Valley Community and Technical College relocated their campus to the site in July, 2012 with the renovation of one of the existing buildings and there will be the construction of an Advanced Technology Center for community college technical training and education. The net value of the capital gifts of equipment, buildings and land is \$21.0 million. The additions to the Tech Park amounted to \$6.4 million in FY 2013 and \$8.5 million in FY 2012. All but \$2.6 million of these additions remained in construction in progress at June 30, 2013.

Other Factors Impacting the Financial Position and Results of Operations of the Fund

The mission of the Commission is to align the West Virginia Higher Education System in accord with the master plan for 2013-2018. The master plan entitled *Leading the Way: Access. Success. Impact* sets forth the overarching goals for West Virginia public higher education and provides the conceptual framework plan. Three areas that are central to meeting current challenges in West Virginia higher education are identified in the plan:

1. Access

2. Success
3. Impact

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

The West Virginia Council for Community and Technical College Education (the "Council") is separate from the Commission and has its own mission and Master Plan. The Council's mission is to promote and provide high-quality, accessible, and responsive education and training opportunities that maximize student learning, improve the standard of living for West Virginians, and contribute to the economic vitality and competitiveness of the state. The Master Plan entitled Meeting the Challenge 2010-2015. The plan presented goals in four categories:

- Student Success
- Workforce Development
- Access
- Resource Development

Through the attainment of these goals, the Council plans to increase the number of degree holders by increasing graduation rates, continuing to provide affordable access to higher education, and reaching out to adult students through innovative programming.

Economic Outlook

The achievement of the goals for the higher education system as described in the Master Plans is dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time the Fund maintains a strong financial condition. The net position of the Fund is \$1,754.0 million, including \$26.4 million in unrestricted net position. The continued success of the Fund is closely tied to the economic strength of the State of West Virginia. Over 29% of operating and nonoperating revenues of the Fund in FY 2013 are from State general revenue and lottery revenues. This funding is critical to the success of the higher education system in meeting the Compact goals.

State appropriations increased less than 1% in FY 2013 from FY 2012. The state appropriations for higher education have been reduced approximately 7.5% in fiscal year 2014. The decline in the coal industry has resulted in reduced severance tax collections for the State. In addition, sales tax reductions have reduced funds available for state agencies. For fiscal year 2015, the Governor's Office instructed state agencies including higher education to reflect an additional 7.5% reduction in their budget requests.

The demographics of the State of West Virginia also have an impact on the future operations of the Fund. The number of high school graduates has declined in recent years and is projected to decline further over the next ten years. Significant efforts are underway to expand the participation rate in higher education by both high school graduating seniors as well as adults to improve the economic environment of the State. Increased attendance by non-resident students is another factor in the future financial stability of the Fund. Net student tuition and fees provide approximately 30% of the total revenues of the Fund, an increase of 1% over FY 2013.

One of the key goals of the higher education system is to improve West Virginia's economy. Institutions must assess the changing micro and macroeconomic dynamics and promote the development of a workforce to meet the State's economic and social development goals. The performance of the higher education system will depend upon its ability to respond to students needs and cannot be predicted with any certainty. The current financial condition of the Fund will provide a strong base to meet future challenges.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(Dollars in thousands)

	2013	2012
		As Amended See Note 2
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 484,983	\$ 497,006
Appropriations due from Primary Government	27,824	25,310
Accounts receivable — net	71,176	83,244
Loans receivable — current portion	7,494	7,982
Other current assets	3,984	6,364
Inventories	<u>4,510</u>	<u>5,144</u>
Total current assets	<u>599,971</u>	<u>625,050</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	222,671	172,767
Investments	276,064	367,150
Appropriations due from Primary Government	-	3,239
Loans receivable — net of allowance of \$11,307 and \$11,618 in 2013 and 2012, respectively	46,043	46,628
Other assets	9,742	9,398
Capital assets — net	<u>2,491,265</u>	<u>2,293,955</u>
Total noncurrent assets	<u>3,045,785</u>	<u>2,893,137</u>
Total assets	<u>3,645,756</u>	<u>3,518,187</u>
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred loss on refunding	34,487	21,906
Interest rate swap agreement	<u>1,858</u>	<u>2,491</u>
Total deferred outflows of resources	<u>36,345</u>	<u>24,397</u>
TOTAL	<u>\$3,682,101</u>	<u>\$3,542,584</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2013 AND 2012
(Dollars in thousands)

	2013	2012 As Amended See Note 2
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 79,944	\$ 72,778
Due to State of West Virginia	262	110
Accrued liabilities	63,102	54,858
Unearned revenue	73,348	89,356
Deposits	5,687	6,049
Real estate purchase agreements payable — current portion	362	26,754
Other liabilities — current portion	653	1,368
Compensated absences — current portion	42,103	41,081
Notes payable — current portion	1,134	1,625
Capital lease obligations — current portion	4,368	3,521
Interest payable	11,054	10,964
Bonds payable — current portion	34,377	32,271
Total current liabilities	<u>316,394</u>	<u>340,735</u>
NONCURRENT LIABILITIES:		
Advances from federal sponsors	41,391	41,266
Real estate purchase agreement payable	6,087	2,551
Compensated absences	4,011	3,701
Notes payable	28,578	29,126
Capital lease obligations	32,412	35,517
Future interest payable	35,696	34,823
Bonds payable	1,140,078	1,088,793
Other post employment benefit liability	287,124	282,039
Other noncurrent liabilities	33,163	34,631
Total noncurrent liabilities	<u>1,608,540</u>	<u>1,552,447</u>
Total liabilities	<u>1,924,934</u>	<u>1,893,182</u>
DEFERRED INFLOWS OF RESOURCES:		
Service concession arrangements	2,730	2,845
Other	420	124
Total deferred inflows of resources	<u>3,150</u>	<u>2,969</u>
TOTAL	<u>1,928,084</u>	<u>1,896,151</u>
NET POSITION:		
Net investment in capital assets	<u>1,553,141</u>	<u>1,403,775</u>
Restricted for:		
Expendable:		
Scholarships	7,422	10,288
Sponsored projects	32,856	45,876
Loans	26,881	26,107
Capital projects	68,341	59,254
Debt service	4,512	8,072
Other	9,848	3,905
Total restricted expendable	<u>149,860</u>	<u>153,502</u>
Nonexpendable	<u>24,658</u>	<u>17,746</u>
Unrestricted	<u>26,358</u>	<u>71,410</u>
Total net position	<u>1,754,017</u>	<u>1,646,433</u>
TOTAL	<u>\$3,682,101</u>	<u>\$3,542,584</u>

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2013

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group- Marshall Properties, LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
ASSETS															
CASH AND CASH EQUIVALENTS	\$ 1,257,812	\$ 26,335	\$ 961,364	\$ 60,554	\$ 83,617	\$ 18,682,011	\$ 1,532,788	\$ 6,339,140	\$ 1,920,569	\$ 456,965	\$ 1,360,933	\$ 31,292	\$ 1,122,016	\$ 1,706,517	\$ 365,559
INVESTMENTS	9,097,198		30,865,921	14,945,925	12,598,426	100,032,880	220,784		23,754,127	2,539,443	10,561,251	3,107,072	981,985	4,712,606	7,604,593
PLEDGES AND CONTRIBUTIONS RECEIVABLE	131,797		268,085	1,531,590	704,313	27,908,290	88,387		189,563	542,702	172,257		190,170	1,325,370	
OTHER ASSETS	18,282	310,798	18,944	22,497	1,365	2,571,092		861,518	46,420	22,129	52,568	13,761	14,559	81,120	10,371
BENEFICIAL INTERESTS				2,612,823		8,937,360	1,007,442		287,234		2,098,005		675,044	218,181	
PROPERTY, PLANT, AND EQUIPMENT — Net		<u>3,980,686</u>	<u>4,407</u>	<u>7,586</u>	<u>42,428</u>	<u>14,358,755</u>	<u>369,425</u>	<u>73,918,221</u>	<u>3,136</u>				<u>2,369</u>	<u>831,589</u>	
TOTAL	<u>\$10,505,089</u>	<u>\$4,317,819</u>	<u>\$32,118,721</u>	<u>\$19,180,975</u>	<u>\$13,430,149</u>	<u>\$172,490,388</u>	<u>\$ 3,218,826</u>	<u>\$81,118,879</u>	<u>\$26,201,049</u>	<u>\$3,561,239</u>	<u>\$14,245,014</u>	<u>\$3,152,125</u>	<u>\$2,986,143</u>	<u>\$8,875,383</u>	<u>\$7,980,523</u>

* December 31 year-end

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2013

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group- Marshall Properties LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
LIABILITIES AND NET ASSETS															
LIABILITIES:															
Accounts payable	\$ -	\$ 157,948	\$ 200	\$ 10,176	\$ 1,588,935	\$ 38,577	\$ 8,430	\$ 267,305	\$ 555	\$ 32,782	\$ 21,591	\$ 24,507	\$ 726	\$ 9,086	\$ -
Other accrued liabilities		17,376	3,891,064	21,922		516,282	702,551	1,507,725	5,975	218,186		6,358	9,000		
Amounts held on behalf of others	12,096	204,949	286,157										278,389		
Annuity obligations				64,956		376,580			2,772,324		60,607				
Bonds and notes payable		3,487,954				10,790,975		88,871,073	168,279						
Swap liability						218,602		15,155,085							
Total liabilities	12,096	3,868,227	4,177,421	97,054	1,588,935	11,941,016	710,981	105,801,188	2,947,133	250,968	82,198	30,865	288,115	9,086	-
NET ASSETS (DEFICIT):															
Unrestricted	8,470,615	449,592	690,126	3,089,780	993,795	17,671,287	(204,047)	(24,682,309)	(3,016,065)	5,896	1,935,952	514,049	1,406,946	505,321	217,623
Temporarily restricted	594,812		7,028,400	2,965,463	3,727,818	55,664,356	1,505,717		3,001,964	3,289,375	2,806,822	1,951,046	621,532	4,219,400	5,939,731
Permanently restricted	1,427,566		20,222,774	13,028,678	7,119,601	87,213,729	1,206,175		23,268,017	15,000	9,420,042	656,165	669,550	4,141,576	1,823,169
Total net assets (deficit)	10,492,993	449,592	27,941,300	19,083,921	11,841,214	160,549,372	2,507,845	(24,682,309)	23,253,916	3,310,271	14,162,816	3,121,260	2,698,028	8,866,297	7,980,523
TOTAL	\$10,505,089	\$4,317,819	\$32,118,721	\$19,180,975	\$13,430,149	\$172,490,388	\$ 3,218,826	\$ 81,118,879	\$26,201,049	\$3,561,239	\$14,245,014	\$3,152,125	\$2,986,143	\$8,875,383	\$7,980,523

* December 31 year-end.

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group-Marshall Properties, LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
ASSETS															
CASH AND CASH EQUIVALENTS	\$ 1,203,774	\$ 146,379	\$ 564,683	\$ 78,631	\$ 9,714	\$ 9,894,374	\$ 309,899	\$ 6,186,289	\$ 2,403,460	\$ 477,288	\$ 664,150	\$ 24,412	\$1,149,120	\$1,445,280	\$ 523,103
INVESTMENTS	8,233,786		28,873,748	13,819,970	12,385,170	90,920,682			22,577,979	2,401,017	10,103,269	2,702,287	563,869	4,225,484	6,835,583
PLEDGES AND CONTRIBUTIONS RECEIVABLE	245,629		266,740	499,025	668,291	20,978,612	104,750		344,878	600,200	561,221		186,952	141,744	
OTHER ASSETS	27,035	128,439	25,197	20,586	2,404	3,050,802	2,103	1,109,105	54,413	17,771	75,794	13,898	13,520	68,984	10,536
BENEFICIAL INTERESTS				2,469,343		8,493,506	982,450				2,026,141		593,968	210,814	
PROPERTY, PLANT, AND EQUIPMENT — Net		4,239,885	4,890	9,548	56,628	14,794,183	28,000	77,488,478	3,540				3,325	866,623	
TOTAL	<u>\$9,710,224</u>	<u>\$4,514,703</u>	<u>\$29,735,258</u>	<u>\$16,897,103</u>	<u>\$13,122,207</u>	<u>\$148,132,159</u>	<u>\$1,427,202</u>	<u>\$84,783,872</u>	<u>\$25,384,270</u>	<u>\$3,496,276</u>	<u>\$13,430,575</u>	<u>\$2,740,597</u>	<u>\$2,510,754</u>	<u>\$6,958,929</u>	<u>\$7,369,222</u>

* December 31 year-end

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF NET ASSETS
AS OF JUNE 30, 2012

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group-Marshall Properties LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc. *	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
LIABILITIES AND NET ASSETS															
LIABILITIES:															
Accounts payable	\$ -	\$ 120,214	\$ 907	\$ 65	\$ -	\$ 70,866	\$ 7,053	\$ 199,239	\$ 420	\$ 42,355	\$ 45,349	\$ 5,574	\$ 1,456	\$ 11,433	\$ 11,597
Other accrued liabilities		55,712		41,969		622,275	43,169	1,456,697	5,695	119,326			9,000		
Amounts held on behalf of others	21,740	120,338	3,492,073						3,157,153				175,011		
Annuity obligations			300,588	74,407		498,712			177,851		65,354				
Bonds and notes payable		3,552,753				11,433,442		89,102,019							
Swap liability						353,936		23,717,503							
Total liabilities	<u>21,740</u>	<u>3,849,017</u>	<u>3,793,568</u>	<u>116,441</u>	<u>-</u>	<u>12,979,231</u>	<u>50,222</u>	<u>114,475,458</u>	<u>3,341,119</u>	<u>161,681</u>	<u>110,703</u>	<u>5,574</u>	<u>185,467</u>	<u>11,433</u>	<u>11,597</u>
NET ASSETS (DEFICIT):															
Unrestricted	7,814,690	665,686	624,976	2,352,406	1,040,439	14,159,630	(145,549)	(29,691,586)	(3,033,428)	(4,597)	1,838,258	426,195	1,300,813	510,665	163,766
Temporarily restricted	540,154		5,868,956	2,564,659	(195,767)	38,552,163	338,966		3,004,599	3,324,192	2,322,218	1,711,858	374,184	2,403,946	5,359,716
Permanently restricted	1,333,640		19,447,758	11,863,597	12,277,535	82,441,135	1,183,563		22,071,980	15,000	9,159,396	596,970	650,290	4,032,885	1,834,143
Total net assets (deficit)	<u>9,688,484</u>	<u>665,686</u>	<u>25,941,690</u>	<u>16,780,662</u>	<u>13,122,207</u>	<u>135,152,928</u>	<u>1,376,980</u>	<u>(29,691,586)</u>	<u>22,043,151</u>	<u>3,334,595</u>	<u>13,319,872</u>	<u>2,735,023</u>	<u>2,325,287</u>	<u>6,947,496</u>	<u>7,357,625</u>
TOTAL	<u>\$9,710,224</u>	<u>\$4,514,703</u>	<u>\$29,735,258</u>	<u>\$16,897,103</u>	<u>\$13,122,207</u>	<u>\$148,132,159</u>	<u>\$1,427,202</u>	<u>\$ 84,783,872</u>	<u>\$25,384,270</u>	<u>\$3,496,276</u>	<u>\$13,430,575</u>	<u>\$2,740,597</u>	<u>\$2,510,754</u>	<u>\$6,958,929</u>	<u>\$7,369,222</u>

* December 31 year-end.

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

	2013	2012 As Amended See Note 2
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of \$162,492 in 2013 and \$144,375 in 2012	\$ 545,938	\$ 516,897
Federal and local land grants	9,209	12,013
Contracts and grants:		
Federal	132,153	152,651
State	67,995	42,344
Local	3,500	4,141
Private	75,544	67,760
Interest on student loans receivable	1,208	1,257
Sales and services of educational activities	26,688	27,358
Auxiliary enterprise revenue — net of scholarship allowance of \$24,108 in 2013 and \$22,666 in 2012	223,665	219,994
Other operating revenues	<u>30,908</u>	<u>33,057</u>
Total operating revenues	<u>1,116,808</u>	<u>1,077,472</u>
OPERATING EXPENSES:		
Salaries and wages	816,148	786,582
Benefits	231,469	302,205
Supplies and other services	383,243	386,839
Utilities	59,198	58,686
Student financial aid — scholarships and fellowships	120,089	126,672
Depreciation and amortization	119,009	103,863
Other operating expenses	<u>3,291</u>	<u>3,956</u>
Total operating expenses	<u>1,732,447</u>	<u>1,768,803</u>
OPERATING LOSS	<u>(615,639)</u>	<u>(691,331)</u>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	495,510	490,647
State lottery appropriations	27,806	28,205
Federal Pell grants	135,527	145,328
Gifts	29,618	28,126
Investment income (including unrealized gain of \$8,767 in 2013 and \$2,203 in 2012)	15,043	3,529
Interest on indebtedness	(45,820)	(51,549)
Payments to other institutions	(13,056)	(16,056)
Other nonoperating income (expenses) — net	<u>661</u>	<u>(13,495)</u>
Net nonoperating revenues	<u>645,289</u>	<u>614,735</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	29,650	(76,596)
CAPITAL GRANTS, APPROPRIATIONS, AND GIFTS	39,197	95,759
CAPITAL BOND PROCEEDS FROM THE STATE	19,936	31,302
STATE CAPITAL GRANTS (FEDERAL)	<u>18,801</u>	<u>7,485</u>
INCREASE IN NET POSITION	107,584	57,950
NET POSITION — Beginning of year (As Amended)	<u>1,646,433</u>	<u>1,588,483</u>
NET POSITION — End of year	<u>\$1,754,017</u>	<u>\$1,646,433</u>

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group-Marshall Properties LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.*	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:															
Unrestricted:															
Gifts, contributions, and other investment income (loss)	\$ 32,687	\$ 1,196,159	\$ 228,478	\$ 627,863	\$ 190,538	\$ 541,612	\$ 276,704	\$ 9,014,684	\$ 23,383	\$ -	\$ 82,298	\$ 69,981	\$ 250,085	\$ 250,516	\$ -
Reclassifications	914,113		(1,251)	1,017,168	60,621	1,147,479	8,793	8,562,743	602,556	5,621	815,838	43,216	95,903	1,009	22,978
Temporarily restricted:					4,212,555				34,343		423,750	1,672,662	329,936	232,080	1,941,237
Gifts, contributions, and other investment income	66,288		74,987	1,322,154	804,901	15,165,695	1,189,831		835,040	182,779	304,672	198,495	43,835	539,822	368,604
Reclassifications	51,352		1,760,686	361,059		7,703,560	62,350		533,993						711,956
Permanently restricted:						800,566			(58,131)						
Gifts, contributions, and other investment income	57,665		295,199	1,017,760	161,410	8,463,686	22,612		1,157,033		93,618	59,195	19,011	101,040	108
Reclassifications			890,956	147,321		1,601,909			15,216		167,028		249	7,651	(11,082)
						(5,293,002)			23,788						
Total revenues, gains, and other support	<u>1,122,105</u>	<u>1,196,159</u>	<u>3,249,055</u>	<u>4,493,325</u>	<u>5,430,025</u>	<u>34,623,941</u>	<u>1,560,290</u>	<u>17,577,427</u>	<u>3,167,221</u>	<u>612,150</u>	<u>3,136,116</u>	<u>700,823</u>	<u>641,163</u>	<u>2,841,275</u>	<u>1,092,564</u>
EXPENSES:															
Scholarships, awards, and grants	165,979	1,320,078	460,644	902,992	435,937	3,017,380	282,317		1,226,073	367,046	563,365	105,158			154,400
College support	112,376		514,691	903,538	5,983,572	3,496,039			87,464	40,012	1,492,412	167,206		630,571	-
Management and general	39,241	92,175	274,110	383,536	291,509	2,714,078	147,108	12,568,150	642,919	229,416	237,395	42,222	268,422	291,903	315,266
Total expenses	<u>317,596</u>	<u>1,412,253</u>	<u>1,249,445</u>	<u>2,190,066</u>	<u>6,711,018</u>	<u>9,227,497</u>	<u>429,425</u>	<u>12,568,150</u>	<u>1,956,456</u>	<u>636,474</u>	<u>2,293,172</u>	<u>314,586</u>	<u>268,422</u>	<u>922,474</u>	<u>469,666</u>
CHANGE IN NET ASSETS	804,509	(216,094)	1,999,610	2,303,259	(1,280,993)	25,396,444	1,130,865	5,009,277	1,210,765	(24,324)	842,944	386,237	372,741	1,918,801	622,898
NET ASSETS — Beginning of year	<u>9,688,484</u>	<u>665,686</u>	<u>25,941,690</u>	<u>16,780,662</u>	<u>13,122,107</u>	<u>135,152,928</u>	<u>1,376,980</u>	<u>(29,691,586)</u>	<u>22,043,151</u>	<u>3,334,595</u>	<u>13,319,872</u>	<u>2,735,023</u>	<u>2,325,287</u>	<u>6,947,496</u>	<u>7,357,625</u>
NET ASSETS (DEFICIT) — End of year	<u>\$ 10,492,993</u>	<u>\$ 449,592</u>	<u>\$ 27,941,300</u>	<u>\$ 19,083,921</u>	<u>\$ 11,841,114</u>	<u>\$ 160,549,372</u>	<u>\$ 2,507,845</u>	<u>\$ (24,682,309)</u>	<u>\$ 23,253,916</u>	<u>\$ 3,310,271</u>	<u>\$ 14,162,816</u>	<u>\$ 3,121,260</u>	<u>\$ 2,698,028</u>	<u>\$ 8,866,297</u>	<u>\$ 7,980,523</u>

* December 31 year-end.

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMPONENT UNITS — STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	Bluefield State College Foundation, Inc.	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group-Marshall Properties LLC	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.*	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
REVENUES, GAINS, AND OTHER SUPPORT:															
Unrestricted:															
Gifts, contributions, and other	\$ 22,744	\$ 1,363,931	\$ 216,471	\$ 27,505	\$ 121,791	\$ 668,243	\$ 313,722	\$ 8,882,824	\$ 25,626	\$ 517	\$ 175,512	\$ 67,617	\$ 288,274	\$ 217,341	\$ -
Investment income (loss)	388,040		(1,891)	23,097	227,404	(63,851)	2,164	(12,547,113)	(675,961)	(2,504)	(176,426)	15,743	16,795	34	(2,378)
Reclassifications					(1,500)	(757,811)			(57,550)					(3,299)	
Temporarily restricted:															
Gifts, contributions, and other	93,238		426,409	1,046,755	478,420	23,741,124	168,504		816,230	776,520	786,642	400,097	311,893	710,031	178,619
Investment income	20,366		179,803	280,143	295,706	(1,566,223)	16,086		616,179	222,598	(101,122)	75,303	7,523	(58,828)	(14,886)
Reclassifications					26,500	802,038			70,596					54,221	
Permanently restricted:															
Gifts, contributions, and other	44,745		1,370,346	128,960	607,945	2,594,162	95,075		1,488,412		300,989	50,490	244,169	159,950	
Investment income			(96,348)	(5,623)		(115,494)	(5,259)		18,174		140,263		437	175,954	(25,840)
Reclassifications					(25,000)	(240,636)			(13,046)					(50,922)	
Total revenues, gains, and other support	<u>569,133</u>	<u>1,363,931</u>	<u>2,094,790</u>	<u>1,500,837</u>	<u>1,731,266</u>	<u>25,061,552</u>	<u>590,292</u>	<u>(3,664,289)</u>	<u>2,288,660</u>	<u>997,131</u>	<u>1,125,858</u>	<u>609,250</u>	<u>869,091</u>	<u>1,204,482</u>	<u>135,515</u>
EXPENSES:															
Scholarships, awards, and grants	158,920	1,341,068	443,910	992,171	411,834	2,344,790	230,960		2,299,436	224,830	689,388	3,146		2,755	76,360
College support	95,693		427,749	506,989	952,234	7,619,720			171,267	148,029	1,423,155	263,552		829,348	
Management and general	<u>43,092</u>	<u>232,195</u>	<u>309,449</u>	<u>376,710</u>	<u>658,225</u>	<u>2,507,429</u>	<u>171,867</u>	<u>12,336,102</u>	<u>707,372</u>	<u>203,128</u>	<u>227,496</u>	<u>33,259</u>	<u>889,390</u>	<u>310,560</u>	<u>203,786</u>
Total expenses	<u>297,705</u>	<u>1,573,263</u>	<u>1,181,108</u>	<u>1,875,870</u>	<u>2,022,293</u>	<u>12,471,939</u>	<u>402,827</u>	<u>12,336,102</u>	<u>3,178,075</u>	<u>575,987</u>	<u>2,340,039</u>	<u>299,957</u>	<u>889,390</u>	<u>1,142,663</u>	<u>280,146</u>
CHANGE IN NET ASSETS	271,428	(209,332)	913,682	(375,033)	(291,027)	12,589,613	187,465	(16,000,391)	(889,415)	421,144	(1,214,181)	309,293	(20,299)	61,819	(144,631)
NET ASSETS — Beginning of year	<u>9,417,056</u>	<u>875,018</u>	<u>25,028,008</u>	<u>17,155,695</u>	<u>13,413,234</u>	<u>122,563,315</u>	<u>1,189,515</u>	<u>(13,691,195)</u>	<u>22,932,566</u>	<u>2,913,451</u>	<u>14,534,053</u>	<u>2,425,730</u>	<u>2,345,586</u>	<u>6,885,677</u>	<u>7,502,256</u>
NET ASSETS (DEFICIT) — End of year	\$ <u>9,688,484</u>	\$ <u>665,686</u>	\$ <u>25,941,690</u>	\$ <u>16,780,662</u>	\$ <u>13,122,207</u>	\$ <u>135,152,928</u>	\$ <u>1,376,980</u>	\$ <u>(29,691,586)</u>	\$ <u>22,043,151</u>	\$ <u>3,334,595</u>	\$ <u>13,319,872</u>	\$ <u>2,735,023</u>	\$ <u>2,325,287</u>	\$ <u>6,947,496</u>	\$ <u>7,357,625</u>

* December 31 year-end.

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 541,503	\$ 527,354
Federal and local land grants	8,675	9,545
Contracts and grants	280,953	281,991
Payments to and on behalf of employees	(1,038,307)	(999,719)
Payments to suppliers	(380,969)	(391,569)
Payments to utilities	(59,970)	(58,863)
Payments for scholarships and fellowships	(124,963)	(135,077)
Loans issued to students	(3,077)	(2,238)
Collection of loans to students	3,138	4,498
Sales and service of educational activities	25,572	24,967
Interest earned on loans to students	881	897
Auxiliary enterprise charges	219,805	214,798
Other receipts — net	<u>31,840</u>	<u>34,923</u>
Net cash used in operating activities	<u>(494,919)</u>	<u>(488,493)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	523,759	511,632
Federal Pell grants	135,929	145,692
Payments to other institutions	(9,866)	(16,215)
Gift receipts	25,799	25,746
Direct lending receipts	450,029	453,620
Direct lending payments	(449,965)	(452,529)
Other nonoperating receipts (disbursements) — net	<u>12,121</u>	<u>(7,358)</u>
Net cash provided by noncapital financing activities	<u>687,806</u>	<u>660,588</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Proceeds from bond issuances and borrowings	309,739	522,399
Proceeds from capital asset disposals and sale of natural resources	21	313
Capital bond proceeds from State	25,929	26,333
Payment of bond issuance costs	(1,296)	(2,089)
Withdrawals from noncurrent cash and cash equivalents	119,559	106,981
Deposits to noncurrent cash and cash equivalents	(169,453)	(89,338)
Capital grants and gifts received	18,104	25,459
State capital grants (federal) received	11,558	9,597
Purchases of capital assets	(308,469)	(227,113)
Principal paid on notes, bonds, and leases	(77,985)	(73,151)
Payoff of refinanced bonds	(192,670)	(190,852)
Interest paid on notes, bonds, and leases	<u>(46,247)</u>	<u>(45,764)</u>
Net cash (used in) provided by capital financing activities	<u>(311,210)</u>	<u>62,775</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from sales/maturities of investments	122,321	21,163
Purchases of investments	(22,809)	(255,156)
Investment income	<u>6,788</u>	<u>4,848</u>
Net cash provided by (used in) investing activities	<u>106,300</u>	<u>(229,145)</u>
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(12,023)	5,725
CASH AND CASH EQUIVALENTS — Beginning of year	<u>497,006</u>	<u>491,281</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 484,983</u>	<u>\$ 497,006</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012
(Dollars in thousands)

	2013	2012
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$(615,639)	\$(691,331)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	124,321	108,518
Expenses paid on behalf of the Fund	528	436
Revenue held by Big East as partial payment of conference exit fee		(9,000)
Changes in assets and liabilities:		
Receivables — net	15,540	(1,804)
Loans receivable — net	781	3,072
Prepaid expenses	150	(1,321)
Inventories	606	(579)
Accounts payable	(9,036)	2,873
Accrued liabilities	(3,319)	10,505
Compensated absences	1,331	3,033
Deferred revenue	(15,877)	3,101
Deposits	(9)	985
Other post employment benefit liability	5,085	83,341
Advances from federal sponsors	122	(116)
Other	497	(206)
NET CASH USED IN OPERATING ACTIVITIES	<u>\$(494,919)</u>	<u>\$(488,493)</u>
SIGNIFICANT NONCASH TRANSACTIONS:		
Construction in progress and capital asset additions included in accounts payable and accrued liabilities	<u>\$ 22,446</u>	<u>\$ 43,923</u>
Donated capital assets	<u>\$ 18,587</u>	<u>\$ 76,587</u>
Loss on disposal of fixed assets	<u>\$ 3,754</u>	<u>\$ 1,647</u>
Gift of noncapital asset	<u>\$ 3,833</u>	<u>\$ 2,345</u>
See notes to combined financial statements.		(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND

(A Component Unit of the State of West Virginia)

NOTES TO COMBINED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. ORGANIZATION

The West Virginia Higher Education Fund (the “Fund”) is comprised of the following:

- Bluefield State College
- Blue Ridge Community and Technical College
- Bridgemont Community and Technical College
- Concord University
- Eastern West Virginia Community and Technical College
- Fairmont State University (“Fairmont”)
- Glenville State College
- Kanawha Valley Community and Technical College
- Marshall University
- Mountwest Community and Technical College
- New River Community and Technical College
- Pierpont Community and Technical College (“Pierpont”)
- Shepherd University
- Southern West Virginia Community and Technical College
- West Liberty University
- West Virginia Council for Community and Technical College Education
- West Virginia Higher Education Policy Commission (including West Virginia Network for Educational Telecomputing)
- West Virginia Northern Community College
- West Virginia State University
- West Virginia School of Osteopathic Medicine
- West Virginia University (including Potomac State College and West Virginia University Institute of Technology)
- West Virginia University at Parkersburg Community and Technical College

The Fund is a discretely presented component unit of the State of West Virginia (the “State”).

Each college and university (the “Institutions”) in the Fund is governed by its own Governing Board, which is responsible for the general determination, control, supervision, and management of the financial business and educational policies and affairs of its institution. The West Virginia Higher Education Policy Commission (the “Policy Commission”), in accordance with Senate Bill No. 653, is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. The Policy Commission is comprised of 10 persons appointed by the Governor with the advice and consent of the Senate. Senate Bill No. 448 gives the West Virginia Council for Community and Technical College Education (the “Council”) the responsibility of developing, overseeing, and advancing the State’s public policy agenda as it relates to community and technical college education. The Council is comprised of 12 persons appointed by the Governor with the advice and consent of the Senate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity — The accompanying combined financial statements present all entities under the authority of the Fund under GASB, including:

- Concord University Research and Development Corporation
- Glenville State College Research Corporation
- Glenville State College Housing Corporation
- Marshall University Research Corporation (MURC)
- Shepherd University Research and Development Corporation
- West Liberty University Research Corporation
- West Virginia State University Research and Development Corporation
- West Virginia University Research and Development Corporation
- West Virginia Regional Technology Park

These entities are included in the combined financial statements as blended component units of the Fund.

The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Fund’s ability to significantly influence operations and accountability for fiscal matters of related entities. Related foundations and other affiliates of the Fund are not part of the Fund’s reporting entity and are not included in the accompanying combined financial statements as the Fund has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the foundations and other affiliates under GASB blended component unit requirements.

The Fund applies GASB discretely presented component unit requirements and, as a result, the financial statements of certain component units as first presented in the Component Units — Statement of Net Assets are discretely presented here with the Fund’s combined financial statements. The component units are the separate private nonprofit organizations of each applicable institution that are required to be reported under GASB. These discretely presented component unit organizations report under Financial Accounting Standards Board (FASB) standards. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. The component units consist of foundations and other entities which meet the criteria for inclusion under GASB discretely presented component unit requirements.

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

Net Investment in Capital Assets — This represents the Fund’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.

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

The West Virginia Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education of the West Virginia State Code*. House Bill No. 101 passed in March 2004 simplified the tuition and fees restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the Fund. These restrictions are subject to change by future actions of the West Virginia Legislature.

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

Unrestricted Net Position — Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the Fund, and may be used at the discretion of the respective governing boards to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by the provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a

third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying combined financial statements.

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

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

Investments — GASB requires the Fund to record certain investment balances at fair value. The Fund's investments maintained by the BTI and the Municipal Bond Commission are determined by the pool's share price, which approximates fair value. Other investments, other than alternative investments, are presented at fair value, based upon quoted market prices.

The alternative investments are also carried at fair value as of June 30, 2013 and 2012. These valuations include assumptions and methods that were reviewed by Fund management and are primarily based on quoted market values or other readily determinable market values for underlying investments. The majority of the underlying investments in the alternative investments have a readily determinable market value. The Fund believes that the carrying amount of its alternative investments is a reasonable estimate of fair value as of June 30, 2013 and 2012. Because a portion of alternative investments is 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.

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

The Fund's investments held with the foundations and other agents are governed by investment policies that determine the permissible investments by category. The holdings include appropriately rated U.S. debt and equity securities, foreign debt and equity securities, as well as alternative investments. The respective investment policies outline the acceptable exposure to each category of investment and generally outline a liquidity goal.

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

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

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

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

Noncurrent Appropriations Due from Primary Government — An appropriation due from primary government, that is (1) externally restricted to make debt service payments, long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets, or (3) to be held for permanently restricted net position, is classified as a noncurrent asset in the statements of net position.

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was approximately \$1.6 million and \$1.1 million for the years ended June 30, 2013 and 2012, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, seven to 20 years for library assets, and three to 10 years for furniture and equipment. The combined financial statements reflect all adjustments required by GASB. The estimated useful life of intangible assets varies.

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

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

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 Fund’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally,

two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired on July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is then provided for under the multiple employer cost-sharing plan sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. The same hire date mentioned above applies to coverage for faculty employees also. 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 Fund. 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 vacation leave or OPEB benefits are recorded as a component of benefits expense in the combined statements of revenues, expenses, and changes in net position.

Deferred Outflows of Resources — Consumption of net position by the Fund that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statements of net position. Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refinancing and the interest rate swap agreement.

Deferred Inflows of Resources — An acquisition of net position by the Fund that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statements of net position. Deferred inflows related primarily to service concession arrangements are accreted over the periods of the service concession arrangements.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general liability, medical malpractice liability, property, and auto insurance coverage to the Fund and its employees. Such coverage is provided to the Fund 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 million of each property insurance claim and purchases excess property insurance from the commercial insurance market to cover individual claims that exceed \$1 million. 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 premium adjustments to the Fund or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Fund is currently charged by BRIM and the ultimate cost of that insurance based on the Fund's actual loss experience. In the event such differences arise between estimated premiums charged by BRIM to the Fund and the Fund's ultimate actual loss experience, the difference will be recorded as the change in estimate became known.

The West Virginia University's (WVU) and Marshall University's (Marshall) Schools of Medicine (SOMs) have established a \$250,000 deductible program under BRIM's professional liability coverage for the SOMs effective July 1, 2005. Prior to this date, the SOMs were totally covered by BRIM at a limit of \$1 million per occurrence. Starting July 1, 2005, the SOMs 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.

Under the program, the SOMs entered into an agreement with BRIM, whereby the SOMs have on deposit \$4.5 million and \$4.8 million as of June 30, 2013 and 2012, respectively, in escrow accounts created in the State Treasurer, from which BRIM may withdraw amounts to pay indemnity costs and allocated expenses in connection with medical malpractice claims against the SOMs. Additionally, the WVU Health Sciences Center also has on deposit \$21.8 million and \$20.1 million as of June 30, 2013 and 2012, respectively, in an investment account with the West Virginia University Foundation to cover the liabilities under this program. Marshall has a receivable from the University Physicians & Surgeons, Inc., for the funding it has agreed to provide for the self-insurance liability of \$7.3 million and \$7.1 million as of June 30, 2013 and 2012, respectively. Based on actuarial valuations of this self-insurance program, the Fund has recorded a liability of \$27.9 million and \$28.2 million to reflect projected claim payments at June 30, 2013 and 2012, respectively, for both WVU's and Marshall's SOMs.

In addition, through its participation in the PEIA and third-party insurers, the Fund 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 insurers, the Fund has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The Fund 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, (4) federal appropriations for land grant institutions, (5) sales and services of educational activities, and (6) revenue from leasing.

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

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

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

Federal Financial Assistance Programs — The Fund makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and unsubsidized loans directly to students, through the Institutions within the Fund. The Fund also makes loans to students under the Stafford Loan Program through financial institutions. Direct and

Stafford student loan receivables are not included in the Fund's combined statements of net position. In 2013 and 2012, the Fund received and disbursed, or awarded, approximately \$449 million and \$479 million, respectively, under both Student Loan Programs, which is not included as revenue and expense in the combined statements of revenues, expenses, and changes in net position.

The Fund also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2013 and 2012, the Fund received and disbursed approximately \$143 million and \$153 million, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the combined 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 an institution basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

Income Taxes — The Fund 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 (IRS).

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

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

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

Reclassifications — Certain reclassifications have been made to the 2012 combined financial statements to conform to the current year presentation. State lottery appropriations of \$23.9 million were reclassified from State appropriations

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — The Fund has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statements of financial position and related disclosures. The adoption of this statement resulted in the addition of deferred inflows and deferred outflows in the statements of position.

The Fund has early adopted GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The adoption of this statement in 2013 resulted in the addition of deferred outflows in the statements of position. See “Early Adoption of GASB No 65” section below for further description of the amendments.

The Fund has early adopted Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements*. The adoption of this statement in 2013 did not have a material impact on the combined financial statements.

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

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

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

disclose information about the amounts and nature of nonexchange financial guarantees. The Fund has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its combined financial statements.

Early Adoption of GASB No. 65 — As required with the adoption of GASB Statement No. 65 as discussed above, the Fund’s combined financial statements have been amended from the amounts previously reported as described below. Such changes relate primarily to presenting deferred losses on refundings from bonds payable as deferred outflows of resources in the amount of \$21,906,000 and expensing bond issuance costs in the amount of \$7,182,000. The cumulative effect on the net position as of the earliest period presented was \$4,859,000. The effect of the adoption of GASB Statement No. 65 was as follows (dollars in thousands):

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses, And Changes in Net Position Effect	As Amended
Other current assets	\$ 6,494	\$ (130)	\$ -	\$ 6,364
Other noncurrent assets	18,071	(8,673)		9,398
Deferred loss on refinancing		21,906		21,906
Interest rate swap agreement		2,491		2,491
Unearned revenue	89,387	(31)		89,356
Bonds payable — current portion	31,969	302		32,271
Bonds payable	1,066,319	22,474		1,088,793
Other noncurrent liabilities	37,569	(2,938)		34,631
Service concession arrangement		2,845		2,845
Other deferred inflows		124		124
Net investment				
in capital assets	1,410,957	(7,182)		1,403,775
Interest on indebtedness	(51,614)		65	(51,549)
Other nonoperating				
revenue (expense) — net	(11,107)		(2,388)	(13,495)
Loss before other revenue, expenses, gains, or losses	(74,273)		(2,323)	(76,596)
Increase in net position	60,273		(2,323)	57,950
Net position — beginning of year	1,593,342	(4,859)		1,588,483
Net position — end of year	1,653,615	(7,182)		1,646,433

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2013 and 2012, was held as follows (dollars in thousands):

	2013		
	Current	Noncurrent	Total
State Treasurer	\$ 420,322	\$ 43,370	\$ 463,692
Municipal Bond Commission	2,600		2,600
Trustee		164,926	164,926
Bank	40,919	3,311	44,230
Cash equivalents	21,034		21,034
Escrowed cash		11,064	11,064
On hand	108		108
	<u>\$ 484,983</u>	<u>\$ 222,671</u>	<u>\$ 707,654</u>
	2012		
	Current	Noncurrent	Total
State Treasurer	\$ 426,665	\$ 46,011	\$ 472,676
Municipal Bond Commission	2,604		2,604
Trustee	7	118,139	118,146
Bank	45,203	3,209	48,412
Cash equivalents	22,334		22,334
Escrowed cash		5,408	5,408
On hand	193		193
	<u>\$ 497,006</u>	<u>\$ 172,767</u>	<u>\$ 669,773</u>

Amounts held by the Municipal Bond Commission or trustee represent various project revenue, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures. Other amounts held by the State Treasurer include \$19.2 million and \$15.6 million of restricted cash at June 30, 2013 and 2012, respectively. Cash equivalents are primarily related to amounts held in money markets, repurchase agreements, and savings accounts.

The combined carrying amounts of cash in the bank at June 30, 2013 and 2012, were \$44.2 million and \$48.4 million, as compared with the combined bank balance of \$48.0 million and \$52.4 million, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were secured by financial instruments held as collateral by the State's agent. Regarding federal depository insurance, interest bearing accounts are insured by the Federal Deposit Insurance Company (FDIC) up to \$250,000. Non-interest bearing accounts are 100% insured through December 31, 2013.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2013 and 2012, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate

liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the Fund invests, all are subject to credit risk. The following BTI investment risk information has been extracted from the notes to the BTI's financial statements.

WV Money Market Pool — Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2013 and 2012, 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. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P-1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2013 and 2012, the WV Money Market Pool investments had a total carrying value of \$2,495,868,000 and \$2,786,968,000, respectively, of which the Fund's ownership represents 15.71% and 13.88%, respectively.

WV Government Money Market Pool — Credit Risk — For the years ended June 30, 2013 and 2012, the WV Government 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. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues.

At June 30, 2013 and 2012, the WV Government Money Market Pool investments had a total carrying value of \$287,184,000 and \$299,629,000, respectively, of which the Fund's ownership represents 0.76% and 0.73%, respectively.

WV Short Term Bond Pool:

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P-1 by Moody's. Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's and Aaa by Moody's. As this pool has not been rated, the following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating*		2013		2012	
	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset-backed securities	Aaa	AAA	\$ 53,681	8.72 %	\$ 95,628	18.99 %
	Aaa	NR *	59,810	9.71	38,524	7.64
	B1	CCC **			896	0.18
	B3	BB **			311	0.06
	B3	BBB- **			53	0.01
	B3	CCC **			280	0.06
	Ca	CCC **	308	0.05	586	0.12
	Ca	D **	95	0.02		
	Caa1	CCC **	932	0.15		
	Caa2	CCC **			186	0.04
	Caa3	CCC **			243	0.05
	Caa3	D **	367	0.06	26	0.01
	Caa3	NR **	24	0.00		
	NR	AAA	37,411	6.07		
	NR	AA+	2,514	0.41	3,900	0.77
	NR	* NR *	3,819	0.62	3,786	0.75
			<u>158,961</u>	<u>25.81</u>	<u>144,419</u>	<u>28.68</u>
Corporate bonds and notes	Aa2	AA+	3,002	0.49	9,025	1.79
	Aa2	AA	12,731	2.07		
	Aa2	AA-	9,192	1.49		
	Aa3	AA-	33,034	5.36	15,666	3.11
	Aa3	A+	11,693	1.90		
	Aa3	A			23,032	4.57
	A1	AA+	13,295	2.16		
	A1	AA	4,118	0.67	12,145	2.41
	A1	A+	47,500	7.71	30,684	6.09
	A1	A	13,522	2.19		
	A2	A+	9,348	1.52		
	A2	A	47,709	7.75	39,064	7.76
	A2	A-	5,052	0.82		
	A3	A-	7,986	1.30	7,755	1.54
	A3	BBB+			3,006	0.60
	Baa1	A- **	2,416	0.39	4,162	0.83
Baa2	A- **	6,959	1.13	6,709	1.33	
		<u>227,557</u>	<u>36.95</u>	<u>151,248</u>	<u>30.03</u>	
U.S. agency bonds	Aaa	AA+	9,986	1.62	45,024	8.94
U.S. Treasury notes***	Aaa	AA+	140,154	22.76	44,251	8.79
U.S. agency mortgage backed securities****	Aaa	AA+	73,692	11.97	77,065	15.30
Money market funds	Aaa	AAAm	5,457	0.89	41,610	8.26
		<u>\$615,807</u>	<u>100 %</u>	<u>\$503,617</u>	<u>100 %</u>	

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2013 and/or 2012. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2013 and 2012, the Fund's ownership represents 3.70% and 7.83%, respectively, of these amounts held by the BTI.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	2013		2012	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 229,326	3	\$ 90,204	3
U.S. Treasury notes	279,755	132	330,865	122
U.S. Treasury bills	34,993	77	237,978	37
Commercial paper	970,395	43	853,470	35
Certificates of deposit	259,000	66	110,000	10
U.S. agency discount notes	445,784	47	738,706	44
Corporate bonds and notes	10,000	60	36,000	48
U.S. agency bonds/notes	66,603	139	189,691	68
Money market funds	200,012	1	200,054	1
	<u>\$2,495,868</u>	52	<u>\$2,786,968</u>	46

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

Security Type	2013		2012	
	Carrying Value (In thousands)	WAM (Days)	Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	\$ 101,500	3	\$ 91,900	3
U.S. Treasury notes	50,112	103	103,324	111
U.S. Treasury bills	4,999	76	4,999	62
U.S. agency discount notes	125,474	67	76,397	52
U.S. agency bonds/notes	5,000	34	23,004	9
Money market funds	99	1	5	1
	<u>\$ 287,184</u>	50	<u>\$ 299,629</u>	54

The overall effective duration of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

Security Type	2013		2012	
	Carrying Value (in Thousands)	Effective Duration (Days)	Carrying Value (in Thousands)	Effective Duration (Days)
U. S. Treasury bonds/notes	\$ 140,154	491	\$ 44,251	366
Corporate bonds/notes	227,557	293	151,248	242
Corporate asset-backed securities	158,961	471	144,419	250
U.S. agency bonds/notes	9,986	583	45,024	23
U.S. agency mortgage-backed securities	73,692	60	77,065	13
Money market funds	5,457	1	41,610	1
	<u>\$ 615,807</u>	358	<u>\$ 503,617</u>	180

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the BTI's Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's statement of fiduciary net assets is invested in a pool managed by the securities lending agent. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

Amounts with Trustee as of June 30, 2013 and 2012, are comprised of the following (dollars in thousands):

Investment Type	Moody's Rating	Standard and Poor's Rating	2013	2012
			Carrying Value	Carrying Value
U.S. Treasury money market funds	Aaa	AAAm	\$ 9,929	\$ -
U.S. government securities	N/A	N/A		5,146
Commercial paper	Aaa	AAAm		1,108
Money market funds	N/A	N/A	<u>154,997</u>	<u>111,892</u>
			<u>\$ 164,926</u>	<u>\$ 118,146</u>

N/A = Not available

These investments have no significant custodial risk or interest rate risk and they are not exposed to a concentration of credit risk nor any foreign currency risk.

At June 30, 2012, the U.S. government securities had maturities ranging from July 31, 2012 to September 30, 2012, with values ranging from 0.375% to 0.625%.

The objective of the money market fund is to increase the current level of income while continuing to maintain liquidity and capital. Assets are invested in high-quality, short-term money market instruments.

The remaining amounts on deposit with Trustee are primarily invested in funds, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities.

4. INVESTMENTS

Investments at June 30, 2013, were as follows (dollars in thousands):

Investment Type	Level 1	Level 2	Level 3	Total
U.S. government investments:				
Federal National Mortgage Association bonds	\$ -	\$21,033	\$ -	\$ 21,033
Treasury Notes	134,278			134,278
Mutual Bond Funds:				
Brandywine Global Fixed Income	1,162	6,188		7,350
Common Fund High Quality Bond Fund		3,479	42	3,521
Common Fund Multi-Strategy Bond Fund		4,620	2,885	7,505
Fidelity Floating Rate High Income	446	2,854	2	3,302
Ishares Barclays 3-7 yr Treasury	1,737	4,948		6,685
Ishares Barclays 7-10 yr Treasury	422	1,191		1,613
PIMCO Unconstrained Bond Fund	205	3,056	29	3,290
Other	5	3,193	8	3,206
Fixed Income Funds:				
Income Research and Management		3,702		3,702
Other		881		881
Mutual Stock Funds:				
Aberdeen Emerging Markets	866	1,928		2,794
Common Fund Intermediate Multi-Strategy Equity Fund		13,337	650	13,987
Dodge & Cox International Stock Fund	360	1,533		1,893
Dodge & Cox Stock Fund	3,878	39		3,917
MFS	3,987			3,987
MFS International Value Fund	484	4,725		5,209
Vanguard Dividend Appreciation	7,256			7,256
Vanguard Total Stock Market ETF	20,847	4		20,851
Oppenheimer International Growth Fund	405	4,291		4,696
Other	2,085	1,502	3	3,590
Other investments	816	1,475	477	2,768
Other alternative investments:				
BHR Offshore Fund			2,654	2,654
Harvest Volatility Alpha Fund			1,562	1,562
Salsman Offshore Fund			2,530	2,530
Z Capital Loan Op Offshore Fund			1,781	1,781
Other			223	223
	<u>\$179,239</u>	<u>\$83,979</u>	<u>\$12,846</u>	<u>\$276,064</u>

Investments at June 30, 2012, were as follows (dollars in thousands):

Investment Type	Level 1	Level 2	Level 3	Total
U.S. government investments:				
Federal Home Loan Mortgage Corporation bonds	\$ 6,665	\$ -	\$ -	\$ 6,665
Federal National Mortgage Association bonds	6,024	15,053		21,077
Treasury Notes	229,720			229,720
Mutual Bond Funds:				
Brandywine Global Fixed Income	850	6,019		6,869
Common Fund High Quality Bond Fund		3,419	46	3,465
Common Fund Multi-Strategy Bond Fund	2	6,507	50	6,559
Common Fund Multi-Strategy Bond Investors Fund	2	1,787		1,789
Fidelity Floating Rate High Income	306	3,040	2	3,348
Harbor Bond Fund	1	1,844	6	1,851
Ishares Barclays 3-7 yr Treasury	2,362			2,362
PIMCO Unconstrained Bond Fund	2,216	1,420	250	3,886
Other	1,314	1,675	8	2,997
State and local government securities —				
Auction rate certificates		950		950
Fixed Income Fund —				
Income Research and Management		4,853		4,853
Mutual Stock Funds:				
Aberdeen Emerging Markets	396	768	1,163	2,327
Common Fund Intermediate Multi-Strategy Equity Fund				
Common Fund Multi Strategy Equity Fund		11,063	433	11,496
Dodge & Cox International Stock Fund	1,494	39		1,533
Dodge & Cox Stock Fund	2,994	18		3,012
MFS	3,279			3,279
Vanguard Dividend Appreciation	4,809			4,809
Vanguard MSCI EAFE ETF		6,034		6,034
Vanguard MSCI Emerging Markets		1,366		1,366
Vanguard Total Stock Market ETF	15,894			15,894
Other	2,405	1,262	2	3,669
Commodity —				
SPDR Gold Shares	2,428			2,428
Other investments				
	795	1,232	477	2,504
Other alternative investments:				
Arden-Sage Capital International		2,003	1,108	3,111
BHR Offshore Fund		2,326		2,326
Harvest Volatility Alpha Fund			1,544	1,544
Salsman Offshore Fund		1,969		1,969
Z Capital Loan Op Offshore Fund			1,743	1,743
Other		551	1,164	1,715
	<u>\$283,956</u>	<u>\$ 75,198</u>	<u>\$ 7,996</u>	<u>\$367,150</u>

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

Historically, the Fund was unable to invest excess operating funds outside of the State Treasurer. In 2005, the West Virginia State Legislature passed Senate Bill No. 603 (S.B. 603). S.B. 203 granted WVU and Marshall the ability to invest a limited amount of funds with their foundations. The amounts invested with the two foundations at June 30, 2013 and 2012, were approximately \$81,100,000 and \$73,700,000, respectively.

Interest rate risk is managed by limiting the time period or duration of the specific investment.

As of June 30, 2013, the U.S. Government investments have the following rates and maturity dates:

	Original Rates	Original Maturity Dates
Federal National Mortgage Association bonds	1.75%–4.375%	August 10, 2012–April 9, 2013
U.S. Treasury Notes	0.125%–3.125	July 31, 2013–January 31, 2015

As of June 30, 2012, the U.S. Government investments have the following rates and maturity dates:

	Original Rates	Original Maturity Dates
Federal Home Loan Mortgage Corporation bonds	4.5%–5.125%	March 23, 2012–January 15, 2013
Federal National Mortgage Association bonds	1.75–4.875	May 18, 2012–April 9, 2013
Federal National Mortgage Association securities	3.0–4.0	January 20, 2041–March 15, 2042
U.S. Treasury Notes	.125–3.125	July 31, 2012–January 31, 2015

Additional investments subject to interest rate risk include the following at June 30:

2013	2012
Brandywine Global Fixed Income	Brandywine Global Fixed Income
iShares Barclays 3-7 Year Treasury	iShares Barclays 3-7 Year Treasury
iShares Barclays 7-10 Year Treasury	Fidelity Floating Rate High Income
Fidelity Floating Rate High Income	Harbor Bond Fund
PIMCO Unconstrained Bond Inst.	PIMCO Unconstrained Bond Inst.
CF Multi-Strategy Bond Fund	Income Research and Management
Income Research and Management	CF Multi-Strategy Bond Fund
	CFI Multi-Strategy Bond Investors Fund

WVU, through its board, issued Auction Rate Certificate (ARC) debt in 2004. These 2004 ARCs are variable rate debt that reset at auction every 28 days. Based on guidance from bond counsel, the WVU Research and Development Corporation began to submit bids to purchase the ARCs in the April 23, 2008, auction. As of June 30, 2013, the ARCs were fully redeemed. At June 30, 2012, the carrying value of these investments was approximately \$950,000.

At June 30, 2013 and 2012, certain investments had the following Standard & Poor's (S&P) ratings:

Investment Type	Standard & Poor's Rating	
	2013	2012
Common Fund High Quality Bond Fund	AA-	AA-
Common Fund Multi-Strategy Bond Fund	A+	A+
Income Research & Management (IRM)	AA-	AA-
Harbor Bond Fund	-	AA-
iShares Barclays 3–7 Year Treasury	AA	AAf
iShares Barclays 7–10 Year Treasury	AA	-
PIMCO Unconstrained Bond Fund	-	AAA
Brandywine Global Fixed Income	BBB+	BBB+

Remaining investments have not been rated.

Other than listed above, these investments have no significant custodial credit risk or interest rate risk, and they are not exposed to a concentration of credit risk or any foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 and 2012, were as follows (dollars in thousands):

	2013	2012
Students — net of allowance of \$16,425 and \$16,981 in 2013 and 2012, respectively	\$ 11,490	\$ 12,614
Grants and contracts — net of allowance of \$1,421 and \$1,660 in 2013 and 2012, respectively	36,544	41,400
Auxiliary services — net of allowance of \$1,811 and \$1,866 in 2013 and 2012, respectively	2,576	2,836
Due from State and State agencies	8,148	5,439
Other — net of allowance of \$42 and \$545 in 2013 and 2012, respectively	<u>12,418</u>	<u>20,955</u>
	<u>\$ 71,176</u>	<u>\$ 83,244</u>

6. CAPITAL ASSETS

The following, for the years ended June 30, 2013 and 2012, is a summary of capital assets transactions for the Fund (dollars in thousands):

	2013			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated or amortized:				
Land	\$ 110,397	\$ 45,880	\$ 3,782	\$ 152,495
Construction in progress	162,040	224,095	139,595	246,540
Other	<u>132</u>			<u>132</u>
Total capital assets not being depreciated or amortized	<u>\$ 272,569</u>	<u>\$ 269,975</u>	<u>\$ 143,377</u>	<u>\$ 399,167</u>
Other capital assets:				
Land improvements	\$ 74,534	\$ 3,221	\$ 7,969	\$ 69,786
Infrastructure	332,841	10,632	149	343,324
Buildings	2,312,283	137,606	18,817	2,431,072
Equipment	333,724	35,774	15,202	354,296
Software	53,398	7,121	14	60,505
Library books	166,589	7,569	556	173,602
Intangibles and other	<u>101,201</u>	<u>13,036</u>		<u>114,237</u>
Total other capital assets	<u>3,374,570</u>	<u>214,959</u>	<u>42,707</u>	<u>3,546,822</u>
Less accumulated depreciation or amortization for:				
Land improvements	28,891	3,937	134	32,694
Infrastructure	251,820	8,006	168	259,658
Buildings	642,019	51,036	4,771	688,284
Equipment	213,158	26,541	12,009	227,690
Software	48,786	2,915	20	51,681
Library books	136,310	8,256	367	144,199
Intangibles and other	<u>32,200</u>	<u>18,318</u>		<u>50,518</u>
Total accumulated depreciation and amortization	<u>1,353,184</u>	<u>119,009</u>	<u>17,469</u>	<u>1,454,724</u>
Other capital assets — net	<u>\$ 2,021,386</u>	<u>\$ 95,950</u>	<u>\$ 25,238</u>	<u>\$ 2,092,098</u>
Capital asset summary:				
Capital assets not being depreciated or amortized	\$ 272,569	\$ 269,975	\$ 143,377	\$ 399,167
Other capital assets	<u>3,374,570</u>	<u>204,172</u>	<u>31,920</u>	<u>3,546,822</u>
Total cost of capital assets	3,647,139	474,147	175,297	3,945,989
Less accumulated depreciation and amortization	<u>1,353,184</u>	<u>119,009</u>	<u>17,469</u>	<u>1,454,724</u>
Capital assets — net	<u>\$ 2,293,955</u>	<u>\$ 355,138</u>	<u>\$ 157,828</u>	<u>\$ 2,491,265</u>

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated or amortized:				
Land	\$ 96,430	\$ 14,077	\$ 110	\$ 110,397
Construction in progress	121,570	177,649	137,179	162,040
Other	<u>132</u>			<u>132</u>
Total capital assets not being depreciated or amortized	<u>\$ 218,132</u>	<u>\$ 191,726</u>	<u>\$ 137,289</u>	<u>\$ 272,569</u>
Other capital assets:				
Land improvements	\$ 65,825	\$ 8,735	\$ 26	\$ 74,534
Infrastructure	322,414	10,443	16	332,841
Buildings	2,166,326	175,250	29,293	2,312,283
Equipment	320,203	34,274	20,753	333,724
Software	52,899	674	175	53,398
Library books	160,567	7,181	1,159	166,589
Intangibles and other	<u>29,986</u>	<u>71,215</u>		<u>101,201</u>
Total other capital assets	<u>3,118,220</u>	<u>307,772</u>	<u>51,422</u>	<u>3,374,570</u>
Less accumulated depreciation or amortization for:				
Land improvements	24,995	3,983	87	28,891
Infrastructure	244,341	7,492	13	251,820
Buildings	598,708	45,845	2,534	642,019
Equipment	206,448	28,559	21,849	213,158
Software	46,985	2,133	332	48,786
Library books	129,162	8,092	944	136,310
Intangibles and other	<u>24,441</u>	<u>7,759</u>		<u>32,200</u>
Total accumulated depreciation and amortization	<u>1,275,080</u>	<u>103,863</u>	<u>25,759</u>	<u>1,353,184</u>
Other capital assets — net	<u>\$ 1,843,140</u>	<u>\$ 203,909</u>	<u>\$ 25,663</u>	<u>\$ 2,021,386</u>
Capital asset summary:				
Capital assets not being depreciated or amortized	\$ 218,132	\$ 191,726	\$ 137,289	\$ 272,569
Other capital assets	<u>3,118,220</u>	<u>307,772</u>	<u>51,422</u>	<u>3,374,570</u>
Total cost of capital assets	3,336,352	499,498	188,711	3,647,139
Less accumulated depreciation and amortization	<u>1,275,080</u>	<u>103,863</u>	<u>25,759</u>	<u>1,353,184</u>
Capital assets — net	<u>\$ 2,061,272</u>	<u>\$ 395,635</u>	<u>\$ 162,952</u>	<u>\$ 2,293,955</u>

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

During August 2010, the West Virginia Development Office issued approximately \$162 million of Education, Arts, Science, and Tourism bonds. The Commission, as provided in the State Code, will receive 60%, or \$97.2 million, of the proceeds to help fund various building and campus renewal projects. As of June 30, 2013, the Fund has recognized \$84.9 million of the total to be received. The West Virginia Development Office is responsible for repayment of the debt.

The Fund has construction commitments at June 30, 2013, of approximately the following (dollars in thousands):

Bluefield State College	\$ 308
Concord University	2,300
Fairmont State University	1,533
Marshall University	74,500
New River Community and Technical College	544
Pierpont Community and Technical College	782
Shepherd University	2,600
West Liberty State College	9,000
West Virginia Higher Education Policy Commission	20,600
West Virginia Northern Community College	334
West Virginia School of Osteopathic Medicine	1,864
West Virginia University	90,200
West Virginia University at Parkerberg	<u>418</u>
	<u>\$ 204,983</u>

7. LONG-TERM LIABILITIES

The following, for the years ended June 30, 2013 and 2012, is a summary of long-term obligation transactions for the Fund (dollars in thousands):

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	\$ 30,751	\$ 25,257	\$ (26,296)	\$ 29,712	\$ 1,134
Capital leases payable	39,038	1,595	(3,853)	36,780	4,368
Bonds payable	<u>1,121,064</u>	<u>282,516</u>	<u>(229,125)</u>	<u>1,174,455</u>	34,377
Total bonds, capital leases, and notes payable	1,190,853	309,368	(259,274)	1,240,947	
Advances from federal sponsors	41,266	185	(60)	41,391	
Real estate purchase agreements payable	29,305	4,018	(26,874)	6,449	362
Accrued compensated absences	44,782	2,871	(1,539)	46,114	42,103
Future interest payable	38,359	4,615	(3,536)	39,438	3,742 *
OPEB liability	282,039	6,476	(1,391)	287,124	
Other noncurrent liabilities	<u>35,999</u>	<u>5,668</u>	<u>(7,851)</u>	<u>33,816</u>	653
Total long-term liabilities	<u>\$ 1,662,603</u>	<u>\$ 333,201</u>	<u>\$ (300,525)</u>	<u>\$ 1,695,279</u>	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds, capital leases, and notes payable:					
Notes payable	\$ 31,863	\$ 2,525	\$ (3,637)	\$ 30,751	\$ 1,625
Capital leases payable	68,292	11,046	(40,300)	39,038	3,521
Bonds payable	<u>825,271</u>	<u>522,738</u>	<u>(226,945)</u>	<u>1,121,064</u>	32,271
 Total bonds, capital leases, and notes payable	 925,426	 536,309	 (270,882)	 1,190,853	
Advances from federal sponsors	41,396	122	(252)	41,266	
Real estate purchase agreements payable	3,288	26,385	(368)	29,305	26,754
Accrued compensated absences	42,891	3,345	(1,454)	44,782	41,081
Future interest payable	34,012	4,347		38,359	3,536 *
OPEB liability	198,611	83,428		282,039	
Other noncurrent liabilities	<u>30,643</u>	<u>11,657</u>	<u>(6,301)</u>	<u>35,999</u>	1,368
 Total long-term liabilities	 <u>\$ 1,276,267</u>	 <u>\$ 665,593</u>	 <u>\$ (279,257)</u>	 <u>\$ 1,662,603</u>	

* The current portion of future interest payable is included in interest payable on the combined statements of net position.

8. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011, the noncurrent liability related to OPEB costs was \$287.1 million, \$282.0 million, and \$198.6 million, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees were \$29.6 million and \$24.5 million, respectively, during 2013, or 82.8%, \$104.9 million and \$19.5 million, respectively, during 2012, or 18.6%, and \$105.4 million and \$19.9 million, respectively, during 2011, or 18.9%. As of June 30, 2013, 2012, and 2011, there were approximately 1,300 retirees receiving these benefits, respectively.

9. LEASE OBLIGATIONS

Capital — The Fund leases certain property, plant, and equipment through capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2013 (dollars in thousands):

Years Ending June 30	
2014	\$ 4,924
2015	4,806
2016	4,157
2017	9,305
2018	2,614
2019–2023	12,376
2024–2028	<u>3,342</u>
 Future minimum lease payments	 41,524
 Less interest	 <u>4,744</u>
 Total	 <u>\$ 36,780</u>

The following is a related-party capital lease:

Marshall has a capital lease agreement with the Marshall University Graduate College Foundation, Inc. (the “MUGC Foundation”), for the Marshall University Graduate College’s administration facility (the “Facility”). The fair value of the Facility was estimated by independent appraisal during the year ended June 30, 1995, at \$5 million (building \$4.3 million and land \$700,000), and the 21-year lease term commenced with the Marshall University Graduate College’s occupancy of the Facility in June 1995. Ownership of the Facility transfers to Marshall at the end of the lease term. During the year ended June 30, 2008, all assets and liabilities of the MUGC Foundation became part of the Marshall University Foundation, Inc. (the “MU Foundation”). This agreement is now with the MU Foundation.

Operating — The Fund had entered into various operating lease agreements. Future annual minimum lease payments for years subsequent to June 30, 2013, are as follows (dollars in thousands):

Years Ending June 30	
2014	\$ 10,930
2015	8,954
2016	7,117
2017	5,562
2018	5,213
2019–2023	15,293
2024–2028	11,684
2029–2033	<u>5,955</u>
Total	<u>\$ 70,708</u>

Total rent expense for these operating leases for the years ended June 30, 2013 and 2012, was approximately \$12.2 million and \$11.4 million, respectively.

The following is a related-party operating lease:

West Virginia University leases an office building from the West Virginia University Foundation, Incorporated. Rental expense under the operating lease is \$1,975,000 per year through 2031. West Virginia University retains the right to cancel the lease upon giving 30 days’ written notice.

10. NOTES PAYABLE

During fiscal year 1997, West Virginia State University signed an agreement with the Educational Direct Loan Mortgage Corporation (Eddie Mac) to have available a line of credit of \$3.5 million to be used to renovate dormitories. As of June 30, 2012, West Virginia State University had \$2,418,613 outstanding. During 2013, this note was paid in full.

During fiscal year 2008, West Virginia University Research Corporation drew their final approximately \$2.1 million on their \$6 million construction and term loan with West Virginia Housing Development Fund (WVHDF). The principal balance of the WVHDF loan bore interest at a fixed rate of 5.11% per annum. The note was due 240 months from the closing date of October 24, 2005. A note modification agreement dated April 26, 2007, allowed the West Virginia University Research Corporation to accrue quarterly interest for the period beginning April 1, 2007 through January 31, 2009, and to add it to the principal amount of the loan. On February 1, 2009, such accrued interest was being amortized and paid over the remaining term of the loan. Total remaining to be paid at June 30, 2012, was approximately \$5.6 million. The loan was refinanced in December 2012.

During fiscal year 2008, West Virginia University Research Corporation drew the entire amount of their \$9 million construction and term loan with West Virginia Economic Development Authority (WVEDA). The principal balance of the WVEDA loan bore interest at a fixed rate of 5.51% per annum. The note was due 240 months from the closing date of October 24, 2005. Interest on the loan accrued, but payment was deferred for the first 36 months of the loan. On October 1, 2009, such accrued interest was being amortized and paid over the remaining term of the loan. Total remaining to be paid at June 30, 2012, was approximately \$8.8 million. The loan was refinanced in December 2012.

During fiscal year 2009, West Virginia University Research Corporation drew the entire amount of their \$9.4 million loan with West Virginia Infrastructure and Jobs Development Council (WVIJDC). The principal balance of the WVIJDC loan bore interest at a fixed rate of 3.0% per annum. The note was due 240 months from the closing date of October 24, 2005. Interest on the loan accrued, but payment was deferred for five years from the date of closing. On October 24, 2010, such accrued interest was being amortized and paid over the remaining term of the loan. Total remaining to be paid at June 30, 2012, was approximately \$8.9 million. The loan was refinanced in December 2012.

In December 2012, the WVHDF, WVEDA, and WVIJDA loans were refinanced 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 West Virginia University Research 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 West Virginia University Research Corporation with 60 days' notice and without any penalty or premium. The refinanced loan is collateralized by the facilities and revenues as defined in the agreement. The note balance at June 30, 2013, was approximately \$21.2 million.

During fiscal year 2008, MURC borrowed the proceeds of a bond issuance by the Cabell County Commission for the construction of an addition to the Marshall University Forensic Science Center. MURC's repayment terms are the same as the bond repayment term. MURC is obligated to make interest payments commencing on October 10, 2008, for the interest due on the loan semiannually and to make annual principal payments starting on April 1, 2009, based on a hypothetical amortization of the then-remaining principal balance at the then-applicable interest rate for the then-remaining years of the original 20-year amortization period ending April 10, 2028. However, any unspent mortgage proceeds would go to pay the first amounts due for interest and principal. Any remaining principal balance shall be payable in full on April 10, 2028. The interest rate on the bonds was 3.2% at April 10, 2008, and continued to and included year five, and changes for each subsequent five-year period to the rate per annum equal to 67% of the five-year Treasury Constant Maturity in effect on that date, plus 1.67% per annum. The rate for the period of April 10, 2013 through April 10, 2018, is 1.6415%. The principal balance at June 30, 2013 and 2012, is \$2,415,271 and \$2,539,398, respectively.

During fiscal year 2013, Glenville State College entered into a \$3.1 million note collateralized by a first lien on equipment installed in various buildings on campus interest is 3.10% with semiannual principal payments of \$131,907. The note matures June 2028. The note balance at June 30, 2013 was \$3,145,518.

During fiscal year 2012, Glenville State College entered into a \$2.5 million note collateralized by a first lien on various parcels of real estate and a motel building. Interest is 5.54% with monthly principal payments of \$17,542. The note matures in June 2031. The note balance at June 30, 2013 and 2012, was \$2,367,373 and \$2,442,493, respectively.

Annual minimum payments for the years ending after June 30, 2013, are as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2014	\$ 1,134	\$ 681	\$ 1,815
2015	21,474	654	22,128
2016	427	243	670
2017	443	224	667
2018	453	211	664
2019–2023	2,442	840	3,282
2023–2028	2,787	429	3,216
2029–2033	<u>552</u>	<u>68</u>	<u>620</u>
Total	<u>\$29,712</u>	<u>\$ 3,350</u>	<u>\$33,062</u>

11. INSTITUTION BONDS PAYABLE

The Institutions within the Fund at June 30, 2013 and 2012, have the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Annual Installments	Principal Outstanding	
			2013	2012
Fairmont State University — Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18 (10-year reset)	343–611	\$ 6,277	\$ 6,634
Fairmont State University — Revenue Refunding Bonds, 2012, Series A, due through 2032	5.00	735–1,155	19,430	20,165
Fairmont State University — Revenue Refunding Bonds, 2012, Series B, due through 2032	5.00	1,075–1,720	29,085	30,160
Glenville State University — Student Housing Bonds, Series 2011A, due 2030	5.25	20-325	4,105	4,131
Glenville State University — Student Housing Bonds, Series 2011B, due 2013	4.50	60		60
Glenville State University — Campus Community Center Bonds, Series 2006, due 2026	4.30 (10-year reset)	54	1,144	1,205
Glenville State University — Science Building Bonds, Series 2007, due in 2037	4.68 (10-year reset)	72	3,247	3,346
Glenville State University — Goodwin Hall Bonds, Series 2009, due in 2040	Variable	8–131	25,038	25,377
Marshall University — University Refunding Revenue Bonds 2010, due through 2030	5.00	915–2,885	34,835	36,225
Marshall University — University Revenue Bonds 2011, due through 2041	5.00	315–2,150	51,910	51,910
Mountwest Community and Technical College — Revenue Bonds, 2012, due through 2021	4.13	163–451	3,337	3,500
Shepherd University — Student Fee Revenue Bonds, due through 2033	5.13	105–370	4,860	5,065
Shepherd University — Infrastructure Revenue Bonds, Series 2004B, due through 2024	4.50	125–240	2,140	2,295
Shepherd University — Residence Facilities Revenue Bonds, due through 2035	5.00	435–1,450	20,090	20,605
Shepherd University — Wellness Center Facilities Revenue Bonds, Series 2007, due through 2037	4.77	435–1,170	17,545	17,945
West Liberty University — Dormitory Revenue Bonds 2003, Series A, due through 2028	6.13	235–650		6,910
West Liberty University — University Union Revenue Bonds 2003, Series B, due through 2018	5.63	80–120		620
West Liberty University — Capital Improvement Revenue Bonds 2003, Series C, due through 2027	6.00	105–285		3,015
West Liberty University — Revenue Refunding Bonds 2013, due through 2028	2.68	580–765	9,810	
West Liberty University — Revenue Bonds 2012, due through 2027	3.25	585–785	10,000	75
West Virginia State University — Student Union Revenue Bonds 2002, Series A, due through 2022	5.13	215–420		3,380
West Virginia State University — University Refunding and Improvement Series 2012, due through 2030	4.50	45–1,930	8,930	
West Virginia State University — University Revenue Bonds Series 2013, due through 2021	Variable	290–	2,815	
West Virginia University — Auction Rate Certificates Federally Taxable Revenue Refunding and Improvement Bonds 2004, Series A, due through 2013	Variable	975–4,200		975
West Virginia University — Revenue Refunding Bonds 2004, Series B, due through 2021	5.00	0–6,685	9,370	53,460
West Virginia University — Revenue Improvement Bonds 2004, Series C, due through 2035	5.00	0–12,780		138,710
West Virginia University — Revenue Improvement Bonds 2011, Series A, due through 2026	3.87	35–62	11,914	12,356
West Virginia University — Revenue Improvement Bonds 2011, Series A, due through 2037	4.17	0–21,800	182,630	187,605
West Virginia University — Revenue Improvement Bonds 2011, Series A, due through 2042	Variable	0–10,470	50,000	50,000
West Virginia University — Revenue Bonds (Taxable) 2012, Series A, due through 2042	450.0	35–62	13,123	
West Virginia University — Revenue Bonds (Taxable) 2012, Series B, due through 2032	Variable	0–50	4,707	
West Virginia University — Revenue Refunding and Improvement Bonds 2013, Series A, due through 2013	5.00	0–13,715	138,325	
West Virginia University — Revenue Refunding and Improvement Bonds (Taxable) 2013, Series B, due through 2043	2.97	995–7,440	<u>72,180</u>	
			736,847	685,729
Less unamortized bond discount			(213)	(200)
Add unamortized bond premium			<u>44,566</u>	<u>26,712</u>
			<u>\$781,200</u>	<u>\$712,241</u>

The issuance of various bonds during fiscal year 2013 and 2012 resulted in a combined loss of approximately \$15.1 million and \$14.1 million, respectively, and a combined economic gain of approximately \$20.2 million and \$13.4 million, respectively.

A summary of the annual aggregate principal payments for years subsequent to June 30, 2013, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2014	\$ 19,290	\$ 30,043	\$ 49,333
2015	20,046	28,442	48,488
2016	20,550	27,741	48,291
2017	22,859	27,101	49,960
2018	23,633	26,383	50,016
2019–2023	131,459	117,535	248,994
2024–2028	152,267	88,398	240,665
2029–2033	149,346	53,215	202,561
2034–2038	134,680	19,141	153,821
2039–2042	<u>62,717</u>	<u>3,760</u>	<u>66,477</u>
Total	<u>\$ 736,847</u>	<u>\$ 421,759</u>	<u>\$ 1,158,606</u>

12. SYSTEM BONDS PAYABLE

The Fund receives State appropriations to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect various aspects of the Fund’s operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Fund 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 within the Fund. Financing for these facilities was provided through revenue bonds issued by various former governing boards, which are now administered by the Policy Commission.

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

In June 2012, \$124,190,000 of Series A Bonds (the “2012 Series A Bonds”) and \$7,975,000 of Series B Bonds (the “2012 Series B Bonds”) were sold. These bonds were issued to provide funds to (i) advance refund a portion of the 2004 Series B Higher Education Facilities Bonds, (ii) fund certain projects of the Commission, and (iii) pay the costs associated with the issuance of these bonds. The 2012 Series A Bonds and Series B Bonds outstanding at June 30, 2012, consist of \$82,090,000 and \$5,575,000 serial bonds, respectively, with varying interest rates from 2.00% to 5.00% and mature serially from April 1, 2013 through April 1, 2029. Additionally, term bonds from the 2012 Series A Bonds of \$42,100,000 and from the 2012 Series B Bonds of \$2,400,000 with an interest rate of 4.00% mature on April 1, 2034.

On December 17, 2010, \$16,520,000 of Series A Bonds, \$50,265,000 of Series B Bonds, and \$10,080,000 of Series C Bonds were sold. The Bonds were issued to provide funds to (i) fund certain higher education facilities projects, (ii) fund an interest subsidy reserve fund for the benefit of the Series B Bonds, and (iii) pay the costs associated with the issuance of these Bonds. The Series A,

Series B, and Series C Bonds outstanding at June 30, 2012, consist of \$3,770,000, \$0, and \$8,740,000 serial bonds, respectively, with varying interests rates from 2.14% to 5.28% and mature through April 1, 2020. Additionally, term bonds from the Series A Bonds of \$12,750,000, with an interest rate of 5.00%, and mature on April 1, 2026. Term bonds from the Series B Bonds of \$10,800,000, with an interest rate of 7.45% mature April 1, 2030, and of \$39,465,000, with an interest rate of 7.65%, mature on April 1, 2040.

The Commission at June 30, 2013 and 2012, has the following outstanding bonds payable (dollars in thousands):

	Maximum Interest Rate	Original Range of Annual Installments	Principal Outstanding	
			2013	2012
Series 2012A — Revenue Refunding Bonds, due through 2034	5.00 %	\$1,425–\$42,100	\$122,765	\$124,190
Series 2012B — Revenue Bonds, due through 2034	5.00	200–2,400	7,775	7,975
Series 2010A — Revenue Bonds, due through 2026	5.00	235–12,750	16,520	16,520
Series 2010B — Revenue Bonds, due through 2040	7.65	10,800–39,465	50,265	50,265
Series 2010C — Revenue Bonds, due through 2018	5.28	1,340–1,580	7,370	8,740
Series 2009A — Community and Technical College Improvement Revenue Bonds, due through 2039	5.25	1,425–4,760	74,110	75,510
Series 2007A — Revenue Refunding Bonds, due through 2027	5.00	185–1,880	20,900	22,060
Series 2004B — Higher Education Facilities Bonds, due through 2034	6.00	2,680–9,520	6,835	11,235
Series 2000A — University System Bonds, due through 2031	6.26	0–3,264	33,327	36,591
Series 1998 — University System Bonds, due through 2028	5.25	1,065–3,625	<u>38,825</u>	<u>40,475</u>
			378,692	393,561
Add bond premium			14,978	15,693
Less bond discount			<u>(415)</u>	<u>(431)</u>
Total			<u>\$393,255</u>	<u>\$408,823</u>

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2013, is as follows (dollars in thousands):

Years Ending June 30	Principal	Interest	Total
2014	\$ 13,707	\$ 21,509	\$ 35,216
2015	13,990	21,229	35,219
2016	14,307	20,890	35,197
2017	13,518	20,500	34,018
2018	13,888	20,122	34,010
2019–2023	76,261	93,772	170,033
2024–2028	87,886	78,569	166,455
2029–2033	76,700	48,534	125,234
2034–2038	48,630	13,866	62,496
2039–2041	<u>19,805</u>	<u>1,736</u>	<u>21,541</u>
Total	<u>\$ 378,692</u>	<u>\$ 340,727</u>	<u>\$ 719,419</u>

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

13. UNRESTRICTED NET POSITION

The Fund's unrestricted net position at June 30, 2013 and 2012, include certain designated net position as follows (dollars in thousands):

	2013	2012
Designated for auxiliaries	\$ 11,845	\$ 9,361
Designated for repair, replacement, and new property	26,160	24,067
Other	1,828	2,008
Undesignated	<u>273,649</u>	<u>318,013</u>
 Total unrestricted net assets before OPEB liability	 313,482	 353,449
 Less OPEB liability	 <u>287,124</u>	 <u>282,039</u>
 Total unrestricted net position	 <u><u>\$ 26,358</u></u>	 <u><u>\$ 71,410</u></u>

14. RETIREMENT PLANS

Substantially all full-time employees of the Fund participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan (TDC). Contributions to and participation in the TDC by Fund employees have not been significant to date. Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the New Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

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

Total contributions to Educators Money for the years ended June 30, 2013, 2012, and 2011, were \$1,078,000, \$1,106,600, and \$1,092,400, respectively, which consisted of approximately \$539,000, \$553,300, and \$546,200 from the Fund in 2013, 2012, and 2011, respectively, and approximately \$539,000, \$553,300, and \$546,200 from the covered employees in 2013, 2012, and 2011, respectively.

The STRS is a cost-sharing, defined benefit public retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Fund accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2013 and 2012. Required employee contributions are at the rate of 6% of total annual salary for both years ended June 30, 2013 and 2012. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of

service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2013, 2012, and 2011, were approximately \$5,217,700, \$5,735,400, and \$6,296,500, respectively, which consisted of approximately \$3,709,800, \$4,079,800, and \$4,424,600 from the Fund in 2013, 2012, and 2011, respectively, and approximately \$1,507,900, \$1,655,600, and \$1,851,900 from the covered employees in 2013, 2012, and 2011, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the institutions within the Fund. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012, and 2011, were approximately \$83.0 million, \$79.3 million, and \$77.0 million, respectively, which consisted of approximately \$41.5 million, \$39.6 million, and \$38.4 million from the Fund in 2013, 2012, and 2011, respectively, and approximately \$41.5 million, \$39.7 million, and \$38.5 million, from the covered employees in 2013, 2012, and 2011, respectively.

The Fund's total payroll for the years ended June 30, 2013, 2012, and 2011, was approximately \$810.8 million, \$783.9 million, and \$758.4 million, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were approximately \$32.7 million, \$693.5 million, and \$8.9 million for the year ended June 30, 2013; \$34.0 million, \$666.3 million, and \$14.3 million for the year ended June 30, 2012; and \$36.2 million, \$641.9 million, and \$12.9 million for the year ended June 30, 2011.

15. FOUNDATIONS

Various foundations have been established as separate nonprofit organizations incorporated in the State of West Virginia having as their purpose "... to aid, strengthen, and further in every proper and useful way, the work and services of the (individual institutions within the Fund), and their affiliated nonprofit organizations ...". Oversight of each of the foundations is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund. In carrying out its responsibilities, the Boards of Directors of the foundations employ management, form policy, and maintain fiscal accountability over funds administered by the foundations. Although the individual institutions within the Fund do not control the timing or amount of receipts from the foundations, the majority of resources, or income thereon, that the foundations hold and invest are restricted to the activities of the individual institutions within the Fund by donors. Because these restricted resources held by the foundations as detailed in the combined financial statements can only be used by, or for the benefit of, the individual institutions within the Fund, the foundations are considered component units of the Fund and are, therefore, discretely presented with the Fund's combined financial statements in accordance with GASB discretely presented component unit requirements.

The West Virginia University Foundation, Inc., is appropriately not included as a discretely presented component unit as the economic resources held do not entirely or almost entirely benefit the West Virginia University, and its net assets (including unrealized gains) totaled \$672.7 million and \$596.8 million at June 30, 2013 and 2012, respectively. The Blue Ridge Community and Technical College Foundation, Inc., The Bridgemont Community and Technical College Foundation, Inc., The Eastern West Virginia Community and Technical College Foundation, Inc., The Kanawha Valley Community and Technical College Foundation, Inc., Mountwest Foundation, Inc., and Tech Foundation, Inc. are not included for the years ended June 30, 2013 and 2012, because they were not significant to their Institutions. The Higher Education Foundation was not included for the years ended June 30, 2013 and 2012, because it was not significant to the Fund.

Complete financial statements for any discretely presented component unit foundation can be obtained by contacting the Business Office of the West Virginia Higher Education Policy Commission, 1018 Kanawha Boulevard, E, Suite 700, Charleston, WV 25301. See also Note 19.

16. OTHER DISCRETE COMPONENT UNITS

In addition to the Foundations included as discretely presented component units, the Fund has two other component units, Bluefield State College Research and Development Corporation and Provident Group-Marshall Properties, LLC, which are material to their institutions and entirely or almost entirely for the benefit of the Fund's individual institutions as of each year end. Oversight of the other discrete component units is the responsibility of separate and independently elected Boards of Directors, not otherwise affiliated with the Fund.

17. AFFILIATED ORGANIZATIONS

The Fund has various separately incorporated affiliated organizations, including alumni and other associations. Oversight responsibility for these organizations rests with independent boards and management not otherwise affiliated with the Fund. Accordingly, the financial statements of these organizations are not included in the Fund's accompanying combined financial statements under the blended component unit requirements. They are not included in the Fund's accompanying combined financial statements as discretely presented component units as they are (1) not significant or (2) have dual purpose (i.e., not entirely or almost entirely for the benefit of the Fund).

18. CONTINGENCIES AND COMMITMENTS

Contingencies — The nature of the educational industry is such that, from time to time, claims will be presented against colleges and 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 Fund would not impact seriously on the financial status of the Fund.

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. Management believes disallowances, if any, would not have a significant financial impact on the Fund's combined 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 combined financial statements at June 30, 2013 or 2012.

The Fund and Institutions within the Fund own various buildings that are known to contain asbestos. The Fund is not required by federal, state, or local law to remove the asbestos from the buildings. The Fund is required by federal environmental, health, and safety regulations to manage the presence of asbestos in the buildings in a safe condition. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The Fund 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.

Commitments — West Virginia 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, West Virginia 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. West Virginia University's total payments for steam purchased under the agreement were approximately \$10.7 million and \$9.5 million in 2013 and 2012, respectively. An additional \$1.0 million and \$1.2 million was accrued at June 30, 2013 and 2012, respectively, to record the West Virginia University's liability to meet the minimum steam purchase requirement for the contract years ended September 30, 2013 and 2012. West Virginia 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.

West Virginia University has consented to the reduction of its distributions from future Big 12 revenues (of which \$5 million of unearned revenue is recorded as of June 30, 2013 and 2012), if the West Virginia University Foundation, Inc. does not make required payments under its \$10 million promissory note with the Big 12.

19. COMPONENT UNITS' DISCLOSURES

The following is an aggregation of the significant notes for the financial statements of the discretely presented component units:

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Operations — The foundations are nonprofit organizations incorporated in the State of West Virginia. The primary purpose of the foundations is to provide assistance and support for the students, facilities, and programs of their respective institution. The other two component units are also nonprofit organizations — both incorporated in the State of West Virginia. Their primary purpose is also to support their respective institutions.

Basis of Presentation — Financial statement presentation follows the requirements of the FASB. In accordance with such requirements, the component units are required to report information regarding their financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Basis of Accounting — The financial statements of the component units are presented on the accrual basis of accounting, in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the component units and changes therein are classified and reported as follows:

Unrestricted Net Assets — Net assets that are not subject to donor-imposed stipulations.

Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the component units and/or the passage of time.

Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the component units. Generally, the donors of these assets permit the component units to use all or part of the income earned from related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the component units on behalf of an Institution and/or departments of the Institution are reported as custodial liabilities. The component units are responsible for the management and administration of these funds.

Investments — The component units account for their investments in accordance with generally accepted accounting principles. Under generally accepted accounting principles, investments are valued at their fair values in the statement of financial position. Unrealized gains and losses are included in the change in net assets. See separately issued component units financial statements for fair value disclosures. At June 30, 2013 and 2012, there were no material items classified as Level 3 in the fair value hierarchy.

Property and Equipment — Purchased assets are recorded at cost. Donated assets are recorded at their fair value at the date they are donated. Expenditures for replaced items are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated primarily by the straight-line method over the estimated useful lives of the assets.

Gift Annuities — The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

Contributions — Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

Endowments — See separately issued component unit financial statements for endowment related disclosures. For the years ended June 30, 2013 and 2012, there were no material reclasses among net asset classes nor were there material changes in the endowments.

PLEDGES RECEIVABLE

Pledges receivable represent amounts due to the foundations at their present value less allowance for uncollectible amounts.

INVESTMENTS

The component units' investment securities at June 30, 2013 and 2012, are composed of the following:

	2013												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.
Cash and temporary investments	\$ 175,478	\$ 754,152	\$ 653,162	\$ 4,911,711	\$ -	\$ -	\$ 891,809	\$ -	\$ -	\$ 317,605	\$ -	\$ 176,617	\$ -
U.S. government securities	685,436	1,850,606	182,458				8,140,647		229,447	323,439	184,149	85,809	
Corporate and municipal bonds and notes	1,024,814	555,519	682,063	2,508,323	18,275,389		2,584,684		321,716	224,573		665,360	823,117
Mutual funds	2,386,220	24,575,728	4,928,095	4,192,411			11,915,208		8,382,101	700,755	136,113	3,625,601	5,708,349
Equity investments	4,451,575	2,790,111	8,500,147	281,067	50,297,990	220,784	221,779	2,481,697	1,280,987	1,540,700	661,723	159,219	1,064,821
Other	373,675	339,805		704,914	31,459,501		57,746		347,000				8,306
	<u>\$ 9,097,198</u>	<u>\$ 30,865,921</u>	<u>\$ 14,945,925</u>	<u>\$ 12,598,426</u>	<u>\$ 100,032,880</u>	<u>\$ 220,784</u>	<u>\$ 23,754,127</u>	<u>\$ 2,539,443</u>	<u>\$ 10,561,251</u>	<u>\$ 3,107,072</u>	<u>\$ 981,985</u>	<u>\$ 4,712,606</u>	<u>\$ 7,604,593</u>
	2012												
	Bluefield State College Foundation, Inc.	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	The Shepherd University Foundation, Inc.	Southern West Virginia Community College Foundation, Inc.	West Liberty University Foundation, Inc.	West Virginia Northern Community College Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.	WVU at Parkersburg Foundation, Inc.	
Cash and temporary investments	\$ 395,000	\$ 883,644	\$ 122,996	\$ -	\$ -	\$ 1,166,775	\$ -	\$ -	\$ 388,967	\$ -	\$ 52,609	\$ -	
U.S. government securities	804,989	2,204,579				9,067,495		327,796	402,923		94,350		
Corporate and municipal bonds and notes	626,943	30,000	155,492		22,803,986	1,773,498		746,541	153,924		776,853	763,232	
Mutual funds	1,691,878	19,363,004	5,184,888	11,410,967				7,738,685	423,286		3,164,171	5,267,779	
Equity investments	4,332,756	6,052,586	8,356,594	269,289	51,946,278	10,319,427	2,343,271	943,247	1,333,187	563,869	137,501	796,117	
Other	382,220	339,805		704,914	16,170,418	250,784	57,746	347,000				8,455	
	<u>\$ 8,233,786</u>	<u>\$ 28,873,748</u>	<u>\$ 13,819,970</u>	<u>\$ 12,385,170</u>	<u>\$ 90,920,682</u>	<u>\$ 22,577,979</u>	<u>\$ 2,401,017</u>	<u>\$ 10,103,269</u>	<u>\$ 2,702,287</u>	<u>\$ 563,869</u>	<u>\$ 4,225,484</u>	<u>\$ 6,835,583</u>	

The component units' property, plant, and equipment at June 30, 2013 and 2012, consists of the following:

	2013									
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group — Marshall Properties, LLC	The Shepherd University Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land and land improvements	\$ 499,365	\$ -	\$ -	\$ -	\$ 2,442,000	\$ 66,808	\$ -	\$ -	\$ -	\$ 166,000
Buildings	4,710,547		11,975		12,300,838	307,746	77,435,998			1,282,353
Equipment	152,292	71,742		111,381	1,172,360		7,053,604	21,845	11,252	46,448
Accumulated depreciation	(1,381,518)	(67,335)	(4,389)	(68,953)	(1,556,443)	(5,129)	(10,571,381)	(18,709)	(8,883)	(663,212)
Net book value	<u>\$ 3,980,686</u>	<u>\$ 4,407</u>	<u>\$ 7,586</u>	<u>\$ 42,428</u>	<u>\$ 14,358,755</u>	<u>\$ 369,425</u>	<u>\$ 73,918,221</u>	<u>\$ 3,136</u>	<u>\$ 2,369</u>	<u>\$ 831,589</u>

	2012									
	Bluefield State College Research and Development Corporation	Concord University Foundation, Inc.	Fairmont State Foundation, Inc.	The Glenville State College Foundation, Inc.	The Marshall University Foundation, Inc.	New River Community and Technical College Foundation, Inc.	Provident Group — Marshall Properties, LLC	The Shepherd University Foundation, Inc.	West Virginia School of Osteopathic Medicine Foundation, Inc.	The West Virginia State University Foundation, Inc.
Land and land improvements	\$ 499,365	\$ -	\$ -	\$ -	\$ 2,442,000	\$ -	\$ -	\$ -	\$ -	\$ 166,000
Buildings	4,710,547				12,300,838		77,396,063			1,282,353
Equipment	152,292	71,742	11,975	111,381	1,168,113	28,000	7,031,313	20,931	32,322	46,448
Accumulated depreciation	(1,122,319)	(66,852)	(2,427)	(54,753)	(1,116,768)		(6,938,898)	(17,391)	(28,997)	(628,178)
Net book value	<u>\$ 4,239,885</u>	<u>\$ 4,890</u>	<u>\$ 9,548</u>	<u>\$ 56,628</u>	<u>\$ 14,794,183</u>	<u>\$ 28,000</u>	<u>\$ 77,488,478</u>	<u>\$ 3,540</u>	<u>\$ 3,325</u>	<u>\$ 866,623</u>

20. SUBSEQUENT EVENTS

In November 2013, Shepherd University issued \$6,730,000 of The Shepherd University Board of Governors Refunding Revenue Bonds, Series 2013. The proceeds of the bonds were used to refund the Shepherd University series 2003 and 2004B Revenue bonds with principal balances of \$4,930,000 and \$2,140,000, respectively.

During the State's 2013 legislative session legislators passed Senate Bill 438 allowing for the consolidation of Bridgemont and Kanawha Valley Community and Technical Colleges, pending approval by the Higher Learning Commission (HLC). This consolidation will have a very positive impact on both institutions as both institutions are small and cannot afford to duplicate management as evidenced by the fund balances at each institution. Moreover with the close geographical proximity, less than 35 miles, each institution competes with one another especially in the workforce industry training. The change of control documentation recently submitted to the HLC reflects the positive outcomes to the financial health of both institutions once the consolidation is approved. The impact of these efficiencies will be realized in FY 2015 after all approvals are obtained and projected savings will be significant. During 2014, some of the efficiencies have already been implemented to assist in the financial health of both institutions.

On September 18, 2013, the West Virginia Council for Community and Technical College Education was notified that it has been awarded a \$25 million grant through the US Department of Labor Trade Adjustment Assistance Community College and Career Training grant program. Bridgemont Community and Technical College is the official awardee as the Consortium Leader. All ten community and technical colleges will receive funding from this grant which focuses on the areas of manufacturing and mechatronics, energy technology, information technology and construction.

21. SEGMENT INFORMATION

Under the auspices of the State of West Virginia and former governing boards, the Fund issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

Descriptive information for each of the Fund's segments is shown below:

West Virginia Board of Governors Refunding and Improvement Revenue Bonds 2013 Series A; 2013 Series B (Taxable) (Collectively the "2013 Bonds") — February 13, 2013, the West Virginia University Board of Governors (the "Board") issued the 2013 Series A bonds in the amount of \$138,325,000 and the 2013 Series B bonds in the amount of \$72,180,000. The bonds were issued pursuant to a Resolution adopted by the Board of December 13, 2012, and pursuant to a resolution of the Commission adopted on December 7, 2012, approving the issuance of such bonds. The bonds were issued under a Bond Trust Indenture dated as of November 1, 2004, as supplemental and amended by a First Supplemental Indenture Dated August 1, 2011, a Second Supplemental Indenture dated as of October 1, 2011, a Third Supplemental Indenture dated as of June 1, 2012, a Fourth Supplemental Indenture dated as of December 1, 2012, and a Fifth Supplemental Indenture dated as of February 1, 2013.

The 2013 Series A 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 project 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 for costs of issuance of the 2013 Series A bonds.

The 2013 Series B bonds were issued 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 West Virginia University for certain capital expenditures made on the 2013 Series B projects prior to the issuance of the 2013 Series B bonds, and (c) pay the costs of issuance of the 2013 Series B bonds.

The 2013 bonds are secured by and payable from pledged revenues which have been pledged to the payment of such bonds and certain funds held by the bond trustee under the indenture. The 2013 bond are also payable from (but not secured by) other monies legally available to be used for such purposes.

West Virginia University Board of Governors Revenue Bonds 2012, Series A (Taxable) (Collectively the "2012 Bonds") — During fiscal year 2013, the Board also issued revenue bonds to finance the acquisition of the Suncrest Plaza and the Loop. The 2012 Series A (taxable) bonds were issued on July 26, 2012 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. The 2012 Series B (taxable) bonds were issued on December 13, 2012 in the amount of \$4,800,000 to finance the acquisition of the Loop. These bonds were a private placement bond issue with First United Bank & Trust. The bonds were issued pursuant to a Resolution adopted by the Board on June 7, 2012 and September 28, 2012. The bonds were issued under a Bond Trust Indenture dated as of November 1, 2004, as supplemented and amended by a First Supplemental Indenture dated as of August 1, 2011, a Second Supplemental Indenture dated as of October 1, 2011, a Third Supplemental Indenture dated as of June 1, 2012, and a Fourth Supplemental Indenture dated as of December 1, 2012.

The 2012 bonds are secured by and payable from pledged revenues which have been pledged to the payment of such bonds and certain funds held by the bond trustee under the indenture. The 2012 bonds are also payable from (but not by) secured other monies legally available to be used or such purposes.

West Virginia University Board of Governors University Improvement Revenue Bonds 2011 Series A; University Improvement Revenue Bonds 2011 Series B; University Improvement Variable Rate Revenue Bonds 2011 Series C (Collectively the “2011 Bonds”) — During fiscal year 2012, the Board issued revenue improvement bonds to finance the acquisition of 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. The bonds were issued as the First Supplemental Indenture, supplementing and amending the Bond Trust Indenture, dated November 1, 2004.

Also during fiscal year 2012, the Board issued revenue improvement bonds (a) University Improvement Revenue Bonds (West Virginia University Projects) 2011 Series B, in the aggregate principal amount of \$187,605,000 (the “2011 B Bonds”) and (b) University Improvement Variable Revenue Bonds (West Virginia University Projects) 2011 Series C, in the aggregate principal amount of \$50,000,000 (the “2011 C Bonds”) and together with the 2011 B Bonds, the “2011 Bonds”). The 2011 Bonds were issued pursuant to a Resolution adopted by the Board on June 3, 2011, and pursuant to a resolution of the Commission adopted on August 5, 2011, approving the issuance of such Bonds. The 2011 Bonds were issued under and secured by a Bond Trust Indenture dated as of November 1, 2004 between the Issuer and United Bank, Inc., as Bond Trustee (the “Bond Trustee”), as supplemented by a First Supplemental Bond Indenture dated as of August 1, 2011 and Second Supplemental Bond Indenture dated as of October 1, 2011. 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 (the “2011 Projects”), (b) refinance certain tax-exempt lease-purchase agreements entered into by the University (the Refinancing”) and (c) pay the costs of issuance of the 2011 Bonds.

The 2011 Series A, B and C 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 2011 Series A, B and C Bonds are also payable from (but not secured by) other monies legally available to be used for such purposes.

West Virginia University Board of Governors Auction Rate Certificates, Federally Taxable University Revenue Refunding, and Improvement Bonds 2004 Series A; University Revenue Refunding Bonds 2004 Series B; and the University Revenue Improvement Bonds 2004 Series C (Collectively, the “2004 Bonds”) — On November 1, 2004, the Board issued \$25,900,000 of the 2004 Series A Bonds. The 2004 Series A Bonds are being used (1) to advance refund the \$13,710,000 State of West Virginia, University of West Virginia Board of Trustees, Dormitory Refunding Revenue Bond 1997 Series A, and the \$3,250,500 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 West Virginia University, including reimbursement to West Virginia 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.

On November 1, 2004, the Board also issued 2004 Series B and C Bonds in the amounts of \$55,430,000 and \$138,710,000, respectively. The 2004 Series B Bonds are being used (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. The 2004 Series C Bonds are being used to finance a portion of the costs of certain improvements at West Virginia University, including capitalized interest and reimbursement to West Virginia University for certain capital expenditures made prior to the issuance of the 2004 Series C Bonds, and to pay the cost of issuance.

The 2004 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 the funds representing capitalized interest. Fees include Institutional Capital Fees, Auxiliary Fees, and Auxiliary Capital Fees. Gross Operating Revenues include all rent fees, charges, and other income received by or accrued to West Virginia University from the operation and use of the Auxiliary Facilities. The 2004 Bonds are also payable from (but not secured by) other moneys legally available to be used for such purposes.

Board of Governors of Marshall University, University Revenue Bonds, Series 2011 — In November 2011, the Marshall University Board sold \$51,910,000 of University Revenue Bonds, Series 2011 (the “2011 Bonds”). The 2011 Bonds were issued under the authority contained in Chapter 18, Article 18B of the Code of West Virginia, 1931, as amended, and the 2011 Bonds are secured pursuant to a Trust Indenture dated as of November 1, 2011, between the Board and United Bank, Inc., Charleston, West Virginia, as the Trustee. The 2011 Bonds were issued on parity with the 2010 Bonds and are secured by and payable from certain revenues as defined in the Trust Indenture. The proceeds of the 2011 Bonds are being used to (1) finance various capital improvements, (2) pay capitalized interest on the bonds, and (3) pay the costs of issuance of the 2011 Bonds.

Board of Governors of Marshall University, University Refunding Revenue Bonds, Series 2010 — In November 2010, the Marshall University Board sold \$37,140,000 of Marshall University Refunding Revenue Bonds, Series 2010 (the “2010 Bonds”). The 2010 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2010 Bonds will be secured pursuant to an indenture dated as of November 1, 2010, by and between the Trustee. The 2010 Bonds are secured by and payable from auxiliary fees as defined in the Indenture. The proceeds of the 2010 Bonds are being used to (1) advance refund \$40,690,000 of State of West Virginia, Higher Education Interim Governing Board, University Facilities Revenue Bonds, Series 2001A and (2) pay the costs of issuance of the 2010 Bonds. The issuance of the 2010 Bonds resulted in a savings of \$1.7 million that will be realized on the first two years of the bond amortization schedule via reduced payments.

The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds, Glenville State College Housing Corporation Project, Series 2009A — In December 2009, Glenville State College sold \$25,500,000 of Commercial Development Revenue Bonds, Housing Facilities Series 2009 Bonds. The bonds are secured by and payable from the revenues of Glenville State College’s student housing facilities and certain funds held under the Indenture. The proceeds of the bonds are being used (1) to pay all or part of the cost of constructing a 484-bed student residence hall and (2) to pay a portion of the cost of issuing the bonds.

Board of Governors of Glenville State College, Student Fee Revenue Bonds, Glenville State College Science Building Project, Series 2007 — In December 2007, Glenville State College sold \$4,125,000 of revenue bonds, 2007 Student Fee Revenue Bonds, Series 2007. The bonds are secured by and payable from the revenues of Glenville State College education and general capital fees and certain funds held under the Indenture. The proceeds of the bonds are being used (1) to finance all or part of the cost of renovating the science building, (2) to reimburse the Board for cash amounts previously expended to pay renovation costs, and (3) to pay the cost of issuing the bonds.

Board of Governors of Glenville State College, Facilities Improvement Revenue Bonds, Series 2006 — In November 2006, Glenville State College sold \$1,500,000 of revenue bonds, 2006 Facilities Improvement Revenue Bonds, Series 2006. The bonds are secured by and payable from the revenues of Glenville State College’s auxiliary and auxiliary capital fee and certain funds held under the Indenture. The proceeds of the 2006 Bonds are being used (1) to finance all or part of the cost of renovating the student center (Mollohan Campus Community Center), (2) to reimburse the Board for cash amounts previously expended to pay renovation costs, and (3) to pay the cost of issuing the bonds.

The County Commission of Gilmer County, West Virginia, Commercial Development Revenue Bonds, Glenville State College Housing Corporation Project (the “Corporation”), Series 2000A — In September 2001, the Corporation sold \$4,990,000 of revenue bonds, 2000 Housing Facilities Series A Bonds. The bonds are secured by and payable from the revenues of the student housing facilities and certain funds held under the Indenture. The proceeds of the Bonds are being used (1) to pay all or part of the cost of constructing two ten-story apartment buildings, each containing four units to be used as student housing and (2) to pay a portion of the cost of issuing the bonds.

In June 2011, the Corporation took advantage of an opportunity to refinance the 2000 Housing Facilities Series A Bonds at a more favorable interest rate. The 2011 Housing Facilities Series A Bonds were issued without extending the original maturity date of the 2000 Series Bonds.

Fairmont State University Revenue Refunding Bonds 2012, Series A and Revenue Refunding Bonds 2012, Series B — On June 12, 2012, Fairmont, in conjunction with Pierpont, issued Revenue Refunding Bonds Series A and Revenue Refunding Bonds Series B (the “2012 Bonds”) amounting to \$20,165,000 and \$30,160,000, respectively. The 2012A Bonds were issued to (1) currently refund in full the outstanding 2002A and 2002B Bonds and (2) pay the costs of issuance of the Series 2012A Bonds and related costs. The 2012B Bonds were issued to (1) advance refund in full the outstanding 2003A and 2003B Bonds and (2) pay the costs of issuance of the Series 2012B Bonds and related costs.

Fairmont State Facilities Improvement Revenue Bonds, 2006 Series — On May 9, 2006, Fairmont State issued Facilities Improvement Revenue Bonds (the “2006 Bonds”) amounting to \$8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus of Fairmont State University, including, but not limited to, a technology wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Board and (2) pay the costs of issuance of the 2006 Bonds and related costs.

State of West Virginia, Shepherd University, Wellness Center Facilities Revenue Bonds, Series 2007 — In October 2007, \$20,090,000 of Shepherd University Wellness Center Revenue Bonds, Series 2007 were sold. The bonds were issued to finance the costs of planning, design, acquisition, construction, and equipping of a new wellness center on the Shepherd University’s campus and other capital improvements for use by Shepherd University; and to pay the costs of issuance of the bonds and related costs.

State of West Virginia, Shepherd University, Residence Facilities Revenue Bonds, Series 2005 — In May 2005, \$22,925,000 of Shepherd University Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2005 were sold. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of Shepherd University; (2) fund capitalized interest on the Series 2005 Bonds to January 1, 2007; (3) refund the Issuer's \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall and Thatcher Hall and other capital renovations and improvements to Shepherd University's residence facilities pending issuance of the Series 2005 Bonds; and (4) to pay the costs of issuance of the Series 2005 bonds.

State of West Virginia, Shepherd University, Infrastructure Revenue Bonds, Series 2004 — In September 2004, \$3,405,000 of Shepherd University Infrastructure Revenue Bonds, Series 2004 were sold. These bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of Shepherd University and other capital renovations and improvements to Shepherd University's campus, and (2) to pay the costs of issuance of these bonds and related costs.

State of West Virginia, Shepherd University, Student Fee Revenue Bonds, Series 2003 — In January 2003, \$5,990,000 of Shepherd University Student Fee Revenue Bonds, Series 2003 were sold. These bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) to establish a debt service reserve fund, (3) to establish a capitalized interest fund to pay interest on these bonds due on December 1, 2003, and (4) to pay the costs of issuance of the bonds and related costs.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2013 Series A — On February 20, 2013, the West Virginia State University issued \$2,815,000 of Revenue Bonds, 2013 Series A. These bonds are secured by and payable from fees assessed to the students of West Virginia State University held under the Indenture. The proceeds of these Bonds are being used to (1) to refund 2002 Series A, (2) acquire equipment, and (3) pay costs of issuance of 2013 Bonds and its related costs.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2012 Series — On December 20, 2012, West Virginia State University issued \$8,930,000 of Revenue Bonds, 2012 Series. These bonds are secured by and payable from fees assessed to the students of West Virginia State University held under the Indenture. The proceeds of these bonds are being used to (1) refund 1996-1 note from Educational Direct Loan Mortgage Corporation, (2) fund various capital projects, and (3) pay the costs of issuance of these bonds and related costs.

State of West Virginia, West Virginia State College, Student Union Revenue Bonds, 2002 Series A — On August 1, 2002, the West Virginia State College issued Student Union Revenue Bonds 2002 Series A, of serial and term bonds in the amount of \$5,500,000. The bonds were issued to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the College Union, (2) to establish a debt service reserve fund, and (3) to pay the costs of issuance of the Bonds and related costs. These bonds were paid off with the issuance of the 2013 Bonds.

Board of Governors of West Liberty University, Revenue Refunding Bonds 2013 Series — On March 6, 2013, West Liberty University issued University Revenue Refunding Bonds, Series 2013, amounting to \$9,810,000. The Series 2013 Bonds were issued to (1) currently refund in full the outstanding Series 2003A, 2003B and 2003C Bonds, and (2) pay the costs of issuance of the Series 2013 Bonds and related costs.

Board of Governors of West Liberty University, Capital Improvement Revenue, 2012 Series — On May 1, 2012, West Liberty University (formerly West Liberty State College) issued Capital Improvement Revenue Bonds 2012, amounting to \$10,000,000 to finance certain capital improvements and pay costs of issuance.

Board of Governors of West Liberty State College, Capital Improvements, 2003 Series A, B, and C — On September 3, 2003, the West Liberty State College issued Dormitory Revenue Bonds 2003 Series A, amounting to \$8,870,000. The bonds were issued (1) to finance certain capital improvements consisting of repairs and renovations to West Liberty State College's (the "College") existing residence halls, including electrical upgrades, renovations of bathrooms, roof repairs, acquisition of new furniture, and upgrades to elevators, (2) to fund a Debt Service Reserve Fund for the 2003 Series A Bonds, and (3) to pay costs of issuance of the 2003 Series Bonds and related costs.

On September 3, 2003, the West Liberty State College issued College Union Revenue Bonds 2003 Series B, amounting to \$1,145,000. The bonds were issued (1) to finance certain capital improvements consisting of improvements to the College's existing student union building located on the campus of the College known as the "College Union," including improvements to existing offices and meeting areas, the upgrading of entryways and façades, and parking lot and walking area upgrades, (2) to fund a Debt Service Reserve Fund for the 2003 Series B Bonds, and (3) to pay costs of issuance of the 2003 Series B Bonds and related costs.

On September 3, 2003, the West Liberty State College issued Capital Improvement Revenue Bonds 2003 Series C, amounting to \$3,890,000. The bonds were issued (1) to finance certain capital improvements consisting of constructing a new communications wing and structural repairs to the roof and south façade of the College's Hall of Fine Arts, and to make certain improvements to roads, sidewalks, and parking areas on the College's campus, (2) to fund a Debt Service Reserve Fund for the 2003 Series C Bonds, and (3) to pay costs of issuance of the 2003 Series C Bonds and related costs.

These 2003 Series A, B, and C bonds were paid off with the issuance of the 2013 Bonds.

Condensed financial information for the Fund's segments as of June 30, 2013 and 2012, is as follows (dollars in thousands):

	2013														
	WVU Auxiliaries	Marshall Revenue Series 2010 and 2011	Glenville Housing Series A	Glenville 2006 Facilities	Glenville 2007 Student Fees	Glenville 2009 Revenue	Fairmont Refunding 2012	Fairmont Improvement Series 2006	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State Capital, Housing, Student Union 2013 Series A	West Liberty Revenue Refunding 2012	West Liberty Capital Improvement 2012
CONDENSED STATEMENT OF NET ASSETS:															
Assets:															
Current assets	\$ 49,944	\$ 13,185	\$ 134	\$ 431	\$ 288	\$ 1,036	\$ 11,839	\$ -	\$ 1,422	\$ 649	\$ 7,181	\$ 949	\$ 858	\$ 5,576	\$ 519
Noncurrent assets	725,612	94,738	3,777	8,562	8,623	25,790	55,670	7,661	3,688	1,860	20,407	18,005	14,572	11,115	9,926
Total assets	<u>775,556</u>	<u>107,923</u>	<u>3,911</u>	<u>8,993</u>	<u>8,911</u>	<u>26,826</u>	<u>67,509</u>	<u>7,661</u>	<u>5,110</u>	<u>2,509</u>	<u>27,588</u>	<u>18,954</u>	<u>15,430</u>	<u>16,691</u>	<u>10,445</u>
Deferred outflows of resources	15,033	1,457					1,332								
Total	<u>\$ 790,589</u>	<u>\$ 109,380</u>	<u>\$ 3,911</u>	<u>\$ 8,993</u>	<u>\$ 8,911</u>	<u>\$ 26,826</u>	<u>\$ 68,841</u>	<u>\$ 7,661</u>	<u>\$ 5,110</u>	<u>\$ 2,509</u>	<u>\$ 27,588</u>	<u>\$ 18,954</u>	<u>\$ 15,430</u>	<u>\$ 16,691</u>	<u>\$ 10,445</u>
Liabilities:															
Current liabilities	\$ 45,763	\$ 5,311	\$ 112	\$ 67	\$ 103	\$ 443	\$ 2,339	\$ 416	\$ 170	\$ 167	\$ 1,900	\$ 592	\$ 1,848	\$ 618	\$ 764
Noncurrent liabilities	560,183	90,265	3,888	1,080	3,144	26,459	49,170	5,905	4,754	1,980	20,234	17,020	11,400	9,230	9,280
Total liabilities	<u>605,946</u>	<u>95,576</u>	<u>4,000</u>	<u>1,147</u>	<u>3,247</u>	<u>26,902</u>	<u>51,509</u>	<u>6,321</u>	<u>4,924</u>	<u>2,147</u>	<u>22,134</u>	<u>17,612</u>	<u>13,248</u>	<u>9,848</u>	<u>10,044</u>
Deferred inflows of resources		1,423													
Total	<u>605,946</u>	<u>96,999</u>	<u>4,000</u>	<u>1,147</u>	<u>3,247</u>	<u>26,902</u>	<u>51,509</u>	<u>6,321</u>	<u>4,924</u>	<u>2,147</u>	<u>22,134</u>	<u>17,612</u>	<u>13,248</u>	<u>9,848</u>	<u>10,044</u>
Net position (deficit):															
Invested in capital assets — net of related debt	216,871	2,860	(386)	7,418	5,375	(2,283)	5,809	1,326	(1,616)	(279)	(441)	569	1,691	1,302	(73)
Restricted/designated	91,883		167			1,177	11,523	14	387		773		6,546		
Unrestricted	(124,111)	9,521	130	428	289	1,030			1,415	641	5,895		(6,055)	5,541	474
Total net position	<u>184,643</u>	<u>12,381</u>	<u>(89)</u>	<u>7,846</u>	<u>5,664</u>	<u>(76)</u>	<u>17,332</u>	<u>1,340</u>	<u>186</u>	<u>362</u>	<u>5,454</u>	<u>1,342</u>	<u>2,182</u>	<u>6,843</u>	<u>401</u>
TOTAL	<u>\$ 790,589</u>	<u>\$ 109,380</u>	<u>\$ 3,911</u>	<u>\$ 8,993</u>	<u>\$ 8,911</u>	<u>\$ 26,826</u>	<u>\$ 68,841</u>	<u>\$ 7,661</u>	<u>\$ 5,110</u>	<u>\$ 2,509</u>	<u>\$ 27,588</u>	<u>\$ 18,954</u>	<u>\$ 15,430</u>	<u>\$ 16,691</u>	<u>\$ 10,445</u>
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:															
Operating:															
Operating revenues	\$ 117,998	\$ 25,802	\$ 686	\$ 406	\$ 427	\$ 2,208	\$ 11,206	\$ 631	\$ 483	\$ 340	\$ 16,460	\$ 2,504	\$ 1,871	\$ 1,769	\$ 522
Operating expenses	(137,814)	(15,610)	(615)	(562)	(200)	(1,512)	(5,401)		(319)	(294)	(16,718)	(1,748)	(1,477)		
Other	29,379														
Net operating income	9,563	10,192	71	(156)	227	696	5,805	631	164	46	(258)	756	394	1,769	522
Nonoperating:															
Transfers (to) from Institution	(17,118)	21	278	352	(247)	1,386	17				10		5	3	
Nonoperating revenues	12,397	522							22						
Nonoperating expenses	(20,383)	(6,874)	(181)	(51)	(155)	(1,110)	(3,805)	(587)	(250)	(95)	(1,325)	(1,154)	(410)	(966)	(47)
(DECREASE) INCREASE IN NET ASSETS	(15,541)	3,861	168	145	(175)	972	2,017	44	(64)	(49)	(1,573)	(398)	(11)	806	475
NET POSITION — Beginning of year (as amended)	200,184	8,520	(257)	7,701	5,839	(1,048)	15,315	1,296	250	411	7,027	1,740	2,193	6,037	(74)
NET POSITION — End of year	<u>\$ 184,643</u>	<u>\$ 12,381</u>	<u>\$ (89)</u>	<u>\$ 7,846</u>	<u>\$ 5,664</u>	<u>\$ (76)</u>	<u>\$ 17,332</u>	<u>\$ 1,340</u>	<u>\$ 186</u>	<u>\$ 362</u>	<u>\$ 5,454</u>	<u>\$ 1,342</u>	<u>\$ 2,182</u>	<u>\$ 6,843</u>	<u>\$ 401</u>
CONDENSED STATEMENT OF CASH FLOWS:															
Net cash provided by operating activities	\$ 3,492	\$ 8,360	\$ 138	\$ 53	\$ 412	\$ 1,092	\$ 5,478	\$ -	\$ 453	\$ 339	\$ 1,206	\$ 1,241	\$ 1,225	\$ 1,769	\$ 522
Net cash provided by (used in) capital financing activities	83,867	(6,317)	(97)	238	(502)	(63)	(4,067)	(1)	(622)	(251)	(3,765)	(2,120)	(343)	(340)	(3)
Net cash provided by investing activities	467						16		251		1,022	821			
INCREASE (DECREASE) IN CASH	87,826	2,043	41	291	(90)	1,029	1,427	-	82	88	(1,537)	(58)	882	1,429	519
CASH — Beginning of year	49,038	* 18,613	* 212	* 120	* 355	* 960	* 9,454	* -	* 1,340	* 560	* 7,944	* 1,002	* (24)	* 4,147	
CASH — End of year	<u>\$ 136,864</u>	<u>* \$ 20,656</u>	<u>* \$ 253</u>	<u>* \$ 411</u>	<u>* \$ 265</u>	<u>* \$ 1,989</u>	<u>* \$ 10,881</u>	<u>* \$ -</u>	<u>* \$ 1,422</u>	<u>\$ 648</u>	<u>\$ 6,407</u>	<u>\$ 944</u>	<u>\$ 858</u>	<u>\$ 5,576</u>	<u>\$ 519</u>

* The cash of WVU, Marshall, Glenville, and Fairmont includes current and noncurrent cash.

(1) Activity netted to zero

	WVU Auxiliaries As Amended	Marshall Revenue Series 2010 and 2011 As Amended	Glenville Housing Series A As Amended	Glenville 2006 Facilities	Glenville 2007 Student Fees	Glenville 2009 Revenue As Amended	Fairmont Refunding 2012 As Amended	Fairmont Improvement Series 2006 As Amended	Shepherd 2003 Student Fee	Shepherd Infrastructure 2004	Shepherd Residence Facilities 2005	Shepherd Wellness Center 2007	WV State 2002 Student Union Series A	West Liberty Capital Improvement 2003 Series A, B, C As Amended	West Liberty Capital Improvement Revenue 2012 As Amended
CONDENSED STATEMENT OF NET ASSETS:															
Assets:															
Current assets	\$ 41,590	\$ 11,944	\$ 51	\$ 140	\$ 362	\$ 260	\$ 10,269	\$ -	\$ 1,303	\$ 559	\$ 8,743	\$ 951	\$ (24)	\$ 4,147	\$ -
Noncurrent assets	700,604	94,662	3,890	8,771	8,823	26,568	57,040	7,977	3,999	2,155	20,515	18,766	5,556	12,376	1
Total assets	742,194	106,606	3,941	8,911	9,185	26,828	67,309	7,977	5,302	2,714	29,258	19,717	5,532	16,523	1
Deferred outflows of resources															
	1,530	1,600					1,403								
Total	\$ 743,724	\$ 108,206	\$ 3,941	\$ 8,911	\$ 9,185	\$ 26,828	\$ 68,712	\$ -	\$ 5,302	\$ 2,714	\$ 29,258	\$ 19,717	\$ 5,532	\$ 16,523	\$ 1
Liabilities:															
Current liabilities	\$ 40,971	\$ 6,326	\$ 201	\$ 66	\$ 98	\$ 348	\$ 2,376	\$ 403	\$ 156	\$ 163	\$ 1,355	\$ 542	\$ 289	\$ 531	\$ -
Noncurrent liabilities	502,569	91,686	3,997	1,144	3,248	27,528	51,021	6,278	4,896	2,140	20,876	17,435	3,045	9,955	75
Total liabilities	543,540	98,012	4,198	1,210	3,346	27,876	53,397	6,681	5,052	2,303	22,231	17,977	3,334	10,486	75
Deferred inflows of resources															
		1,674													
Total	\$ 543,540	\$ 99,686	\$ 4,198	\$ 1,210	\$ 3,346	\$ 27,876	\$ 53,397	\$ 6,681	\$ 5,052	\$ 2,303	\$ 22,231	\$ 17,977	\$ 3,334	\$ 10,486	\$ 75
Net position (deficit):															
Invested in capital assets — net of related debt	235,612	2,081	(495)	7,566	5,477	(2,149)	5,440	1,296	(1,516)	(204)	(1,298)	598	1,769	830	
Restricted/designated	12,766	7	194		848	848	9,875		463	56	257	264	480	1,109	
Unrestricted	(48,194)	6,432	44	135	362	253			1,303	559	8,068	878	(51)	4,098	(74)
Total net position	200,184	8,520	3,941	8,911	9,185	26,828	15,315	1,296	5,302	2,714	29,258	19,717	5,532	16,523	1
TOTAL	\$ 743,724	\$ 108,206	\$ 8,139	\$ 10,121	\$ 12,531	\$ 54,704	\$ 68,712	\$ 7,977	\$ 10,354	\$ 5,017	\$ 51,489	\$ 37,694	\$ 8,866	\$ 27,009	\$ 76
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS:															
Operating:															
Operating revenues	\$ 113,467	\$ 25,917	\$ 731	\$ 269	\$ 337	\$ 1,788	\$ 11,190	\$ 631	\$ 473	\$ 335	\$ 16,392	\$ 2,475	\$ 843	\$ 10,823	\$ -
Operating expenses	(122,676)	(14,933)	(657)	(539)	(200)	(1,215)	(4,980)		(172)	(230)	(13,640)	(1,564)	(688)	(5,953)	
Other	27,921														
Net operating income	18,712	10,984	74	(270)	137	573	6,210	631	301	105	2,752	911	155	4,870	-
Nonoperating:															
Transfers (to) from Institution	(9,228)	64		75	(217)	109								(3,090)	
Nonoperating revenues	21,317	15			2	52			18		9		1	7	
Nonoperating expenses	(51,316)	(7,586)	(158)	(54)	(167)	(1,134)	(5,078)	(602)	(323)	(106)	(993)	(849)	(184)	(902)	(74)
(DECREASE) INCREASE IN NET ASSETS	(20,515)	3,477	(84)	(249)	(247)	(450)	1,184	29	(4)	(1)	1,768	62	(28)	885	(74)
NET POSITION — Beginning of year (as amended)	220,699	5,043	(173)	7,950	6,086	(598)	14,131	1,267	254	412	5,259	1,678	2,221	5,152	
NET POSITION — End of year	\$ 200,184	\$ 8,520	\$ (257)	\$ 7,701	\$ 5,839	\$ (1,048)	\$ 15,315	\$ 1,296	\$ 250	\$ 411	\$ 7,027	\$ 1,740	\$ 2,193	\$ 6,037	\$ (74)
CONDENSED STATEMENT OF CASH FLOWS:															
Net cash provided by operating activities	\$ 24,366	\$ 8,614	\$ 334	\$ 121	\$ 338	\$ 1,172	\$ 6,119	\$ -	\$ 516	\$ 343	\$ 3,796	\$ 1,498	\$ 321	\$ 4,869	\$ -
Net cash (used in) provided by capital financing activities	(11,144)	3,645	(461)	(113)	(893)	(1,134)	(6,767)	(1)	(694)	(251)	(2,937)	(2,064)	(432)	(4,184)	
Net cash provided by investing activities	236						10		323		1,045	836			
INCREASE (DECREASE) IN CASH	13,458	12,259	(127)	8	(555)	38	(638)	-	145	92	1,904	270	(111)	685	-
CASH — Beginning of year	35,580	6,354	339	112	890	922	10,092		1,195	468	6,040	732	87	3,462	
CASH — End of year	\$ 49,038	\$ 18,613	\$ 212	\$ 120	\$ 335	\$ 960	\$ 9,454	\$ -	\$ 1,340	\$ 560	\$ 7,944	\$ 1,002	\$ (24)	\$ 4,147	\$ -

* The cash of WVU, Marshall, Glenville, and Fairmont includes current and noncurrent cash.

(1) Activity netted to zero

22. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following tables represent operating expenses within both natural and functional classifications (dollars in thousands):

	2013							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Other	
Instruction	\$365,368	\$ 98,197	\$ 58,163	\$ 478	\$ 147	\$ -	\$1,685	\$ 524,038
Research	73,274	28,394	47,463	1,034				150,165
Public service	51,770	12,435	25,347	426	32		37	90,047
Academic support	53,888	13,770	25,794	143				93,595
Student services	49,882	18,055	23,051	51	26			91,065
Operations and maintenance of plant	40,979	14,443	43,533	36,414				135,369
General institutional support	111,014	28,800	68,451	1,149	650		362	210,426
Total education and general	746,175	214,094	291,802	39,695	855	-	2,084	1,294,705
Student financial aid	72	119	109		119,221			119,521
Auxiliary enterprises	69,001	17,063	88,707	15,496	13		305	190,585
Depreciation and amortization						119,009		119,009
Administration of leasing activities	900	193	1,717	4,007				6,817
Other			908				902	1,810
Total	<u>\$816,148</u>	<u>\$231,469</u>	<u>\$383,243</u>	<u>\$59,198</u>	<u>\$120,089</u>	<u>\$119,009</u>	<u>\$3,291</u>	<u>\$1,732,447</u>

	2012							Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Other	
Instruction	\$345,927	\$125,016	\$ 60,486	\$ 433	\$ 112	\$ -	\$1,745	\$ 533,719
Research	75,862	39,338	45,602	1,019	15			161,836
Public service	53,151	16,106	27,064	388	61		32	96,802
Academic support	52,423	17,905	24,756	155			159	95,398
Student services	47,582	20,615	21,745	54	19		1	90,016
Operations and maintenance of plant	39,238	20,117	38,975	36,009			62	134,401
General institutional support	106,035	40,979	78,582	1,877	641		52	228,166
Total education and general	720,218	280,076	297,210	39,935	848	-	2,051	1,340,338
Student financial aid	74				125,804			125,878
Auxiliary enterprises	65,709	22,055	87,709	14,414	20		262	190,169
Depreciation and amortization						103,863		103,863
Administration of leasing activities	581	74	1,920	4,337				6,912
Other							1,643	1,643
Total	<u>\$786,582</u>	<u>\$302,205</u>	<u>\$386,839</u>	<u>\$58,686</u>	<u>\$126,672</u>	<u>\$103,863</u>	<u>\$3,956</u>	<u>\$1,768,803</u>

* * * * *

ADDITIONAL INFORMATION

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET POSITION INFORMATION
AS OF JUNE 30, 2013
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
ASSETS AND DEFERRED OUTFLOWS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 484,983	\$ 19,069	\$ 504,052
Short-term investments		24,395	24,395
Appropriations due from Primary Government	27,824		27,824
Accounts receivable — net	71,176	9,531	80,707
Loans receivable — current portion	7,494		7,494
Other current assets	3,984	2,190	6,174
Inventories	4,510		4,510
	<u>599,971</u>	<u>55,185</u>	<u>655,156</u>
Total current assets			
NONCURRENT ASSETS:			
Cash and cash equivalents	222,671	11,472	234,143
Investments	276,064	189,039	465,103
Loans receivable — net of allowance of \$11,307	46,043		46,043
Other assets	9,742	52,932	62,674
Capital assets — net	2,491,265	94,754	2,586,019
	<u>3,045,785</u>	<u>348,197</u>	<u>3,393,982</u>
Total noncurrent assets			
Total assets	<u>3,645,756</u>	<u>403,382</u>	<u>4,049,138</u>
DEFERRED OUTFLOWS OF RESOURCES:			
Deferred loss on refunding	34,487		34,487
Interest rate swap agreement	1,858		1,858
	<u>36,345</u>	<u>-</u>	<u>36,345</u>
Total deferred outflows of resources			
TOTAL	<u>\$ 3,682,101</u>	<u>\$ 403,382</u>	<u>\$ 4,085,483</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

SCHEDULE OF COMBINING NET POSITION INFORMATION
AS OF JUNE 30, 2013
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION			
CURRENT LIABILITIES:			
Accounts payable	\$ 79,944	\$ 588	\$ 80,532
Due to State of West Virginia	262		262
Accrued liabilities	63,102	1,908	65,010
Unearned revenue	73,348		73,348
Deposits/custodial/annuity liabilities	5,687	7,832	13,519
Real estate purchase agreements payable — current portion	362		362
Other liabilities — current portion	653		653
Compensated absences — current portion	42,103		42,103
Notes payable — current portion	1,134		1,134
Capital lease obligations — current portion	4,368		4,368
Interest payable	11,054	39	11,093
Bonds payable — current portion	34,377	80,821	115,198
Total current liabilities	<u>316,394</u>	<u>91,188</u>	<u>407,582</u>
NONCURRENT LIABILITIES:			
Advances from federal sponsors	41,391		41,391
Real estate purchase agreement payable	6,087		6,087
Compensated absences	4,011		4,011
Notes payable	28,578	2,300	30,878
Capital lease obligations	32,412	278	32,690
Future interest payable	35,696	691	36,387
Bonds payable	1,140,078	20,028	1,160,106
Other post employment benefit liability	287,124		287,124
Other noncurrent liabilities	33,163	15,429	48,592
Total noncurrent liabilities	<u>1,608,540</u>	<u>38,726</u>	<u>1,647,266</u>
Total liabilities	<u>1,924,934</u>	<u>129,914</u>	<u>2,054,848</u>
DEFERRED INFLOWS OF RESOURCES:			
Service concession arrangement	2,730		2,730
Other	420		420
Total deferred inflows of resources	<u>3,150</u>	<u>-</u>	<u>3,150</u>
TOTAL	<u>1,928,084</u>	<u>129,914</u>	<u>2,057,998</u>
NET POSITION:			
Net investment in capital assets	<u>1,553,141</u>	<u>5,044</u>	<u>1,558,185</u>
Restricted for:			
Expendable:			
Scholarships	7,422	23,578	31,000
Sponsored projects	32,856	22,572	55,428
Loans	26,881	383	27,264
Capital projects	68,341	26,686	95,027
Debt service	4,512		4,512
Other	9,848	22,000	31,848
Total restricted expendable	<u>149,860</u>	<u>95,219</u>	<u>245,079</u>
Nonexpendable	<u>24,658</u>	<u>170,271</u>	<u>194,929</u>
Unrestricted net position	<u>26,358</u>	<u>2,934</u>	<u>29,292</u>
Total net position	<u>1,754,017</u>	<u>273,468</u>	<u>2,027,485</u>
TOTAL	<u>\$ 3,682,101</u>	<u>\$ 403,382</u>	<u>\$ 4,085,483</u>

(Concluded)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2013**
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
OPERATING REVENUES:			
Student tuition and fees — net of scholarship allowance of \$162,492	\$ 545,938	\$ -	\$ 545,938
Gift and contributions		36,377	36,377
Federal and local land grants	9,209		9,209
Contracts and grants:			
Federal	132,153	335	132,488
State	67,995	115	68,110
Local	3,500	1,300	4,800
Private	75,544	334	75,878
Interest on student loans receivable	1,208		1,208
Sales and services of educational activities	26,688		26,688
Auxiliary enterprise revenue — net of scholarship allowance of \$24,108	223,665	8,946	232,611
Other operating revenues	<u>30,908</u>	<u>4,370</u>	<u>35,278</u>
Total operating revenues	<u>1,116,808</u>	<u>51,777</u>	<u>1,168,585</u>
OPERATING EXPENSES:			
Salaries and wages	816,148	3,256	819,404
Benefits	231,469	493	231,962
Supplies and other services	383,243	5,706	388,949
Utilities	59,198	79	59,277
Student financial aid — scholarships and fellowships	120,089	7,704	127,793
Depreciation and amortization	119,009	4,196	123,205
Other operating expenses	<u>3,291</u>	<u>13,779</u>	<u>17,070</u>
Total operating expenses	<u>1,732,447</u>	<u>35,213</u>	<u>1,767,660</u>
OPERATING (LOSS) INCOME	<u>(615,639)</u>	<u>16,564</u>	<u>(599,075)</u>

(Continued)

WEST VIRGINIA HIGHER EDUCATION FUND
(A Component Unit of the State of West Virginia)

**SCHEDULE OF COMBINING REVENUES, EXPENSES, AND
 CHANGES IN NET ASSETS INFORMATION
 FOR THE YEAR ENDED JUNE 30, 2013**
(Dollars in thousands)

	Higher Education Fund	Aggregate Discretely Presented Component Units	Total
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 495,510	\$ -	\$ 495,510
State lottery appropriations	27,806		27,806
Federal Pell grants	135,527		135,527
Gifts	29,618		29,618
Investment income — net	15,043	27,571	42,614
Interest on indebtedness	(45,820)	(3,912)	(49,732)
Payments to other institutions	(13,056)		(13,056)
Other nonoperating expenses — net	<u>661</u>	<u>133</u>	<u>794</u>
Net nonoperating revenues (expenses)	<u>645,289</u>	<u>23,792</u>	<u>669,081</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	29,650	40,356	70,006
CAPITAL GRANTS, APPROPRIATIONS AND GIFTS	39,197	2,014	41,211
CAPITAL BOND PROCEEDS FROM THE STATE	19,936		19,936
STATE CAPITAL GRANTS (FEDERAL)	<u>18,801</u>		<u>18,801</u>
INCREASE IN NET POSITION	107,584	42,370	149,954
NET POSITION — Beginning of year (as amended)	<u>1,646,433</u>	<u>231,098</u>	<u>1,877,531</u>
NET POSITION — End of year	<u>\$ 1,754,017</u>	<u>\$ 273,468</u>	<u>\$ 2,027,485</u>

(Concluded)

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

To the West Virginia Higher Education
Policy Commission:

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 combined financial statements of the West Virginia Higher Education Fund (the "Fund") as of and for the year ended June 30, 2013, and the related notes to the combined financial statements, and have issued our report thereon dated November 22, 2013, which states reliance on other auditors and includes an emphasis of matter paragraph for the early adoption of Governmental Accounting Standards Board statement No. 65, *Items Previously Reported as Assets and Liabilities*. The audits of the Fund's discretely presented component units were conducted in accordance with generally accepted auditing standards, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. 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 the Fund's combined financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

The image shows a handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

November 22, 2013