

West Virginia Higher Education
Policy Commission Revenue
Bonds Higher Education
Facilities 2004 Series B

Combined Special-Purpose Financial
Statements — Modified Cash Basis as of and
for the Years Ended June 30, 2013 and 2012, and
Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education
Policy Commission
Charleston, West Virginia

We have audited the accompanying combined special-purpose financial statements — modified cash basis of the West Virginia Higher Education Policy Commission Revenue Bonds Higher Education Facilities 2004 Series B (the “Bonds”), which comprise the combined special-purpose statements of assets, liabilities, and fund balance (deficit) — modified cash basis as of June 30, 2013 and 2012 and the related combined special-purpose statements of revenues collected, expenses and costs paid, and changes in fund balance (deficit) — modified cash basis for the years then ended, and the related notes to the financial statements, (collectively, the “Combined Special-Purpose Financial Statements”).

Management's Responsibility for the Combined Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these Combined Special-Purpose Financial Statements in accordance with the modified cash basis of accounting described in Note 1 to the Combined Special-Purpose Financial Statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Combined Special-Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these Combined Special-Purpose Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Special-Purpose Financial Statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Special-Purpose Financial Statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Combined Special-Purpose Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bond's preparation and fair presentation of the Combined Special-Purpose 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 Bond's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Combined Special-Purpose Financial Statements.

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

Opinion

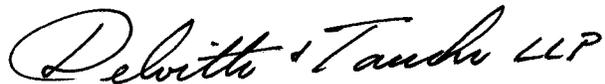
In our opinion, the Combined Special-Purpose Financial Statements referred to above present fairly, in all material respects, the combined assets, liabilities, and fund balance (deficit) of the Bonds as of June 30, 2013 and 2012, and its combined revenues collected, expenses and costs paid, and changes in fund balance (deficit) for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the Combined Special-Purpose Financial Statements.

Basis of Accounting

We draw attention to Note 1 of the Combined Special-Purpose Financial Statements, which describes the basis of accounting. As described in Note 1 of the Combined Special-Purpose Financial Statements, these Combined Special-Purpose Financial Statements were prepared for the purpose of complying with the related bond agreements and are intended to present only the selected assets, liabilities, fund balances, revenues, and expenses and costs paid of the West Virginia Higher Education Policy Commission required to be presented under these agreements. The Combined Special-Purpose Financial Statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. These Combined Special-Purpose Financial Statements are not intended to be a complete presentation of the West Virginia Higher Education Policy Commission. Our opinion is not modified with respect to this matter.

Restriction on Use

Our report is intended solely for the information and use of the West Virginia Higher Education Policy Commission, management of the West Virginia Higher Education Policy Commission, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.



September 27, 2013

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
REVENUE BONDS HIGHER EDUCATION FACILITIES 2004 SERIES B**

**COMBINED SPECIAL-PURPOSE STATEMENTS OF ASSETS, LIABILITIES, AND FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS
AS OF JUNE 30, 2013 AND 2012**

	2013				2012			
	Revenue Fund	Construction Fund	Bond Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Combined
ASSETS								
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF THE POLICY COMMISSION	\$ 3,288,473	\$ -	\$ -	\$ 3,288,473	\$ 3,299,543	\$ -	\$ -	\$ 3,299,543
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF THE MUNICIPAL BOND COMMISSION			211,869	211,869			213,144	213,144
DEPOSITS WITH TRUSTEE BANK		38		38		1		1
TOTAL	<u>\$ 3,288,473</u>	<u>\$38</u>	<u>\$211,869</u>	<u>\$ 3,500,380</u>	<u>\$ 3,299,543</u>	<u>\$ 1</u>	<u>\$213,144</u>	<u>\$ 3,512,688</u>
LIABILITIES AND FUND BALANCE (DEFICIT)								
LIABILITIES — Bond indebtedness	\$ 6,835,000	\$ -	\$ -	\$ 6,835,000	\$ 11,235,000	\$ -	\$ -	\$ 11,235,000
FUND (DEFICIT) BALANCE	<u>(3,546,527)</u>	<u>38</u>	<u>211,869</u>	<u>(3,334,620)</u>	<u>(7,935,457)</u>	<u>1</u>	<u>213,144</u>	<u>(7,722,312)</u>
TOTAL	<u>\$ 3,288,473</u>	<u>\$38</u>	<u>\$211,869</u>	<u>\$ 3,500,380</u>	<u>\$ 3,299,543</u>	<u>\$ 1</u>	<u>\$213,144</u>	<u>\$ 3,512,688</u>

See notes to combined special-purpose financial statements — modified cash basis.

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
REVENUE BONDS HIGHER EDUCATION FACILITIES 2004 SERIES B**

**COMBINED SPECIAL-PURPOSE STATEMENTS OF REVENUES COLLECTED, EXPENSES AND COSTS PAID, AND
CHANGES IN FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Revenue Fund	Construction Fund	Bond Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Combined
REVENUES COLLECTED:								
Excess lottery revenues	\$ 3,770,500	\$ -	\$ -	\$ 3,770,500	\$ 10,000,000	\$ -	\$ -	\$ 10,000,000
Student fees — net	1,263,528			1,263,528	1,193,000			1,193,000
Income from investments	4,888	37	1,532	6,457	1,806	772	859	3,437
Total revenues collected	<u>5,038,916</u>	<u>37</u>	<u>1,532</u>	<u>5,040,485</u>	<u>11,194,806</u>	<u>772</u>	<u>859</u>	<u>11,196,437</u>
EXPENSES AND COSTS PAID:								
Capital improvements and related costs				-		908,713		908,713
Service fees	88,236		2,807	91,043			2,000	2,000
Interest			561,750	561,750			7,000,500	7,000,500
Total expenses and costs paid	<u>88,236</u>	<u>-</u>	<u>564,557</u>	<u>652,793</u>	<u>-</u>	<u>908,713</u>	<u>7,002,500</u>	<u>7,911,213</u>
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENSES AND COSTS PAID	4,950,680	37	(563,025)	4,387,692	11,194,806	(907,941)	(7,001,641)	3,285,224
RETIREMENT OF BONDS	4,400,000		(4,400,000)	-	4,190,000		(4,190,000)	-
DEFEASANCE OF BONDS				-	124,585,000			124,585,000
TRANSFERS (FROM) TO — For payment of current debt service requirement	(4,961,750)		4,961,750	-	(11,190,500)		11,190,500	-
TRANSFER TO WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE REFUNDING BONDS (HIGHER EDUCATION FACILITIES) 2012 SERIES A AND REVENUE BONDS (HIGHER EDUCATION FACILITIES) 2012 SERIES B				-		(2,070,516)		(2,070,516)
TRANSFER FROM THE WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE REFUNDING BONDS HIGHER EDUCATION FACILITIES 2007 SERIES A				-		120		120
FUND (DEFICIT) BALANCE — Beginning of year	<u>(7,935,457)</u>	<u>1</u>	<u>213,144</u>	<u>(7,722,312)</u>	<u>(136,714,763)</u>	<u>2,978,338</u>	<u>214,285</u>	<u>(133,522,140)</u>
FUND (DEFICIT) BALANCE — End of year	<u><u>\$(3,546,527)</u></u>	<u><u>\$38</u></u>	<u><u>\$ 211,869</u></u>	<u><u>\$(3,334,620)</u></u>	<u><u>\$(7,935,457)</u></u>	<u><u>\$ 1</u></u>	<u><u>\$ 213,144</u></u>	<u><u>\$(7,722,312)</u></u>

See notes to combined special-purpose financial statements — modified cash basis.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE BONDS HIGHER EDUCATION FACILITIES 2004 SERIES B

NOTES TO COMBINED SPECIAL-PURPOSE FINANCIAL STATEMENTS — MODIFIED CASH BASIS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization — The West Virginia Higher Education Policy Commission Revenue Bonds Higher Education Facilities 2004 Series B (the “Bonds”) are obligations of the West Virginia Higher Education Policy Commission (the “Commission”), an agency of the State of West Virginia (the “State”). Senate Bill 653 (S.B. 653) was enacted by the West Virginia Legislature on March 19, 2000, and restructured public higher education in West Virginia. S.B. 653 created the Commission, which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. It is charged with oversight of public higher education institutions to ensure they are accomplishing their missions and implementing the provisions set by the State statute.

S.B. 653 abolished the Board of Trustees of the University System of West Virginia effective June 30, 2000, and created a one-year Interim Governing Board. Effective July 1, 2001, certain powers were transferred to newly created Governing Boards at each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the institution(s) under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and institution’s budget request; the duty to review at least every five years all academic programs offered at the institution; and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

The Bonds were issued in 2004 to provide capital improvements at institutions of higher education throughout the State’s universities and colleges per the State University General Resolution and State College General Resolution (the “General Resolution”).

The Commission will receive up to \$15 million per year through the year 2040 of excess lottery revenues from the West Virginia Lottery Commission for payment of debt service into a Higher Education Improvement Fund. With the defeasance of the principal of \$124,585,000 during 2012, the future amounts received will be reduced as \$10 million will not be required to meet debt service. In addition to the lottery revenues, educational and general capital fees collected at the institutions (Universities and Colleges) from students are also pledged as collateral for the Commission’s bond indebtedness. The amount received from the Higher Education Improvement Fund was \$3.8 million and \$10.0 million for the years ended June 30, 2013 and 2012, respectively. 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. Pledged collections by the institutions were \$33.0 million and \$25.6 million for the years ended June 30, 2013 and 2012, respectively. The Bonds remain an obligation of the Commission.

Basis of Presentation — The General Resolution requires that the Commission is to maintain certain accounts and funds related to the Bonds. The Commission prepares annual combined special-purpose financial statements that set forth the balances and activity in the specified funds. The following is a description of the funds that the Commission is required to maintain and to present in the form of combined special-purpose financial statements:

Revenue Fund — The revenue fund accounts for pledged revenues and expenses and costs paid related thereto, and outstanding bonds.

Construction Fund — The construction fund accounts for the proceeds of revenue bonds and subsequent disbursement thereof for their intended purpose.

Bond Fund — The bond fund accounts for the transfers from the revenue fund and subsequent disbursement thereof for their intended purpose and the payment of bond principal and interest.

Included in these combined special-purpose financial statements are the funds and accounts of the Bonds.

These combined special-purpose financial statements do not constitute a complete presentation of the assets, liabilities, net assets, revenues, and expenses of the Commission, but present only the funds the Commission is required to present in the combined special-purpose financial statements pursuant to the provisions of the General Resolution.

In accordance with requirements of the General Resolution as amended, accounting records for the Bonds are maintained on the cash receipts and disbursements basis. Consequently, certain revenues and the related assets are recognized when received rather than when earned (including the transfer of lottery revenues received by the Commission in prior years), and certain expenses and costs are recognized when paid rather than when the obligation is incurred. The combined special-purpose financial statements are prepared on the modified cash basis of accounting which is an other comprehensive basis of accounting, as required by the General Resolution. The principal modification to the cash basis of accounting is the recording of bond indebtedness. Consequently, as these are combined special-purpose financial statements to comply with the General Resolution, a Management Discussion and Analysis is not included in the combined special-purpose financial statements.

Deposits with the State Treasurer have been pooled for maximization of investment income. These deposits are combined with deposits of various other funds. Investment income on these deposits is allocated to the various funds based on the balance of these deposits at the end of the month in which the income was earned.

Deposits with the Bank Trustee (the “Trustee”) as of June 30, 2013 and 2012, include \$38 and \$1, respectively, of cash invested in a money market fund sponsored by an investment company, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities. The U.S. government agency securities are held in safekeeping with the Trustee.

Fixed assets are not included in these combined special-purpose financial statements since they do not represent financial resources available for expenditure, but are items for which financial resources have been used. Fixed assets are capitalized in the financial statements of the respective institutions.

Certain ongoing costs associated with the planning and administration of capital improvements at University System and College System institutions are paid from these funds on a regular basis.

2. REVENUE BONDS HIGHER EDUCATION FACILITIES BONDS

In August 2004, the Bonds were issued in the original principal amount of \$167,260,000 with rates up to 6%, maturing serially through April 2034. The Bonds were issued to provide funds for capital improvements at institutions of higher education throughout the State's universities and colleges. In addition, the Bonds provided funding for a refinancing of a portion of the University System Series 1996 Bonds outstanding principal amount of \$9,365,000. The amount refinanced was \$9,615,000, which, with the reduced interest rates, will provide a savings of \$738,550 to the Commission. In 2012, \$124,585,000 of the Bonds were defeased by the State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds (Higher Education Facilities) 2012 Series A and Revenue Bonds (Higher Education Facilities) 2012 Series B. The outstanding bonds have interest rates of 5% at June 30, 2013.

The Bonds are revenue bonds payable solely from excess lottery revenues and pledged University and College System Institutions' educational and general capital fee revenues. The University System Bonds, the 2007 Series A Bonds, the 2010 Series A, B, C Bonds, and the 2012 Series A and B Bonds are on parity with the Bonds with respect to sources of and security for payment and in all other respects. No provision of the General Resolution is to be construed to authorize the Commission, at any time or in any manner, to pledge the credit or taxing power of the State, nor is any obligation or debt created by the Commission or issued under the General Resolution deemed to be an obligation of the State. The Bonds are fully insured as to principal and interest by Financial Guaranty Insurance Company.

Under the amended General Resolution, the Commission shall at all times fix and otherwise provide for the collection of revenues (as defined in the General Resolution), which includes excess lottery revenues and education and general capital fee revenues, from University and College System institutions, as defined in the General Resolution and other amounts legally available, in an amount not less than 1.0 times the principal and interest due in each fiscal year (current budget period) the Bonds are outstanding. On October 29, 1999, the Board of Trustees approved University System of West Virginia, Administrative Bulletin No. 37, which was retroactive to July 1, 1999. On August 2, 2001, the Commission resolved that effective for the year ended June 30, 2002, the institutions would remit only the stipulated amounts sufficient to meet debt service requirements. The purpose of these actions was to provide a more efficient and manageable process for assignment of responsibility by institution for payment of capital fund obligations. In addition, the actions are to simplify the process used for retention of the tuition and registration fee revenue collections, remitting only the required amounts to the Commission as scheduled. During the years ended June 30, 2013 and 2012, the Commission collected revenues approximating 1.01 and 1.00 times the principal and interest due, respectively

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

Fiscal Years Ending June 30	Total Principal	Total Interest	Total
2014	\$4,620,000	\$341,750	\$4,961,750
2015	1,080,000	110,750	1,190,750
2016	<u>1,135,000</u>	<u>56,750</u>	<u>1,191,750</u>
	<u>\$6,835,000</u>	<u>\$509,250</u>	<u>\$7,344,250</u>

3. OTHER TRANSACTIONS

Certain purchasing, accounting, and other administrative services are provided by the Commission and other State agencies to the Bonds.

* * * * *