

State of West Virginia Higher Education Policy
Commission Revenue Bonds (Higher Education
Facilities), 2010 Series A (Tax-Exempt); Revenue
Bonds (Higher Education Facilities), 2010 Series B
(Federally Taxable — Issuer Subsidy — Build
America Bonds); and Revenue Bonds (Higher
Education Facilities), 2010 Series C (Taxable)

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 State of West Virginia Higher Education Policy Commission Revenue Bonds (Higher Education Facilities), 2010 Series A (Tax-Exempt); Revenue Bonds (Higher Education Facilities), 2010 Series B (Federally Taxable — Issuer Subsidy — Build America Bonds); and Revenue Bonds (Higher Education Facilities), 2010 Series C (Taxable) (collectively, 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

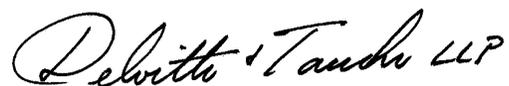
In our opinion, the Combined Special-Purpose Financial Statements referred to above present fairly, in all material respects, the combined assets, liabilities, and fund balance (deficit) of the Bonds as of June 30, 2013 and 2012, and its combined revenues collected, expenses and costs paid, and changes 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.

A handwritten signature in cursive script that reads "Deloitte & Touche LLP".

September 27, 2013

**STATE OF WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE BONDS
(HIGHER EDUCATION FACILITIES), 2010 SERIES A (TAX-EXEMPT); REVENUE BONDS
(HIGHER EDUCATION FACILITIES), 2010 SERIES B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD
AMERICA BONDS); AND REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES C (TAXABLE)**

**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	Interest Subsidy Reserve Fund	Project Fund	Cost of Issuance Fund	Combined	Revenue Fund	Interest Subsidy Reserve Fund	Project Fund	Cost of Issuance Fund	Combined
ASSETS										
DEPOSITS WITH STATE TREASURER IN ACCOUNTS OF THE POLICY COMMISSION	\$ 4,004,577	\$ -	\$ -	\$ -	\$ 4,004,577	\$ 4,012,151	\$ -	\$ -	\$ -	\$ 4,012,151
DEPOSITS WITH STATE TREASURER IN ACCOUNTS OF MUNICIPAL BOND COMMISSION		1,338,285			1,338,285		1,338,404			1,338,404
DEPOSITS WITH TRUSTEE BANK			25,256,249		25,256,249			59,692,831		59,692,831
TOTAL	<u>\$ 4,004,577</u>	<u>\$1,338,285</u>	<u>\$25,256,249</u>	<u>\$ -</u>	<u>\$ 30,599,111</u>	<u>\$ 4,012,151</u>	<u>\$1,338,404</u>	<u>\$59,692,831</u>	<u>\$ -</u>	<u>\$ 65,043,386</u>
LIABILITIES AND FUND BALANCE (DEFICIT)										
LIABILITIES:										
Bond indebtedness	\$ 74,155,000	\$ -	\$ -	\$ -	\$ 74,155,000	\$ 75,525,000	\$ -	\$ -	\$ -	\$ 75,525,000
Due to Municipal Bond Commission			3,775		3,775					
Total liabilities	74,155,000	-	3,775	-	74,158,775	75,525,000	-	-	-	75,525,000
FUND BALANCE (DEFICIT)	(70,150,423)	1,338,285	25,252,474		(43,559,664)	(71,512,849)	1,338,404	59,692,831		(10,481,614)
TOTAL	<u>\$ 4,004,577</u>	<u>\$1,338,285</u>	<u>\$25,256,249</u>	<u>\$ -</u>	<u>\$ 30,599,111</u>	<u>\$ 4,012,151</u>	<u>\$1,338,404</u>	<u>\$59,692,831</u>	<u>\$ -</u>	<u>\$ 65,043,386</u>

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

**STATE OF WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE BONDS
(HIGHER EDUCATION FACILITIES), 2010 SERIES A (TAX-EXEMPT); REVENUE BONDS
(HIGHER EDUCATION FACILITIES), 2010 SERIES B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD
AMERICA BONDS); AND REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES C (TAXABLE)**

**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	Interest Subsidy Reserve Fund	Project Fund	Cost of Issuance Fund	Combined	Revenue Fund	Interest Subsidy Reserve Fund	Project Fund	Cost of Issuance Fund	Combined
REVENUES COLLECTED:										
Excess lottery revenues	\$ 5,000,000	\$ -	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000	\$ -	\$ -	\$ -	\$ 5,000,000
Build America Bond interest subsidy	1,338,285				1,338,285		1,338,347			1,338,347
Student fees — net	72,798				72,798					72,798
Income from investments	5,916	1,213	5,851		12,980	3,514	705	7,608		11,827
Total revenues collected	6,416,999	1,213	5,851	-	6,424,063	5,003,514	1,339,052	7,608	-	6,350,174
EXPENSES AND COSTS PAID:										
Capital improvements and related costs			34,447,540		34,447,540			12,973,572		12,973,572
Service fees	88,870				88,870					88,870
Interest			4,965,703		4,965,703			4,994,379		4,994,379
Total expenses and costs paid	88,870	-	39,413,243	-	39,502,113	-	-	17,967,951	-	17,967,951
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENSES AND COSTS PAID	6,328,129	1,213	(39,407,392)		(33,078,050)	5,003,514	1,339,052	(17,960,343)		(11,617,777)
RETIREMENT OF BONDS	1,370,000		(1,370,000)		-	1,340,000		(1,340,000)		-
TRANSFER FROM WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION STATE COLLEGE SYSTEM BONDS					-			6,854		6,854
TRANSFERS (FROM) TO — For payment of current debt service requirement	(6,335,703)		6,335,703		-	(4,996,093)	(1,338,347)	6,334,440		-
TRANSFER (FROM) TO		(1,332)	1,332		-		(709)	21,566	(20,857)	-
ISSUANCE OF BONDS										
FUND BALANCE (DEFICIT) — Beginning of year	(71,512,849)	1,338,404	59,692,831		(10,481,614)	(72,860,270)	1,338,408	72,630,314	20,857	1,129,309
FUND BALANCE (DEFICIT) — End of year	<u>\$ (70,150,423)</u>	<u>\$ 1,338,285</u>	<u>\$ 25,252,474</u>	<u>\$ -</u>	<u>\$ (43,559,664)</u>	<u>\$ (71,512,849)</u>	<u>\$ 1,338,404</u>	<u>\$ 59,692,831</u>	<u>\$ -</u>	<u>\$ (10,481,614)</u>

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

**STATE OF WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION
REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES A
(TAX-EXEMPT); REVENUE BONDS (HIGHER EDUCATION FACILITIES),
2010 SERIES B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD
AMERICA BONDS); AND REVENUE BONDS (HIGHER EDUCATION
FACILITIES), 2010 SERIES C (TAXABLE)**

**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 State of West Virginia Higher Education Policy Commission Revenue Bonds (Higher Education Facilities), 2010 Series A (Tax-Exempt) (the “Series A Bonds”); Revenue Bonds (Higher Education Facilities), 2010 Series B (Federally Taxable — Issuer Subsidy — Build America Bonds) (the “Series B Bonds”); and Revenue Bonds (Higher Education Facilities), 2010 Series C (Taxable) (the “Series C Bonds”) (collectively, 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 an 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 on December 17, 2010, to provide funds to acquire, construct, improve, and equip certain higher education facilities.

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. In addition to the lottery revenues, registration and tuition fees, and 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 \$5 million for both the years ended June 30, 2013 and 2012. 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.

Interest Subsidy Reserve Fund — The interest subsidy reserve fund shall include (i) initial deposit upon closing and (ii) subsidy receipts from the U.S. Treasury paid contemporaneously with each interest payment date for the Series B Bonds, equal to 35% of the interest payable on the Series B Bonds. These amounts shall be for credit to the holders of the Series B Bonds.

Project Fund — The project fund accounts for the proceeds of revenue bonds and subsequent disbursements thereof for their intended purpose.

Cost of Issuance Fund — The costs of issuance include legal and underwriter costs and certain other assets to issue the Bonds. The costs of issuance reduced the proceeds from issuance of the Bonds by \$226,297.

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 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 (the “Trustee”) as of June 30, 2013 and 2012, included \$25,256,249 and \$59,692,831 of cash invested in money market accounts, respectively, 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 acquisition, construction, equipping, and improvements of certain higher education facilities are paid from these funds on a regular basis.

2. STATE OF WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES A (TAX-EXEMPT); REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES B (FEDERALLY TAXABLE — ISSUER SUBSIDY — BUILD AMERICA BONDS); AND REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2010 SERIES C (TAXABLE)

In December 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 the Bonds.

The Series A Bonds, Series B Bonds, and Series C Bonds outstanding at June 30, 2013, consist of \$3,770,000, \$0, and \$7,370,000 serial bonds, respectively, with varying interest rates from 3.33% to 5.28% at June 30, 2013, and mature serially from April 1, 2014 through April 1, 2020, and term bonds as follows:

Principal Amount	Maturity Date	Interest Rate
Series A Bonds		
\$ 12,750,000	April 1, 2018	5.00 %
Series B Bonds		
\$ 10,800,000	April 1, 2030	7.45 %
39,465,000	April 1, 2040	7.65 %

The term bonds are subject to mandatory redemption prior to maturity. The redemption prices are 100% of the principal amount, plus accrued interest.

The Bonds are revenue bonds payable solely from excess lottery revenues. The University System Bonds, the 2004 Series B Bonds, the 2007 Series A Bonds, and the 2012 Series A Bonds and B Bonds are on parity with the Bonds with respect to sources of and security for payment and in all other respects. See below for further information on the Series B Bonds. 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.

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 subsidy receipts for the benefit of the Series B Bonds, in an amount not less than 100% of the Debt Service payable on all Bonds outstanding during the then-current Budget Period (as defined in the General Resolution and the 2010 Series Resolution). During the years ended June 30, 2013 and 2012, the Commission collected revenues approximating 102% and 100% of the Debt Service payable, respectively.

Series B Bonds — The Commission has elected to designate the Series B Bonds as “Build America Bonds” for purpose of the American Recovery and Reinvestment Act of 2009 (ARRA) and to receive payments (“Subsidy Receipts”) from the U.S. Treasury in connection therewith. The Commission

expects to receive a cash subsidy payment from the U.S. Treasury equal to 35% of the interest payable on the Series B Bonds on or about each interest payment date (a "Direct Payment"). The Direct Payments to the Commission do not constitute full faith and credit guarantees of the Series B Bonds by the U.S. Treasury under ARRA. The Direct Payments, if received by the Commission, will be applied to the payment of debt service on the Series B Bonds in accordance with the terms of the 2010 Series Resolution. The Commission is obligated to make all payments of principal and interest on the Series B Bonds whether or not it receives the Direct Payments. To receive each Direct Payment, the Commission must file Form 8038-CP with the Internal Revenue Service. No assurances can be given that the Commission will receive the Direct Payments. The amount and receipt of any Direct Payment is subject to future changes in legislation or U.S. Treasury regulations, the Commission's filings of Form 8038-CP and any offset against certain amounts that may, for unrelated reasons, be owed by the Commission to the federal government. If the Subsidy Receipts from the U.S. Treasury are reduced or eliminated, the Series B Bonds are subject to extraordinary optional redemption.

If the Commission fails to timely file Form 8038-CP to receive a Direct Payment, it is possible that the Commission will receive a Direct Payment after the related interest payment date. It is for this reason that the Commission has established the interest subsidy reserve fund. Direct Payments will only be paid with respect to the Series B Bonds if the Commission complies with certain covenants and establishes certain facts and expectations with respect to the Series B Bonds regarding the use and investment of proceeds thereof and the use of property financed thereby.

So long as the Series B Bonds are outstanding, the Commission shall maintain the interest subsidy reserve fund with the Municipal Bond Commission or a corporate trustee. On the date of issuance of Series B Bonds, there shall be deposited to the credit of the interest subsidy reserve fund an amount equal to the interest subsidy reserve requirement of \$1,338,285. In the event that any Subsidy Receipt is not received by the Commission in connection with the Series B Bonds on or before any interest payment date, the Municipal Bond Commission or a corporate trustee shall apply an amount on deposit in the interest subsidy reserve fund equal to the amount of the anticipated Subsidy Receipt for that interest payment date as claimed by the Commission on Form 8038-CP. Any amounts paid from the interest subsidy reserve fund shall be repaid by the Commission to the interest subsidy reserve fund immediately upon receipt of any Subsidy Receipt.

A summary of annual aggregate principal, interest, and sinking fund payments for each series of Bonds is as follows:

Years Ending June 30	Total Principal	Interest	35% Direct Subsidy	Total
2014	\$ 1,405,000	\$ 4,928,165	\$ (1,338,285)	\$ 4,994,880
2015	1,455,000	4,881,378	(1,338,285)	4,998,093
2016	1,510,000	4,824,197	(1,338,285)	4,995,912
2017	1,580,000	4,757,908	(1,338,285)	4,999,623
2018	1,655,000	4,681,436	(1,338,285)	4,998,151
2019	1,735,000	4,598,235	(1,338,285)	4,994,950
2020	1,800,000	4,533,172	(1,338,285)	4,994,887
2021	1,875,000	4,461,172	(1,338,285)	4,997,887
2022	1,970,000	4,367,422	(1,338,285)	4,999,137
2023	2,065,000	4,268,923	(1,338,285)	4,995,638
2024	2,170,000	4,165,673	(1,338,285)	4,997,388
2025	2,280,000	4,057,173	(1,338,285)	4,998,888
2026	2,390,000	3,943,173	(1,338,285)	4,994,888
2027	2,510,000	3,823,673	(1,338,285)	4,995,388
2028	2,635,000	3,636,678	(1,272,838)	4,998,840
2029	2,760,000	3,440,370	(1,204,130)	4,996,240
2030	2,895,000	3,234,750	(1,132,163)	4,997,587
2031	3,035,000	3,019,072	(1,056,675)	4,997,397
2032	3,185,000	2,786,895	(975,414)	4,996,481
2033	3,345,000	2,543,243	(890,136)	4,998,107
2034	3,510,000	2,287,350	(800,573)	4,996,777
2035	3,685,000	2,018,835	(706,593)	4,997,242
2036	3,870,000	1,736,932	(607,926)	4,999,006
2037	4,060,000	1,440,877	(504,307)	4,996,570
2038	4,265,000	1,130,288	(395,602)	4,999,686
2039	4,475,000	804,015	(281,406)	4,997,609
2040	<u>6,035,000</u>	<u>461,677</u>	<u>(161,587)</u>	<u>4,996,686</u> (1)
Total	<u>\$ 74,155,000</u>	<u>\$ 90,832,682</u>	<u>\$ (28,725,340)</u>	<u>\$ 134,923,938</u>

(1) Total debt service reflects the release at the final maturity of the Interest Subsidy Reserve Fund of \$1,338,404 as of June 30, 2013.

3. OTHER TRANSACTIONS

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

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