

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

Combined Special-Purpose Financial Statements —  
Modified Cash Basis as of June 30, 2013 and 2012, and for  
the Year Ended June 30, 2013 and the  
Period June 12, 2012 to June 30, 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 Refunding Bonds (Higher Education Facilities), 2012 Series A and Revenue Bonds (Higher Education Facilities), 2012 Series B (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 year ended June 30, 2013, and the period June 12, 2012 to June 30, 2012 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 year ended June 30, 2013, and the period from June 12, 2012 to June 30, 2012, 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.

*Deloitte & Touche LLP*

September 27, 2013

**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**

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

	2013					2012				
	Revenue Fund	Project Fund	Bond Fund	Cost of Issuance Fund	Combined	Revenue Fund	Project Fund	Bond Fund	Cost of Issuance Fund	Combined
<b>ASSETS</b>										
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF THE MUNICIPAL BOND COMMISSION	\$ -	\$ -	\$969	\$ -	\$ 969	\$ -	\$ -	\$ -	\$ -	\$ -
DEPOSITS WITH TRUSTEE BANK		7,481,998		15,478	7,497,476		7,997,174		133,046	8,130,220
TOTAL	\$ -	\$7,481,998	\$969	\$15,478	\$ 7,498,445	\$ -	\$7,997,174	\$ -	\$133,046	\$ 8,130,220
<b>LIABILITIES AND FUND BALANCE (DEFICIT)</b>										
LIABILITIES — Bond indebtedness	\$ 130,540,000	\$ -	\$ -	\$ -	\$ 130,540,000	\$ 132,165,000	\$ -	\$ -	\$ -	\$ 132,165,000
DUE TO THE STATE TREASURER	19,784				19,784					
FUND (DEFICIT) BALANCE	(130,559,784)	7,481,998	969	15,478	(123,061,339)	(132,165,000)	7,997,174		133,046	(124,034,780)
TOTAL	\$ -	\$7,481,998	\$969	\$15,478	\$ 7,498,445	\$ -	\$7,997,174	\$ -	\$133,046	\$ 8,130,220

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

**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**

**COMBINED SPECIAL-PURPOSE STATEMENT OF REVENUES COLLECTED, EXPENSES AND COSTS PAID, AND  
CHANGES IN FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS  
FOR THE YEAR ENDED JUNE 30, 2013 AND FOR THE PERIOD FROM JUNE 12, 2012 TO JUNE 30, 2012**

	2013					2012				
	Revenue Fund	Project Fund	Bond Fund	Cost of Issuance Fund	Combined	Revenue Fund	Project Fund	Bond Fund	Cost of Issuance Fund	Combined
REVENUES COLLECTED										
Excess lottery revenues	\$ 6,229,500	\$ -	\$ -	\$ -	\$ 6,229,500	\$ -	\$ -	\$ -	\$ -	\$ -
Student fees — net	90,742				90,742					-
Income from investments		1,524	1,073	5	2,602					-
Total revenues collected	<u>6,320,242</u>	<u>1,524</u>	<u>1,073</u>	<u>5</u>	<u>6,322,844</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
EXPENSES AND COSTS PAID										
Capital improvements and related costs		516,700			516,700					-
Service fees	110,776		2,948		113,724					-
Issuance costs				117,573	117,573				95,000	95,000
Interest			4,601,406		4,601,406					-
Total expenses and costs paid	<u>110,776</u>	<u>516,700</u>	<u>4,604,354</u>	<u>117,573</u>	<u>5,349,403</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,000</u>	<u>95,000</u>
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENSES AND COSTS PAID	6,209,466	(515,176)	(4,603,281)	(117,568)	973,441	-	-	-	(95,000)	(95,000)
PROCEEDS FROM SALE OF BONDS					-		5,926,658	136,469,598	228,046	142,624,302
ISSUANCE OF BONDS					-	(132,165,000)				(132,165,000)
RETIREMENT OF BONDS	1,625,000		(1,625,000)		-					-
TRANSFER (FROM) TO FOR PAYMENT OF CURRENT DEBT SERVICE REQUIREMENTS	(6,229,250)		6,229,250		-					-
TRANSFER FROM WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION REVENUE BONDS HIGHER EDUCATION FACILITIES 2004 SERIES B					-		2,070,516			2,070,516
TRANSFER TO WEST VIRGINIA MUNICIPAL BOND COMMISSION ECROWS					-			(136,469,598)		(136,469,598)
FUND (DEFICIT) BALANCE — Beginning of year	<u>(132,165,000)</u>	<u>7,997,174</u>		<u>133,046</u>	<u>(124,034,780)</u>					<u>-</u>
FUND (DEFICIT) BALANCE — End of year	<u>\$(130,559,784)</u>	<u>\$7,481,998</u>	<u>\$ 969</u>	<u>\$ 15,478</u>	<u>\$(123,061,339)</u>	<u>\$(132,165,000)</u>	<u>\$7,997,174</u>	<u>\$ -</u>	<u>\$133,046</u>	<u>\$(124,034,780)</u>

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

# 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

NOTES TO COMBINED SPECIAL-PURPOSE FINANCIAL STATEMENTS — MODIFIED CASH BASIS  
AS OF JUNE 30, 2013 AND 2012, AND FOR THE YEAR ENDED JUNE 30, 2013, AND  
THE PERIOD FROM JUNE 12, 2012 TO JUNE 30, 2012

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## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The State of West Virginia Higher Education Policy Commission Revenue Refunding Bonds (Higher Education Facilities), 2012 Series A (the “Series A Bonds”) and Revenue Bonds (Higher Education Facilities), 2012 Series B (the “Series B 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 June 12, 2012, to provide funds to advance refund a portion of the West Virginia Higher Education Policy Commission Revenue Bonds Higher Education Facilities 2004 Series B (the “2004 Series B Bonds”), to fund certain projects of the Commission, and to pay the costs associated with the Bonds. The Bonds refunded and defeased \$124,585,000 of \$135,820,000 2004 Series B Bonds outstanding.

The debt service on the Bonds is payable solely from certain revenues including: (i) registration and tuition fees and any earnings attributable to the investment of monies, including proceeds of Bonds held in the various funds and accounts created under the General Resolution and permitted, in accordance with the General Resolution and permitted, in accordance with the General Resolution, to be credited to any such fund; (ii) the component part of the required educational and general capital fees of the institutions (Universities and Colleges) that constituted registration and tuition fees in effect as of March 21, 2004; and (iii) excess lottery revenues deposited into the Higher Education Improvement Fund as provided for in the Lottery Act (collectively, the “Pledged Revenues”). The amount received from the Higher Education Improvement Fund was \$6.2 million and \$0 for the year ended June 30, 2013, and the period from June 12, 2012 to June 30, 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. As no debt service was due in fiscal year 2012, no revenues were collected. The Bonds remain an obligation of the Commission. Pledged collections by the institutions (Universities and Colleges) were \$33.0 million and \$25.6 million for the years ended June 30, 2013, and 2012, respectively.

**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.

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

*Bond Fund* — The bond fund accounts for the proceeds of revenue bonds and the transfers from the revenue fund and subsequent disbursements thereof for their intended purpose and the payment of debt service amounts.

*Cost of Issuance Fund* — The cost of issuance fund accounts for the costs of issuance, which include legal and underwriter costs and certain other costs to issue the Bonds. The costs of issuance was \$883,820, of which \$671,247 was paid directly to the underwriter.

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 Bank (the “Trustee”) as of June 30, 2013 and 2012, included \$7,497,476 and \$8,130,220, respectively, of cash invested in fixed-income investments, 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 REFUNDING BONDS (HIGHER EDUCATION FACILITIES), 2012 SERIES A AND REVENUE BONDS (HIGHER EDUCATION FACILITIES), 2012 SERIES B**

In June 2012, \$124,190,000 of Series A Bonds and \$7,975,000 of Series B Bonds were sold. The Bonds were issued to provide funds to (i) advance refund a portion of the 2004 Series B Bonds, (ii) fund certain projects of the Commission, and (iii) pay the costs associated with the issuance of the Bonds.

The Series A Bonds and Series B Bonds outstanding at June 30, 2013, consist of \$80,665,000 and \$5,375,000 serial bonds, respectively, with varying interest rates from 2.625% to 5.0% at June 30, 2013, and mature serially from April 1, 2014 through April 1, 2029, and term bonds as follows:

<b>Principal Amount</b>	<b>Maturity Date</b>	<b>Interest Rate</b>
<b>Series A Bonds</b>		
\$ 42,100,000	April 1, 2034	4.00 %
<b>Series B Bonds</b>		
\$ 2,400,000	April 1, 2034	4.00 %

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 the Pledged Revenues. The University System Bonds, the 2004 Series B Bonds, the 2007 Series A Bonds, and the 2010 Series A, B, and C Bonds are on a 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.

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 2012 Series Resolution). During the years ended June 30, 2013, the Commission collected revenues approximating 102% of the Debt Service payable. During the period ended June 30, 2012, the Commission did not collect any revenues and no debt service was due.



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

<b>Years Ending June 30</b>	<b>Total Principal</b>	<b>Total Interest</b>	<b>Total</b>
2014	\$ 235,000	\$ 5,991,159	\$ 6,226,159
2015	4,015,000	5,984,109	9,999,109
2016	4,205,000	5,788,859	9,993,859
2017	4,410,000	5,584,209	9,994,209
2018	4,625,000	5,369,409	9,994,409
2019	4,850,000	5,144,159	9,994,159
2020	5,090,000	4,904,709	9,994,709
2021	5,340,000	4,653,358	9,993,358
2022	5,600,000	4,394,196	9,994,196
2023	5,870,000	4,121,846	9,991,846
2024	6,160,000	3,835,346	9,995,346
2025	6,460,000	3,533,826	9,993,826
2026	6,780,000	3,216,920	9,996,920
2027	7,110,000	2,883,695	9,993,695
2028	7,460,000	2,533,795	9,993,795
2029	7,830,000	2,166,125	9,996,125
2030	8,215,000	1,780,000	9,995,000
2031	8,545,000	1,451,400	9,996,400
2032	8,885,000	1,109,600	9,994,600
2033	9,245,000	754,200	9,999,200
2034	9,610,000	384,399	9,994,399
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total	<u>\$ 130,540,000</u>	<u>\$ 75,585,319</u>	<u>\$ 206,125,319</u>

### 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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