West Virginia Higher Education Policy Commission

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

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

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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 Policy Commission (the "Commission") which comprise the combined statements of net position (deficit) as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses, and changes in net position (deficit) 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 the West Virginia Regional Technology Park Corporation (the "Corporation") for the years ended June 30, 2013 and 2012, which statements reflect total assets, total net position (deficit), and total revenues constituting approximately 16%, 31%, 6%, respectively, of the Commission in 2013, and 11%, 36 %, and 4%, respectively, of the Commission in 2012. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts of the Corporation included in the Commission as of and for the years ended June 30, 2103 and 2012, is based solely on the report of the other auditors. We, and the auditors for the Corporation, 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. 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 Commission'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 Commission'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 report of the other auditor, the combined financial statements referred to above present fairly, in all material respects, the respective financial position of the Commission as of June 30, 2013 and 2012, and the respective changes in their net position (deficit) 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 Commission early adopted Governmental Accounting Standards Board 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 to 14 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 Combining Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements as a whole. The additional combining information on pages 42-46 are presented for the purpose of additional analysis of the combined 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 Commission'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 combined 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 Commission'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 Commission's internal control over financial reporting and compliance.

Deloitte & Touche LLP

November 22, 2013

Overview of the Financial Statements and Financial Analysis

The Management's Discussion and Analysis is required supplementary information and has been prepared in accordance with the requirements of Governmental Accounting Standards Board (GASB) Standards.

The following discussion and analysis of the West Virginia Higher Education Policy Commission (the "Commission") financial statements provides an overview of its financial activities for the years ended June 30, 2013 and 2012, with a primary focus on the current year. Two years of comparative data are provided for discussion and analysis purposes. This discussion and analysis is for two years only, because the Commission financial statements were combined financial statements for the first time in fiscal year 2012, as the Commission included the West Virginia Regional Technology Park Corporation. There are three financial statements presented: The Statement of Net Position (Deficit); the Statement of Revenues, Expenses, and Changes in Net Position (Deficit); and the Statement of Cash Flows.

Statement of Net Position (Deficit)

The Statements of Net Position (Deficit) presents the assets, liabilities, and net position (deficit) of the Commission as of June 30, 2013 and 2012. The Statement of Net Position (Deficit) is a point of time financial statement. The purpose of the Statement of Net Position (Deficit) is to present to the readers of the financial statements a fiscal snapshot of the Commission. The Statement of Net Position (Deficit) presents end-of-year data concerning Assets (current and noncurrent), Deferred Outflows, Liabilities (current and noncurrent), Deferred Inflows, and Net Position (Deficit) (assets and deferred outflows minus liabilities and deferred inflows).

From the data presented, readers of the Statement of Net Position (Deficit) are able to determine the resources available to continue the operations of the Commission. They are also able to determine how much the Commission owes vendors, employees, and lenders. There are zero deferred inflows. Finally, the Statement of Net Position (Deficit) provides a picture of the net position (deficit) (assets and deferred outflows minus liabilities and deferred inflows).

Net position (deficit) is divided into three major categories. The first category, net investment in capital assets provides the Commission's equity in land, buildings, furniture, and equipment owned by the Commission. 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 Commission does not use the nonexpendable because it does not have an endowment program. The expendable restricted category reflects amounts that are available for expenditure by the Commission but have a specific purpose. The final category is unrestricted (deficit). The unrestricted (deficit) category is used to record amounts that are available to be used for any lawful purpose of the Commission. The deficit is primarily attributable to the 2004, 2007, 2009, 2010, and 2012 bond proceeds, which were transferred to the Institutions for their capital projects without any assets being received by the Commission in return.

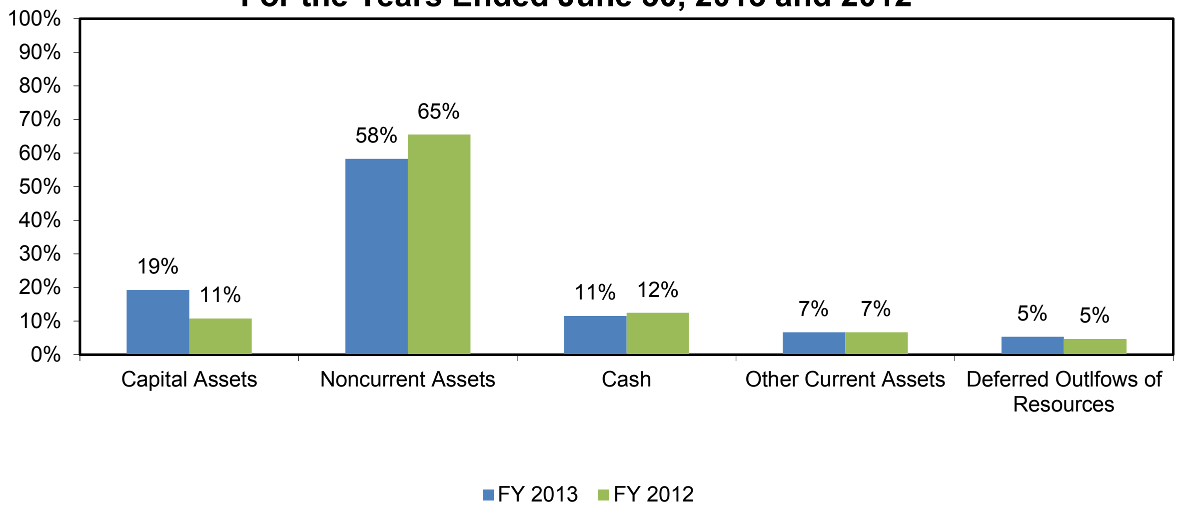
Condensed Combined Statements of Net Position

(In thousands of dollars)

	June 30 2013	June 30 2012 As Amended
Assets and Deferred Outflows		
Assets		
Current Assets	$ 56,141	$ 70,283
Other Noncurrent Assets	177,005	241,164
Capital Assets, net	59,402	39,673
Total Assets	292,548	351,120
Deferred Outflows	16,454	17,258
Total	$ 309,002	$ 368,378
Liabilities, Deferred Inflows, and Net Position (Deficit)		
Liabilities		
Current Liabilities	$ 41,083	$ 41,282
Noncurrent Liabilities	418,430	432,083
Total Liabilities	459,513	473,365
Deferred Inflows	-	-
Total	459,513	473,365
Net Position (Deficit)		
Investment in capital assets	59,402	38,027
Restricted — expendable	61,911	71,445
Unrestricted	(271,824)	(214,459)
Total Net Deficit	(150,511)	(104,987)
Total	$ 309,002	$ 368,378

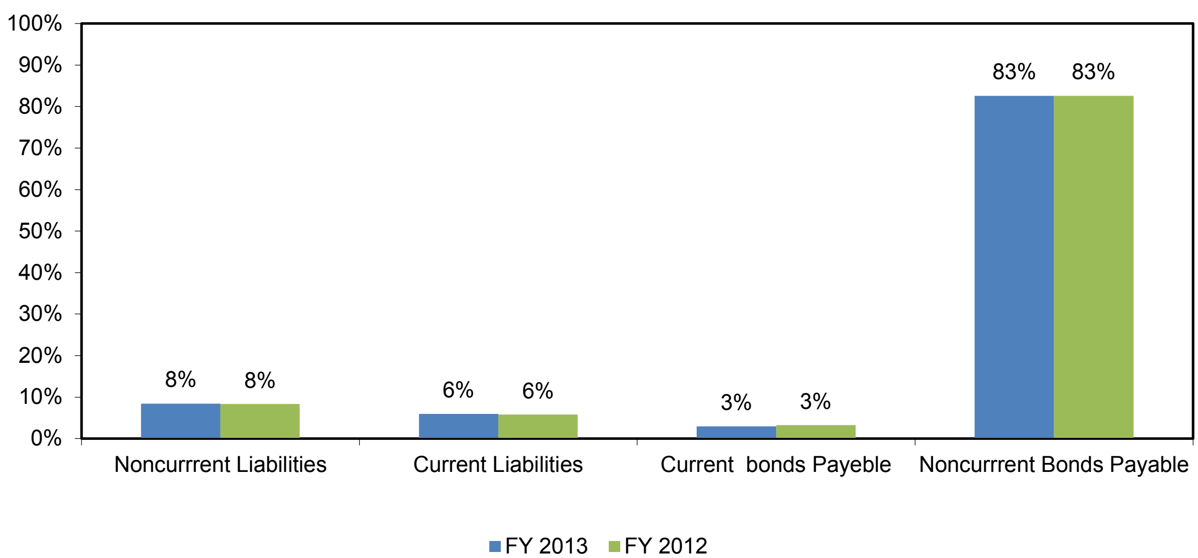
Assets and Deferred Outflows Composition

For the Years Ended June 30, 2013 and 2012



Liabilities Composition

For the Years Ended June 30, 2013 and 2012



Major items of note in the Combined Statements of Net Position (Deficit) include:

- As of June 30, 2013, the Commission's financial statements reflect a receivable from the higher education institutions (an internal obligation) related to principal payments owed by the Commission on system-wide debt obligations that were issued on behalf of the University and College Systems before the 2004 issuance. Prior to fiscal year 2002, the system debt had been reflected solely as an obligation of the Commission and the requirement of the institutions to contribute funds to repay this debt was disclosed in a footnote. The internal assignment of this liability was shown as a transfer in the Combined Statement of Revenue, Expenses, and Changes in Net Position (Deficit) during fiscal year 2002. On the Combined Statements of Net Position (Deficit) as of June 30, 2013, a receivable has been recorded for Institutional obligations totaling $96.3 million out of the total amount due from Institutions of $99.9 million as compared to $111.6 million in debt including outstanding University System Bonds of $72.2 million, plus future interest payable of $39.4 million, but not including bond premiums. As discussed later, the Commission debt for bonds issued in fiscal year 2005 (2004 Series B Bonds), fiscal year 2009 (2009 Series A Bonds), and fiscal year 2011 (2010 Series A, B, and C Bonds) and fiscal year 2012 (2012 Series A and B Bonds) is not allocated to the Institutions as the funding will be forthcoming from excess Lottery Commission proceeds, if available.

- As of June 30, 2013, total current assets of $56.1 million exceeded total current liabilities of $41.1 million. As of June 30, 2012, total current assets of $70.3 million exceed total current liabilities of $41.3 million. By the nature of the Commission, significant funds flow through the operations reported in these financial statements with further distribution to the West Virginia public institutions in subsequent years based on the decisions of the Commission.

    - Current cash balances at June 30, 2013, were $35.5 million compared to cash balances as of June 30, 2012 of $45.7 million. The $10.2 million decrease is primarily attributable to a $6.5 million decrease in the West Virginia Research Trust account and a $1.0 million decrease in the West Virginia GEARUP Scholarship account. The State Gifts, Grants, and Contracts account declined $1.9 million as funds were expended for grants. In addition, the cash balance in the Higher Education Grant fund declined by $0.7 million as additional scholarships were paid.
    - Current receivables from the Institutions total $7.7 million and $7.9 million as of June 30, 2013 and 2012, respectively. These receivables primarily represent the Institutions' current obligations for principal payments to be paid on the University and College system-wide bond obligations.
    - Current liabilities total $41.1 million and $41.3 million as of June 30, 2013 and 2012, respectively. The West Virginia Regional Technology Park accounts payable declined from $1.8 million to $0.6 million because construction related accounts payable declined. Construction-related accounts payable for the Commission increased $1.6 million over the previous year. In addition, the accounts payable for WVNET declined from $1.8 million as of June 30, 2012 to $0.8 million as of June 30, 2013. The amounts due to institutions increased from $4.5 million to $6.3 million primarily because the total due for construction payments increased over the previous year. Finally, the current amount due for bonds payable declined from $14.9 million to $13.7 million.

- As of June 30, 2013 and 2012, noncurrent assets totaled $236.4 million and $280.8 million, respectively. Noncurrent liabilities totaled $418.4 million and $432.1 million, respectively.

    - The most significant portion of noncurrent assets is the receivables from the Institutions, which are primarily related to the University and College system-wide bonds. These receivables total $92.2 million as of June 30, 2013, compared to $97.6 million at June 30, 2012. The noncurrent portion of the amount owed by institutions on the principal of outstanding bonds declined $6.5 million during FY 2013. The other amounts due from Institutions reflect the advances made to certain Institutions. The amount of loans that were made as of June 30, 2013, was $2.7 million compared to $1.1 million as of June 30, 2012.
    - Noncurrent cash totaled $84.8 million as of June 30, 2013, compared to $130.9 million as of June 30, 2012. This decrease was due to spending of bond proceeds from previous bond issuances. In FY 2008, the Legislature appropriated $37.0 million, which included

$30.0 million for two advanced technology centers for the Community and Technical College System and $7.0 million for an energy savings loan program. $9.4 million had been expended for the advanced technology centers compared to $2.1 million that had been expended as of June 30, 2012. As of June 30, 2013, the remainder of the restricted cash consists of bond proceeds that are being held in money market funds by the trustees.

  - The 2009 Series A Bond proceeds investments with the Bank of New York Mellon for Community and Technical College Education construction projects were sold in FY 2013 as funds were expended. The Investment balances at June 30, 2012, of $12.7 reflected the investment of these proceeds. Approximately $15.6 million and $35.0 million was expended for these projects during FY 2013 and FY 2012, respectively.

- The primary noncurrent liability represents the actual system-wide bonds outstanding, as further described in Note 8 to the financial statements. At June 30, 2013 and 2012, noncurrent bonds payable totaled $379.5 and $394.0 million, respectively, plus future interest payable on bonds of $35.7 million as of June 30, 2013, and $34.8 million as of June 30, 2012. The future interest includes payments commencing in FY 2013 of $3.5 million, which are classified as a current liability in FY 2012. In FY 2013, the related current liability is $3.7 million. In FY 2012, the Commission increased the total bond debt outstanding by approximately $8 million through a refunding of the 2004 Series B bond and made $18.7 million in principal payments. The principal paid on bonds in FY 2013 was $14.9 million.

- Total net position (deficit) of the Commission was a deficit of $ $150.5 and $105.0 million as of June 30, 2013 and 2012, respectively.

  - Investment in capital assets of $59.4 million is primarily the capital assets of the West Virginia Regional Technology Park.

  - The major components of restricted net position as of June 30, 2013, are as follows:

    - Funds restricted for scholarship programs total $6.4 million.
    - Funds restricted for sponsored projects total $6.7 million.
    - Funds restricted for capital projects total $46.4 million.

  - The unrestricted net deficit of $271.8 million is primarily because of bonds outstanding where the funds were provided to the institutions for capital additions but the repayments will be made from excess Lottery funds, if available.

Statement of Revenues, Expenses and Changes in Net Position (Deficit)

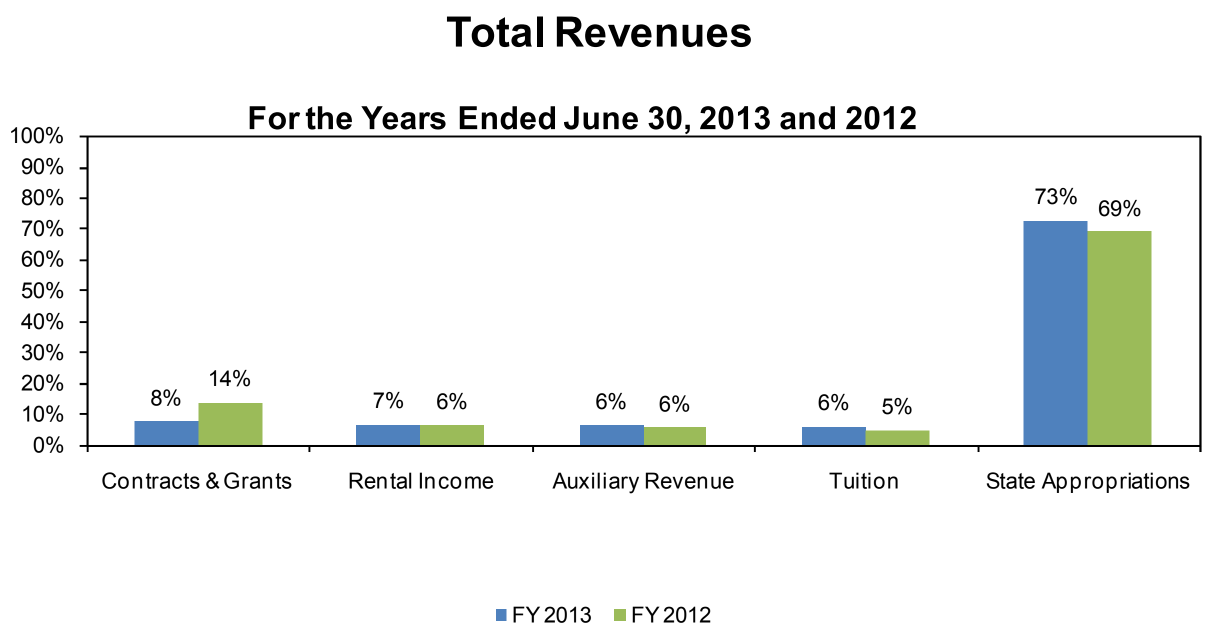
Changes in total net position (deficit) as presented in the Statement of Net Position (Deficit) are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Position (Deficit). The purpose of the statement is to present the revenues of the Commission, both operating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

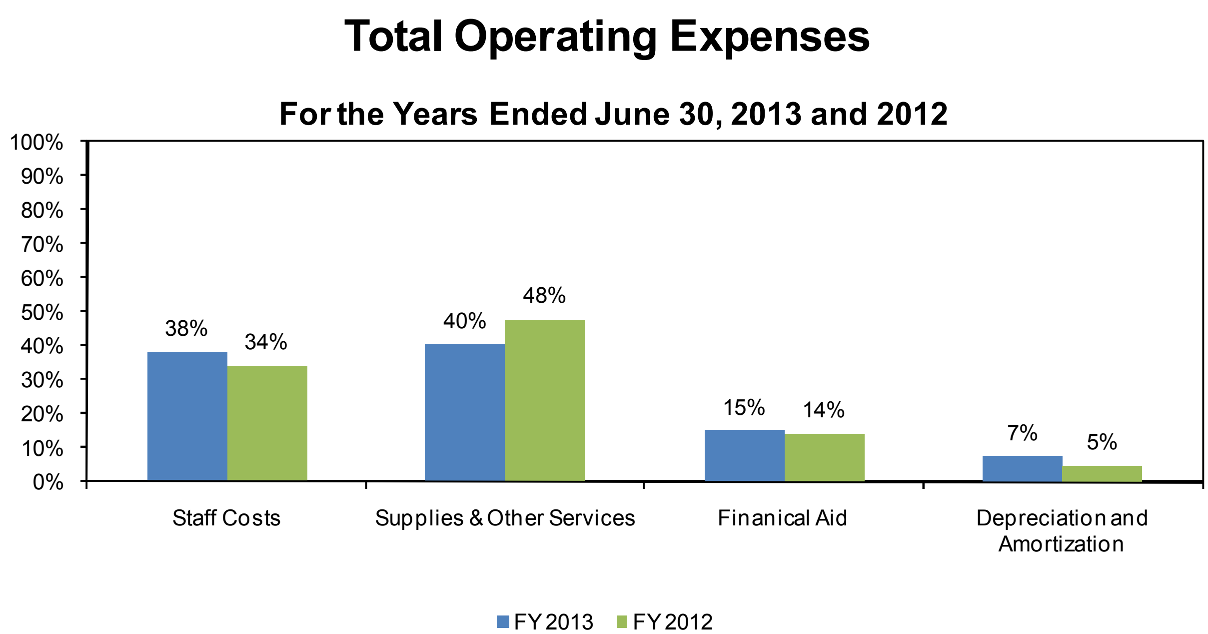
Operating revenues are fees from the Institutions that the Commission by statute can assess them to support the Commission operations and various initiatives. Additional operating revenue comes from the sale of various services to public and private higher education institutions, public and private K-12, and other state government agencies. Revenue is also received in the form of federal and state grants. 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 Commission. 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 Legislature to the Commission without the Legislature directly receiving commensurate goods and services for those revenues.

Condensed Combined Statements of Revenues, Expenses, and Changes in Net Position (Deficit)

(In thousands of dollars)

	FY 2013	**FY 2012** As Amended
Operating Revenues	$ 26,708	$ 35,600
Operating Expenses	27,762	31,376
Operating (Loss) Income	(1,054)	4,224
Net Nonoperating Revenues (Expenses)	1,653	(6,701)
Income (Loss) Before Other Revenues, Expenses, Gains, Losses, or Transfers	599	(2,477)
State Capital Grants (Federal)	3,342	3,621
Capital Payments and Transfers to Institutions and Outside Entities	(49,464)	(51,292)
Decrease in Net Position	(45,523)	(50,148)
Net Deficit-Beginning of Year	(104,987)	(54,839)
Net Deficit-End of Year	$ (150,510)	$ (104,987)





Major items of note in the Statements of Revenue, Expenses, and Change in Net Position (Deficit) include:

- Operating revenues of the Commission totaled \$26.7 million compared to \$35.6 million in FY 2012.
    - The amount of fees collected from higher education institutions for the operations of the Commission totaled about \$4.7 million for both FY 2013 and FY 2012.
    - Other state, federal, and private grants totaled \$7.6 million in FY 2013 compared to \$16.1 million in FY 2012. The primary reason for this decline is the conclusion of the American Recovery and Reinvestment act (ARRA) grant from the Governor's Office for expenses incurred at the West Virginia Regional Technology Park.

- Sales and services of educational activities increased from $5.5 million in FY 2012 to $5.9 million in FY 2013. Internet bandwidth sales increased over the previous year.
- Rental income was $6.7 million in FY 2013 compared to $7.4 million in FY 2012 and is from tenants occupying space within the West Virginia Regional Technology Park,
- Institutional collections totaled $1.7 million and $1.8 million for fiscal year 2013 and fiscal year 2012, respectively.

- Operating expenses totaled $ 27.8 million in FY 2013 and $31.4 million in FY2012. Expenditures from the P-20 data system grant were $3.1 million less than in fiscal year 2012. The P-20 data system tracks student data from public preschool through their entry into the workforce. In addition, salaries and wages costs increased $0.5 million primarily as a result of the addition of web development staff at WVNET and administrative staff at the West Virginia Regional Tech Park and organization realignments at WVNET and West Virginia Regional Tech Park. Benefits expenses declined $0.7 million as a result of a reduction in other post employment benefits expenses. These decreases were offset by a $0.9 million increase in WVNET's depreciation expense associated with a $3.3 million of donated equipment received through the West Virginia Office of Technology.

- Net nonoperating revenue (expense) was a net revenue of $1.7 million in FY 2013 compared to $6.7 million in expense for FY 2012.

  - State general revenue and lottery appropriations decreased from $82.1 million in FY2012 to $74.1 million in FY 2013.
  - Institutional debt service payments from institutions increased $3.0 million because interest payments for capital appreciation bonds started in FY 2013. Other debt service payments declined $2.2 million. In FY 2012, the final payment was made on the 2003 Series A bonds. Instead of collecting institutional payments for these bonds equal to the associated principal and interest payments, associated with institutional capital projects, payments were based upon institutional capital fee collections.
  - Expenditures for student financial aid and other payments to institutions totaled $60.5 million in FY 2013 compared to $71.5 million in FY 2012. This decrease is primarily related to other payments to institutions.
  - Investment income was $79,777 in FY 2013 and a negative $588,342 in FY 2012. During FY 2012, the Commission recognized a loss on the sale of investments related to the 2009 bonds.

- During FY 2013, WVNET received $3.3 million in capital grants from the West Virginia Office of Technology. During FY 2012, there were $3.6 million of capital grants from a $9.5 million American Recovery and Reinvestment Act (ARRA) grant from the Department of Energy for energy savings projects.

- During FY 2013 and FY 2012, there were $49.5 million and $51.3 million, respectively, of construction draws and payments made on behalf of or transferred to the institutions related to high priority capital projects, energy savings projects, the 2010 A, B, and C, 2009A, and 2004 B bond projects. Substantial progress was made on the projects funded by the 2009 and 2010 bonds.

Statement of Cash Flows

The final statement presented by the Commission is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the Commission 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 Commission. 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 reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fourth 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 fifth part reconciles the net cash used in operating activities to the operating income or loss reflected on the Statements of Revenues, Expenses, and Changes in Net Position (Deficit).

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

	FY 2013	**FY 2012**
Cash Provided (Used) By:		
Operating Activities	$ (131)	$ 5,080
Noncapital Financing Activities	19,689	10,228
Capital Financing Activities	(42,731)	(42,681)
Investing Activities	12,931	12,621
Decrease in Cash and Cash Equivalents	(10,242)	(14,752)
Cash and Cash Equivalents, beginning of year	45,731	60,483
Cash and Cash Equivalents, end of year	$ 35,489	$ 45,731

Major items of note in the Cash Flow Statement include:

- Net cash from operating activities in FY 2013 and FY2012 was negative $0.1 million and a positive $5.1 million, respectively. Major reconciling items in both fiscal years from the operating income reported on the Statements of Revenue, Expenses, and Changes in Net Position (Deficit) include depreciation expense and fluctuations in accounts receivable, accounts payable, accrued liabilities, and other postemployment benefits (OPEB) liability.

- Net cash provided by noncapital financing activities in FY 2013 and FY 2012 was $19.7 million and $10.2 million, respectively. Noncapital financing sources and uses of funds include State appropriations, receipts for fiduciary governmental entities and disbursements to fiduciary governmental entities and payments to institutions.

- Net cash used in capital financing activities totaled $42.7 million in both FY 2013 and FY 2012. Capital payments to institutions, purchases of capital assets, disbursements of bond principal and interest payments were offset by receipts from institutions for debt service and withdrawals from noncurrent cash and cash equivalents. Purchases of capital assets included renovation activities at the West Virginia Regional Technology Park, as well as the construction of the Advance Technology Centers and the Allied Health Building.

- Net cash provided by Investing Activities totaled $12.9 million and $12.6 million in FY 2013 and FY 2012, respectively. The additions in both years were from sales of investments of 2009 Series A bond proceeds to provide funds transferred to institutions and outside entities.

- Total cash for FY 2013 and FY 2012 decreased by $10.2 million and $14.8 million, ending the years at $35.5 million at June 30, 2013 and $45.7 million at June 30, 2012.

- Noncash transactions for FY 2013 and FY 2012 were $5.1 million and $4.0 million, respectively for current construction projects associated with the Advanced Technology Centers, Allied Health Facility, and the Community and Technical College 2009 Series A bond projects.

Long-Term Debt Activity

On June 26, 2012, the Commission issued $132,165,000 of Series A Bonds and $11,130,550 of Series B Bonds to refund $124,585,000 of Series 2004B Revenue Bonds. The savings in annual payment and transfers from the Series 2004B Revenue Bonds construction fund netted approximately $8 million for additional capital projects. The annual debt service for the 2012 bonds and the remaining 2004B Bonds is equal to that of the 2004B bonds before the refunding. On December 17, 2010, the Commission issued $16,520,000 of Series A Bonds, $50,265,000 of Series B Bonds, and $10,080,000 of Series C Bonds. State Lottery proceeds of a maximum of $20,000,000 per year is used to pay bond debt service. 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 used for the Commission's bond indebtedness.

The Commission made all required debt service payments and repaid principal of $14.9 million and $18.7 million in FY2013 and FY2012, respectively. See Note 7 to the financial statements for further detail of long-term debt.

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

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 20013 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 achievement of the goals for the higher education system as described in the Master Plan are dependent upon many factors, one of which is adequate resources to implement the strategies necessary to achieve the goals. At the present time, the Commission itself maintains a strong financial condition. Although the net position of the Commission is reported as a deficit of $150.5 million, $35.7 million of future interest payable on the 2000 Series A Bonds (repayment on these bonds began during fiscal year 2013), the $130.5 million of debt on the 2012 Series A and B Bonds (net of unexpended bond proceeds of approximately $8 million), the remaining $6.8 million of debt on the 2004 Series B Facilities Bonds, the $74.1 million of debt on the 2009 Series A Facilities Bonds (net of unexpended bond proceeds of $31.2 million), and the $74.2 million of debt on the 2010 Series A, B, and C Facilities Bonds (net of unexpended bond proceeds of $59.7 million) will also be paid by the Lottery Commission excess proceeds, if available. In the event that excess Lottery Commission proceeds are not available, the Institutions will be responsible for providing the moneys for repayment of the debt except on the 2009 Series A Bonds. The vast majority of the funding which is reported in the financial statements of the Commission is ultimately assigned to the public higher education Institutions in the State for capital projects, grants, scholarships, and special projects. This funding is critical to the success of the higher education system in meeting the compact goals.

The Commission entered into an agreement on February 25, 2011, with the Union Carbide Corporation (UCC) a wholly owned subsidiary of The Dow Chemical Company (Dow) for the donation of property known as UCC'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 has relocated their campus to the site with the renovation of one of the existing buildings and an Advanced Technology Center for community college technical training and education is being built. The net value of the capital gifts of equipment and buildings was $21.0 million, which was recognized in FY 2012. During FY 2013, the West Virginia Regional Technology Park's operating revenues totaled $9.7 million, including $6.7 million in rental income. The operating revenues totaled $8.5 million in FY 2012, including $7.4 million in rental income. Total operating expenses for FY 2013 were $7.2 million, including $4.0 million for utilities. For FY 2012, total operating expenses were $7.1 million including $4.3 million for utilities.

Economic Outlook

For FY2015, the Governor has asked state agencies, including public higher education, to submit appropriation requests assuming a 7.5% decrease. This is equal to the percent reduction that the Commission absorbed for FY 2014. The impact of future Medicaid increases on the State's budget could be significant. The institutions can reduce costs and increase tuition and fees to make up the shortfall. WVNET's customer base is fluid and changes could impact results.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINED STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
ASSETS AND DEFERRED OUTFLOWS OF RESOURCES		
CURRENT ASSETS:		
Cash and cash equivalents	$ 35,489,301	$ 45,730,660
Appropriations due from primary government	10,505,302	13,487,543
Accounts receivable — net	2,263,314	2,838,938
Interest receivable	17,024	210,712
Prepaid expense	134,883	107,639
Receivable from institutions — current portion	7,731,212	7,907,864
Total current assets	56,141,036	70,283,356
NONCURRENT ASSETS:		
Cash and cash equivalents	84,808,063	130,921,436
Investments		12,689,176
Receivable from institutions	92,197,292	97,553,504
Capital assets — net	59,401,812	39,672,831
Total noncurrent assets	236,407,167	280,836,947
Total assets	292,548,203	351,120,303
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding	16,453,887	17,257,910
TOTAL	$ 309,002,090	$ 368,378,213

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINED STATEMENTS OF NET POSITION (DEFICIT)
AS OF JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION (DEFICIT)		
CURRENT LIABILITIES:		
Accounts payable	$ 7,834,265	$ 8,253,955
Amounts due to institutions and affiliates	6,271,742	4,512,733
Accrued liabilities	196,089	252,874
Deposits	1,439,929	1,699,975
Unearned revenue — services	64,551	3,526
Compensated absences — current portion	550,236	563,777
Unearned revenue leases — current portion	162,500	162,500
Interest payable	10,856,167	10,963,643
Bonds payable — current portion	13,707,212	14,868,864
Total current liabilities	41,082,691	41,281,847
NONCURRENT LIABILITIES:		
Compensated absences	260,456	267,877
Future interest payable	35,695,683	34,823,493
Unearned revenue leases	406,250	568,750
Other post employment benefit liability	2,519,865	2,469,151
Bonds payable	379,547,590	393,954,076
Total noncurrent liabilities	418,429,844	432,083,347
Total liabilities	459,512,535	473,365,194
DEFERRED INFLOWS OF RESOURCES	-	-
TOTAL	459,512,535	473,365,194
NET POSITION (DEFICIT):		
Investment in capital assets	59,401,812	38,026,990
Restricted for — expendable:		
Scholarships	6,374,199	9,156,210
Sponsored projects	6,735,649	16,776,428
Capital projects	46,419,687	43,026,393
Debt service	2,382,223	2,485,737
Total restricted expendable	61,911,758	71,444,768
Unrestricted	(271,824,015)	(214,458,739)
Total net deficit	(150,510,445)	(104,986,981)
TOTAL	$ 309,002,090	$ 368,378,213

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
OPERATING REVENUES:		
Fees from higher education institutions	$ 4,733,439	$ 4,664,238
Institutional collections	1,677,698	1,811,181
Contracts and grants:		
Federal	5,050,642	13,826,990
State	2,204,524	2,241,425
Private	359,609	79,000
Rental income	6,682,157	7,430,296
Sales and services of educational activities	5,888,103	5,536,737
Miscellaneous — net	111,719	9,767
Total operating revenues	26,707,891	35,599,634
OPERATING EXPENSES:		
Salaries and wages	8,425,956	7,964,145
Benefits	1,921,137	2,585,547
Supplies and other services	11,191,161	15,227,830
Utilities	4,166,233	4,486,957
Depreciation and amortization	2,057,704	1,111,425
Total operating expenses	27,762,191	31,375,904
OPERATING (LOSS) INCOME	(1,054,300)	4,223,730
NONOPERATING REVENUES (EXPENSES):		
State appropriations	50,609,968	58,156,601
State lottery appropriations	23,484,126	23,927,336
Investment gain (loss)	79,777	(588,342)
Institutional debt service payments from institutions:		
Interest	6,855,426	3,837,135
Other	421,082	2,616,828
Interest on indebtedness	(19,806,828)	(22,639,708)
Student financial aid and other payments to institutions	(60,500,255)	(71,526,155)
Other nonoperating revenues (expenses) — net	510,320	(484,611)
Net nonoperating revenue (expenses)	1,653,616	(6,700,916)
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS	599,317	(2,477,186)
STATE CAPITAL GRANTS (FEDERAL)	3,342,194	3,621,304
CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	(49,464,975)	(51,291,732)
DECREASE IN NET POSITION	(45,523,464)	(50,147,614)
NET DEFICIT — Beginning of year (As Amended)	(104,986,981)	(54,839,367)
NET DEFICIT — End of year	$ (150,510,445)	$ (104,986,981)

See notes to combined financial statements.

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Fees and reimbursements from higher education institutions	$ 4,532,563	$ 4,664,238
Institutional collections	1,749,854	1,786,301
Contracts and grants	7,525,148	17,313,295
Payments to and on behalf of employees	(10,374,124)	(9,556,711)
Payments to suppliers	(11,937,386)	(15,961,893)
Payments to utilities	(4,364,055)	(5,222,599)
Rental income receipts	6,675,904	6,547,590
Sales and service of educational activities	5,949,128	5,495,977
Other	111,719	13,491
Net cash (used in) provided by operating activities	(131,249)	5,079,689
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	77,401,335	77,924,795
Receipts for fiduciary governmental entities	55,388,744	56,815,285
Disbursements to fiduciary governmental entities	(55,409,129)	(57,276,229)
Payments to institutions	(57,692,089)	(67,235,984)
Net cash provided by noncapital financing activities	19,688,861	10,227,867
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Payments of bond issuance costs		(144,112)
Proceeds from bond issuances		142,638,161
Institutional receipts for debt service	14,330,372	17,091,146
Payoff of refinanced bonds		(136,469,598)
Purchases of capital assets	(22,774,263)	(14,578,018)
Principal paid on bonds	(14,868,864)	(18,685,000)
Interest paid on bonds	(18,906,387)	(18,453,303)
State capital grants (federal) received		3,876,305
Capital payments and transfers to institutions and outside entities	(45,103,865)	(48,369,215)
Capital loans to institutions	(2,000,000)	(1,060,000)
Capital loan repayments from institutions	479,000	345,000
Deposits to noncurrent cash and cash equivalents	(60,732,853)	(18,647,012)
Withdrawals from noncurrent cash and cash equivalents	106,846,226	49,774,750
Net cash used in capital financing activities	(42,730,634)	(42,680,896)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Receipts from investment income	242,487	244,880
Sale of investments	12,689,176	12,376,465
Cash provided by investing activities	12,931,663	12,621,345
DECREASE IN CASH AND CASH EQUIVALENTS	(10,241,359)	(14,751,995)
CURRENT CASH AND CASH EQUIVALENTS — Beginning of year	45,730,660	60,482,655
CURRENT CASH AND CASH EQUIVALENTS — End of year	$ 35,489,301	$ 45,730,660

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINED STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

	2013	2012
RECONCILIATION OF OPERATING INCOME TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:		
Operating (loss) income	$ (1,054,300)	$ 4,223,730
Adjustments to reconcile operating income to net cash (used in) provided by operating activities:		
Depreciation and amortization expense	2,057,704	1,111,425
Changes in assets and liabilities:		
Accounts receivables — net	220,916	(1,468,325)
Prepaid expenses	(27,244)	(574)
Accounts payable	(967,998)	436,395
Accrued liabilities	(40,928)	401,382
Other post employment benefit liability	34,857	479,590
Compensated absences	(20,960)	59,355
Deposits held in custody for others	(40,114)	58,971
Deferred revenue	(293,182)	(222,260)
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (131,249)	$ 5,079,689
SIGNIFICANT NONCASH TRANSACTIONS:		
Capital transfers to institutions included in accounts payable	$ 5,111,687	$ 3,983,741
Equipment received from state capital grant (federal)	$ 3,342,194	$ -

See notes to combined financial statements.

(Concluded)

1. ORGANIZATION

On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 (S.B. 653), which restructured public higher education in West Virginia.

S.B. 653 also created the West Virginia Higher Education Policy Commission (governing board) which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda except for those institutions covered by Senate Bill No. 448. The West Virginia Higher Education Policy Commission (entity) (the "Commission") consists of two divisions. The first division encompasses the administrative functions, and the second division accounts for the West Virginia Network for Educational Telecommuting (WVNET). Oversight of WVNET lies with the administrative division. WVNET was originally created in 1975 to provide central computing facilities and wide-area network communications services as a resource for the public colleges and universities in the State of West Virginia (the "State").

On March 12, 2011, the West Virginia Legislature enacted Senate Bill 484, which allowed for the creation of a management organization for the oversight of day-to-day operations at the WV Regional Technology Park ("Tech Park") which was created by the gift of the former Union Carbide Corporation Tech Center to the Commission. WV Regional Technology Park Corp. (the "Corporation") was incorporated under the laws of the State as a nonprofit, nonstock corporation on April 13, 2011. The Commission transferred the Tech Park property to the Corporation on July 1, 2011. The Commission maintains title and is the owner to the land, buildings, and improvements that comprise the Tech Park. The Corporation is included in the combined financial statements as a blended component unit.

Each Institutional Governing Board (all institutions, the Commission, and the West Virginia Council for Community and Technical College Education (the "Council") comprise the West Virginia Higher Education Fund) has certain powers and duties, including, but 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 the institution(s).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the Commission have been prepared in accordance with 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 Commission's assets, liabilities, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The Commission is a statutory entity and an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The Commission is a separate entity, which along with all State institutions of higher education and the Council, forms the West Virginia Higher Education Fund of the State. The West Virginia Higher Education Fund is considered a component unit of the State and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying combined financial statements present all funds under the authority of the Commission, including the Corporation, which is a statutory entity and a blended component unit of the Commission. The basic criteria for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the Commission's ability to significantly influence operations and accountability for fiscal matters of the Corporation.

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

Net Investment in Capital Assets — This represents the Commission's total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to capital assets, including those on individual institutions' financial statements. 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 Commission 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 (the "Code"). House Bill No. 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the related institutions. These restrictions are subject to change by future actions of the West Virginia Legislature. The Commission does not have any such Code-restricted net position at June 30, 2013 and 2012.

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. There was no nonexpendable net position as of June 30, 2013 and 2012.

Unrestricted Net Position (Deficit) — Unrestricted net position (deficit) represents liabilities in excess of resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. The deficit will be funded by future amounts to be received from the Lottery Commission if such excess funds are available, or are to be billed to institutions in future years.

Basis of Accounting — For financial reporting purposes, the Commission is considered a special-purpose government engaged only in business-type activities. Accordingly, the Commission'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 interdivision accounts and transactions have been eliminated.

Cash and Cash Equivalents — For purposes of the combined statements of net position (deficit), the Commission 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 the Code, policies set by the BTI, provisions of bond indentures, and the 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 or on the first day of each month for the WV Short Term Bond Pool 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 Commission may invest in. These pools have been structured as multiparticipant variable net position 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 report can be obtained from the following address: 1900 Kanawha Blvd. East, Room E-122, Charleston, WV 25305 or http://www.wvbti.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 Commission to record certain investment balances at fair value. The Commission's investments are on deposit with the Municipal Bond Commission or with external financial institutions. These funds primarily represent unexpended proceeds of bond issuances and are restricted to expenditures for capital improvements at the Commission or the institutions, bond-related costs, and debt service reserve funds. These funds are classified as noncurrent due to the restrictions on expenditure or requirement to provide debt service reserve funds. Amounts held for restricted expenditures are available for immediate withdrawal.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies and instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; 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 the State to obtain certificates of deposit, loans approved by the legislature, and any other program investments authorized by the legislature.

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

Allowance for Doubtful Accounts — It is the Commission'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 Commission on such balances; and such other factors which, in the Commission's judgment, require consideration in estimating doubtful accounts.

Noncurrent Cash, Cash Equivalents, and Investments — Cash, cash equivalents, and investments that are (1) externally restricted to make debt service payments and 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 for the Commission or any of its institutions, and (3) permanently restricted net position, are classified as noncurrent assets in the accompanying combined statements of net position (deficit).

Capital Assets — Capital assets include buildings, software, intangibles, and furniture and equipment. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Depreciation or amortization is computed using the straight-line method over the estimated useful lives of the assets, generally three to seven years for software and intangibles; 3 to 10 years for furniture and equipment; 15 years for land improvements; and 30 years for buildings. The Commission uses a capitalization policy of $1,000.

In allocating the fair value of the donated assets of the buildings, below-market, in-place lease values were recorded based on the difference between the current in-place lease rent and a management estimate of current market rents. Below-market lease intangibles are recorded as unearned revenue leases and are amortized into rental revenue over the noncancelable periods of the respective leases. The aggregate value of in-place leases was measured by the excess of (i) the fair value of the building over (ii) the estimated fair value of the building as if vacant.

Unearned Revenue — Cash received for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue.

Compensated Absences and Other Post Employment Benefits — GASB provides standards for the measurement, recognition, and display of other postemployment benefits (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for OPEB for the State of West Virginia. Effective July 1, 2007, the Commission was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan and the 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 Commission'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 extends health insurance for one month of single coverage and three days extends 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 now provided for under the multiple employer cost-sharing plan approved by the State.

The estimated expense and expense incurred for the vacation leave or OPEB benefits are recorded as a component of benefits expense on the statements of revenues, expenses, and changes in net position (deficit).

Future Interest Payable — Interest on capital accretion bonds is recognized over the life of the related bonds on the interest method.

Bonds — Bond premiums or discounts are amortized over the life of the related bonds.

Deferred Outflows of Resources — Consumption of net position by the Commission that is applicable to a future fiscal year is reported as a deferred outflow of resources on the combined statements of net position (deficit). Deferred outflows are accreted over the periods of the refinancing bond issue related to the deferred loss on refinancing.

Deferred Inflows of Resources — An acquisition of net position by the Commission that is applicable to a future fiscal year is reported as a deferred inflow of resources on the combined statements of net position (deficit).

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property, and casualty coverage to the Commission and its employees. Such coverage may be provided to the Commission by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

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

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

Classification of Revenues — The Commission 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) fees from higher education institutions; (2) most federal, state, local, and nongovernmental grants and contracts; (3) federal appropriations for land grant institutions; and (4) 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 and federal appropriations, investment income/loss, and sale of capital assets (including natural resources).

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

Use of Restricted Net position — The Commission 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 Commission attempts to utilize restricted funds first when practical.

Institutional Collections — Institutional collections represent revenues earned from colleges and universities throughout the State for the use of central site (WVNET) computing services.

Government Grants and Contracts — Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The Commission 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.

Interest on Indebtedness — The Commission accounts for interest on debt as an expense of the period in which it is incurred.

Student Financial Aid and Other Payments to Institutions— The Commission records financial aid and other payments to institutions as an expense of the period in which it is disbursed to the institutions.

Income Taxes — The Commission 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.

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 combined financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ 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 —During 2013, the Commission 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 statement of financial position and related disclosures. The adoption of this statement resulted in the addition of Deferred Inflows and Deferred Outflows in the combined Statements of Net Position (Deficit).

The Commission 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 resulted in the addition of Deferred Inflows and Deferred Outflows in the combined Statements of Net Position. See "Early Adoption of GASB No. 65" section below for further description of the amendments.

The Commission 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 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 Commission 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 Commission 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 Commission 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 Commission's financial statements have been amended from the amounts previously reported as described below. Such changes relate to presenting deferred losses on refundings from bonds payable to deferred outflows of resources in the amount of $17,257,910 and removing bond issuance costs previously recorded as other assets to other nonoperating expenses in the amount of $1,645,841. The cumulative effect on the net position as of the earliest period presented was ($1,231,996).

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses, And Changes in Net Position Effect	As Amended
Other assets	$ 1,645,841	$ (1,645,841)	$ -	$ -
Deferred outflow of resources		17,257,910		17,257,910
Bonds payable	376,696,166	17,257,910		393,954,076
Net investment in capital assets	39,672,831	(1,645,841)		38,026,990
Other nonoperating revenue (expense) - net	(70,766)		(413,845)	(484,611)
Income before other revenues, expenses, gains, losses, or transfers	(2,063,341)		(413,845)	(2,477,186)
Decrease in net position	(49,733,769)		(413,845)	(50,147,614)
Net deficit - beginning of year	(53,607,371)	(1,231,996)		(54,839,367)
Net deficit - end of year	(103,341,140)	(1,645,841)		(104,986,981)

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2013, was held as follows:

	Current	Noncurrent	Total
State Treasurer	$29,390,660	$33,420,004	$ 62,810,664
Municipal Bond Commission	2,288,574		2,288,574
Bank	3,810,067		3,810,067
Trustee		51,388,059	51,388,059
Total	$35,489,301	$84,808,063	$120,297,364

The composition of cash and cash equivalents at June 30, 2012, was held as follows:

	Current	Noncurrent	Total
State Treasurer	$38,876,309	$ 40,707,812	$ 79,584,121
Municipal Bond Commission	2,293,706		2,293,706
Bank	4,560,645		4,560,645
Trustee		90,213,624	90,213,624
Total	$45,730,660	$130,921,436	$176,652,096

Amounts held by the Municipal Bond Commission or Trustee represent various projects funds, debt service, and other repair and replacement reserve funds required to be escrowed by various bond trust indentures.

The combined carrying amount of cash in the bank at June 30, 2013 and 2012, was $3,810,067 and $4,560,645, as compared with the combined bank balance of $3,941,623 and $4,563,331, 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 Commission 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 Commission's ownership represents 1.41% and 1.57%, 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 Commission's ownership represents 0.09% and 0.11%, 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):

	Credit Rating*		2013		2012	
Security Type	**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
			158,961	25.81	144,419	28.68
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
			227,557	36.95	151,248	30.03
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
			$615,807	100 %	$503,617	100 %

* 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 Commission's ownership represents 0.42% and 1.55%, 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:

	2013		2012	
Security Type	**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
	$ 2,495,868	52	$ 2,786,968	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:

	2013		2012	
Security Type	**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
	$ 287,184	50	$ 299,629	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:

	2013		2012	
Security Type	**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
	$ 615,807	358	$ 503,617	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.

Cash in Bank With Trustee —

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. Cash in bank with Trustee is governed by provisions of the bond agreement and is invested in money market funds that are not rated.

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.

Custodial Credit Risk — Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Commission will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Interest Rate Risk — Interest rate is the risk that changes in interest rates will adversely affect the fair value of an investment. The Commission's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

Foreign Currency Risk — Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The Commission has no securities with foreign currency risk.

4. INVESTMENTS

The composition of investments at June 30, 2012, was comprised of fixed income securities as follows:

	Original Rates	Original Maturity Dates	
Federal Home Loan Mortgage Corporation bonds	4.5%–5.125%	7/15/2012–1/15/2013	$ 6,665,146
Federal National Mortgage Association bonds	1.75%–4.375%	8/10/2012–4/9/2013	6,024,030
Total			$ 12,689,176

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2013 and 2012, were as follows:

	2013	2012
Student loan receivables — net of allowance for doubtful accounts of $2,557,125 and $ 2,746,982	$ 280,824	$ 574,397
Grants and contracts receivable	130,662	246,121
Due from higher education institutions	433,886	1,070,743
Rent receivable - net of allowance for doubtful accounts of rent receivable of $14,411 and 20,000	571,330	776,934
Due from State and State agencies	846,612	170,743
Total	$ 2,263,314	$ 2,838,938

6. CAPITAL ASSETS

A summary of capital asset activity for the year ended June 30, 2013, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 15,130,000	$ -	$ -	$ 15,130,000
Construction in progress	14,850,922	17,924,182	(2,632,573)	30,142,531
Total capital assets not being depreciated	$ 29,980,922	$ 17,924,182	$ (2,632,573)	$ 45,272,531
Other capital assets:				
Buildings and building improvements	$ 4,515,100	$ 1,926,933	$ (66,860)	$ 6,375,173
Leasehold improvements		24,725		24,725
Land improvements and infrastructure	2,629,456	808,280	(158,860)	3,278,876
Software	110,144			110,144
Intangible	1,316,695			1,316,695
Equipment	7,892,171	3,938,997	(121,735)	11,709,433
Total other capital assets	16,463,566	6,698,935	(347,455)	22,815,046
Less accumulated depreciation and amortization for:				
Buildings and building improvements	219,306	157,922	(5,563)	371,665
Land improvements and infrastructure	261,210	187,000	(22,192)	426,018
Software	110,049	95		110,144
Intangible	393,520	188,099		581,619
Equipment	5,787,572	1,524,588	(115,841)	7,196,319
Total accumulated depreciation and amortization	6,771,657	2,057,704	(143,596)	8,685,765
Other capital assets — net	$ 9,691,909	$ 4,641,231	$ (203,859)	$ 14,129,281
Capital asset summary:				
Capital assets not being depreciated or amortized	$ 29,980,922	$ 17,924,182	$ (2,632,573)	$ 45,272,531
Other capital assets	16,463,566	6,698,935	(347,455)	22,815,046
Total cost of capital assets	46,444,488	24,623,117	(2,980,028)	68,087,577
Less accumulated depreciation and amortization	6,771,657	2,057,704	(143,596)	8,685,765
Capital assets — net	$ 39,672,831	$ 22,565,413	$ (2,836,432)	$ 59,401,812

A summary of capital asset activity for the year ended June 30, 2012, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 15,100,000	$ 30,000	$ -	$ 15,130,000
Construction in progress	5,003,838	13,690,440	(3,843,356)	14,850,922
Total capital assets not being depreciated	$ 20,103,838	$ 13,720,440	$ (3,843,356)	$ 29,980,922
Other capital assets:				
Buildings and building improvements	$ 3,950,451	$ 564,649	$ -	$ 4,515,100
Land improvements and infrastructure	2,530,000	99,456		2,629,456
Software	110,144			110,144
Intangible	1,316,695			1,316,695
Equipment	6,481,854	1,452,251	(41,934)	7,892,171
Total other capital assets	14,389,144	2,116,356	(41,934)	16,463,566
Less accumulated depreciation and amortization for:				
Buildings and building improvements	72,833	146,473		219,306
Land improvements and infrastructure	82,236	178,974		261,210
Software	108,332	1,717		110,049
Intangible	274,906	118,614		393,520
Equipment	5,155,993	665,647	(34,068)	5,787,572
Total accumulated depreciation and amortization	5,694,300	1,111,425	(34,068)	6,771,657
Other capital assets — net	$ 8,694,844	$ 1,004,931	$ (7,866)	$ 9,691,909
Capital asset summary:				
Capital assets not being depreciated or amortized	$ 20,103,838	$ 13,720,440	$ (3,843,356)	$ 29,980,922
Other capital assets	14,389,144	2,116,356	(41,934)	16,463,566
Total cost of capital assets	34,492,982	15,836,796	(3,885,290)	46,444,488
Less accumulated depreciation and amortization	5,694,300	1,111,425	(34,068)	6,771,657
Capital assets — net	$ 28,798,682	$ 14,725,371	$ (3,851,222)	$ 39,672,831

Title to certain real property at the institutions is held by the Commission by virtue of legislative assignment from prior system-wide governing boards. Title can be transferred from the Commission to the Institutional Governing Boards upon mutual agreement. Regardless of title, all real property at the institution is recorded in the institution's financial statements.

The Commission 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 that are held for exhibition. These collections are neither disposed of for financial gain nor encumbered in any means.

At June 30, 2013, the Commission had outstanding contractual commitments of approximately $20.6 million for property, plant, and equipment expenditures.

7. LONG-TERM LIABILITIES

A summary of long-term obligation activity for the years ended June 30, 2013 and 2012, is as follows:

2013	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	
Bonds payable	$ 408,822,940	$ -	$ (15,568,138)	$ 393,254,802	$ 13,707,212	
Other long-term liabilities:						
Accrued compensated absences	831,654		(20,962)	810,692	550,236	
Future interest payable	38,359,629	4,614,979	(3,536,137)	39,438,471	3,742,788	*
Other post employment benefit liability	2,469,151	50,714		2,519,865		
Unearned revenue leases	731,250		(162,500)	568,750	162,500	
Total long-term liabilities	$ 451,214,624	$ 4,665,693	$ (19,287,737)	$ 436,592,580		

2012	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion	
Bonds payable	$ 427,126,535	$ 143,295,550	$(161,599,145)	$ 408,822,940	$ 14,868,864	
Other long-term liabilities:						
Accrued compensated absences	772,299	59,355		831,654	563,777	
Future interest payable	34,012,330	4,347,299		38,359,629	3,536,136	*
Other post employment benefit liability	1,675,404	793,747		2,469,151		
Unearned revenue leases	893,750		(162,500)	731,250	162,500	
Total long-term liabilities	$ 464,480,318	$ 148,495,951	$(161,761,645)	$ 451,214,624		

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

8. BONDS PAYABLE

The State chartered the former University System of West Virginia and the former State College System of West Virginia with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's higher education institutions. Financing for these facilities was provided through revenue bonds issued by the former State Board of Regents, the former College and University System Boards, the Interim Governing Board, or the Commission. All bonds payable are administered by the Commission, as successor to the various former governing boards.

The Commission has the authority to assess each institution of the West Virginia Higher Education 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 Commission'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 an obligation of the Commission.

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% to 5%, 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% mature April 1, 2034.

Bonds payable at June 30, 2013 and 2012, consisted of the following:

	Maximum Interest Rate	Original Range of Annual Principal Installment Due	Principal Amount Outstanding 2013	2012
2012 Series A Revenue Refunding Bonds, due through 2034	5.00 %	$ 1,425,000 to 42,100,000	$ 122,765,000	$ 124,190,000
2012 Series B Revenue Bonds, due through 2034	5.00	200,000 to 2,400,000	7,775,000	7,975,000
2010 Series A Revenue Bonds, due through 2026	5.00	235,000 to 12,750,000	16,520,000	16,520,000
2010 Series B Revenue Bonds, due through 2040	7.65	10,800,000 to 39,465,000	50,265,000	50,265,000
2010 Series C Revenue Bonds, due through 2018	5.28	1,340,000 to 1,580,000	7,370,000	8,740,000
2009 Series A Community and Technical College Improvement Revenue Bonds, due through 2039	5.25	1,425,000 to 4,760,000	74,110,000	75,510,000
2007 Series A Revenue Refunding Bonds, due through 2027	5.00	185,000 to 1,880,000	20,900,000	22,060,000
2004 Series B Higher Education Facilities Bonds, due through 2034	6.00	2,680,000 to 9,520,000	6,835,000	11,235,000
Series 2000A University System Bonds, due through 2031	6.26	0 to 3,263,864	33,327,004	36,590,868
Series 1998 University System Bonds, due through 2028	5.25	1,065,000 to 3,625,000	38,825,000	40,475,000
			378,692,004	393,560,868
Add Bond premium			14,978,238	15,692,987
Less Bond discount			(415,440)	(430,915)
Total			$ 393,254,802	$ 408,822,940

The issuance of the 2012 Series A Bonds resulted in a loss of $11,884,599 and an economic gain of $6,026,760.

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

Years Ending June 30	Principal	Interest	Total
2014	$ 13,707,212	$ 21,508,538	$ 35,215,750
2015	13,990,284	21,228,941	35,219,225
2016	14,307,024	20,890,007	35,197,031
2017	13,518,148	20,499,445	34,017,593
2018	13,888,248	20,122,347	34,010,595
2019–2023	76,260,364	93,771,900	170,032,264
2024–2028	87,885,564	78,569,028	166,454,592
2029–2033	76,700,160	48,534,095	125,234,255
2034–2038	48,630,000	13,866,231	62,496,231
2039–2040	19,805,000	1,736,067	21,541,067
Total	$ 378,692,004	$ 340,726,599	$ 719,418,603

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.

9. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarially determined amounts. At June 30, 2013 and 2012, the noncurrent liability related to OPEB costs was $2,519,865 and $2,469,151. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $220,167 and $169,453, respectively, during 2013, or 77.0%.

The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $997,357 and $203,610, respectively, during 2012, or 20.4%. As of and for the years ended June 30, 2013, and 2012, there were 11 and 10 retirees receiving these benefits.

10. RETIREMENT PLANS

Substantially all full-time employees of the Commission, other than those employed by the Corporation as no plan has yet been established for them, 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. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by the Commission's 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 STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The Commission accrued and paid its contribution to the STRS at a rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salary in both 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 and 2012, were $56,489 and $73,308, respectively, which consisted of $39,542 and $51,490 from the Commission in 2013 and 2012, respectively, and $16,947 and $21,818 from covered employees in 2013 and 2012, 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 Commission. 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 and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in these plans are required to make a contribution equal to 6% of total annual compensation. The Commission matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF and Educators Money, which are not matched by the Commission.

Total contributions to the TIAA-CREF for the years ended June 30, 2013 and 2012, were $790,452 and $802,874, respectively, which consisted of $395,226 and $401,437 from the Commission in 2013 and 2012, respectively, and $395,226 and $401,437 from covered employees in 2013 and 2102, respectively.

Total contributions to Educators Money for the year ended June 30, 2013, was $6,900, which consisted of $3,450 from the Commission and $3,450 from the covered employee. There were no contributions made to Educators Money for the year ended June 30, 2012.

The Commission's total payroll for the years ended June 30, 2013 and 2012, was $7,994,029 and $7,964,145, respectively. Total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $376,593, $6,660,884, and $57,500, respectively, for the year ended June 30, 2013, and $230,351, $6,786,256, and $0, respectively, for the year ended June 30, 2012.

11. OPERATING LEASES

During the fiscal years ended June 30, 2013 and 2012, the Corporation as lessor, leased its facilities under 25 and 26 separate lease and facilities services agreements, respectively. These agreements contain lease terms with termination dates ranging through the fiscal years 2014 through 2017. Rent and utilities fees income for the fiscal years ended June 30, 2013 and 2012, were $6,682,157 and $7,430,296, respectively.

The following is a schedule by years of minimum future rentals, excluding renewal options, under the aforementioned lease agreements as of June 30, 2013:

Year Ending June 30,	
2014	$ 4,145,782
2015	2,469,434
2016	2,246,440
2017	2,154,074
Total	$ 11,015,730

Future annual minimum scheduled lease payments on operating leases for years subsequent to June 30, 2013, are as follows:

Year Ending June 30,	
2014	$ 532,750
2015	178,264
Total	$ 711,014

Total rent expense for the years ended June 30, 2013 and 2012, was $442,389 and $433,918, respectively. The Commission has no noncancelable leases.

The primary operations of WVNET are conducted at property located on Chestnut Ridge Road in Morgantown. This property is owned by other units of the West Virginia Higher Education Fund and WVNET is not charged any rent for the use of the property. WVNET is responsible for all physical plant services, utilities, renovations, insurance, and other operating costs for this property. These operating costs are recorded in the Commission's combined statements of revenues, expenses, and changes in net position (deficit).

12. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the combined financial statements as of June 30, 2013 or 2012.

WVNET and the Corporation occupy buildings that are known to contain asbestos. Neither WVNET nor the Corporation are required by federal, state, or local law to remove the asbestos from the building. WVNET and the Corporation are required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in the building in a safe condition. WVNET and the Corporation address their responsibility to manage the presence of asbestos in the building on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. WVNET and the Corporation also address the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operation with the asbestos in a safe condition.

13. REIMBURSED EXPENDITURES

The Commission, through WVNET, acts as a purchasing agent for the public higher education institutions of the State and other state agencies to obtain bulk-pricing discounts for maintenance and equipment purchases. In addition, the Commission, through WVNET, provides purchasing services regarding computer equipment purchases. In fiscal years 2013 and 2012, approximately $4,450,000 and $3,960,000, was reimbursed by the schools and other state agencies to WVNET, respectively. The Commission treats these items as reimbursed expenditures so as not to distort total revenues and expenditures.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2013, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation and Amortization	Total
General institutional support	$7,526,904	$1,727,749	$ 9,473,938	$ -	$ -	$18,728,591
Administration, operations, and maintenance of plant				159,178		159,178
Administration of leasing activity	899,052	193,388	1,717,223	4,007,055		6,816,718
Depreciation and amortization					2,057,704	2,057,704
Total	$8,425,956	$1,921,137	$11,191,161	$4,166,233	$2,057,704	$27,762,191

For the year ended June 30, 2012, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation and Amortization	Total
General institutional support	$7,383,107	$2,511,709	$13,494,396	$ -	$ -	$23,389,212
Administration, operations, and maintenance of plant				150,444		150,444
Administration of leasing activity	581,038	73,838	1,733,434	4,336,513		6,724,823
Depreciation and amortization					1,111,425	1,111,425
Total	$7,964,145	$2,585,547	$15,227,830	$4,486,957	$1,111,425	$31,375,904

* * * * * *

ADDITIONAL INFORMATION

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE OF NET POSITION (DEFICIT) INFORMATION
AS OF JUNE 30, 2013

ASSETS AND DEFERRED OUTFLOWS	Administrative Division	WVNET Division	Corporation	Eliminations	Combined
CURRENT ASSETS:					
Cash and cash equivalents	$ 27,020,893	$ 4,658,341	$ 3,810,067	$ -	$ 35,489,301
Appropriations due from primary government	10,505,302				10,505,302
Accounts receivable — net	841,914	850,070	571,330		2,263,314
Interest receivable	16,799	225			17,024
Prepaid expense		101,333	33,550		134,883
Receivable from institutions — current portion	7,731,212				7,731,212
Total current assets	46,116,120	5,609,969	4,414,947	-	56,141,036
NONCURRENT ASSETS:					
Cash and cash equivalents	84,808,063				84,808,063
Receivable from institutions	92,197,292				92,197,292
Capital assets — net	11,237,485	5,006,445	43,157,882		59,401,812
Total noncurrent assets	188,242,840	5,006,445	43,157,882	-	236,407,167
Total assets	234,358,960	10,616,414	47,572,829	-	292,548,203
DEFERRED OUTFLOWS OF RESOURCES	16,453,887	-	-	-	16,453,887
TOTAL	$ 250,812,847	$ 10,616,414	$ 47,572,829	$ -	$ 309,002,090

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE OF NET POSITION (DEFICIT) INFORMATION
AS OF JUNE 30, 2013

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	Administrative Division	WVNET Division	Corporation	Eliminations		Combined
CURRENT LIABILITIES:						
Accounts payable	$ 6,358,213	$ 837,610	$ 638,442	$ -		$ 7,834,265
Amounts due to institutions and affiliates	6,271,742					6,271,742
Accrued liabilities	147,216		48,873			196,089
Deposits	1,421,072		18,857			1,439,929
Deferred revenue — services		64,551				64,551
Compensated absences — current portion	300,502	249,734				550,236
Deferred revenue leases — current portion			162,500			162,500
Interest payable	10,856,167					10,856,167
Bonds payable — current portion	13,707,212					13,707,212
Total current liabilities	39,062,124	1,151,895	868,672	-		41,082,691
NONCURRENT LIABILITIES:						
Compensated absences	167,131	93,325				260,456
Deferred interest payable	35,695,683					35,695,683
Deferred revenue leases			406,250			406,250
OPEB liabilities	1,512,703	1,007,162				2,519,865
Bonds payable	379,547,590					379,547,590
Total noncurrent liabilities	416,923,107	1,100,487	406,250	-		418,429,844
Total liabilities	455,985,231	2,252,382	1,274,922	-		459,512,535
DEFERRED INFLOWS OF RESOURCES	-	-	-	-		-
TOTAL	455,985,231	2,252,382	1,274,922	-		459,512,535
NET POSITION (DEFICIT):						
Net investment in capital assets	(225,353,540)	5,006,445	43,157,882	236,591,025	(A)	59,401,812
Restricted for — expendable:						
Scholarships	6,374,199					6,374,199
Sponsored projects	6,735,649					6,735,649
Capital projects	46,419,687					46,419,687
Debt service	2,382,223					2,382,223
Total restricted expendable	61,911,758	-	-	-		61,911,758
Unrestricted	(41,730,602)	3,357,587	3,140,025	(236,591,025)	(A)	(271,824,015)
Total net (deficit) position	(205,172,384)	8,364,032	46,297,907	-		(150,510,445)
TOTAL	$ 250,812,847	$ 10,616,414	$ 47,572,829	$ -		$ 309,002,090

(A) To reclass negative net assets invested in capital assets net of related debt to unrestricted net position (deficit).

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) INFORMATION FOR THE YEAR ENDED JUNE 30, 2013

	Administrative Division	WVNET Division	Corporation	Eliminations		Combined
OPERATING REVENUES:						
Fees from higher education institutions	$ 4,733,439	$ -	$ -	$ -		$ 4,733,439
Institutional collections		1,878,574		(200,876)	(B)	1,677,698
Contracts and grants:						
Federal	5,039,824	10,818				5,050,642
State	2,204,524		3,000,000	(3,000,000)	(B)	2,204,524
Private	359,609					359,609
Rental income			6,682,157			6,682,157
Sales and services of educational activities		6,048,645		(160,542)	(B)	5,888,103
Miscellaneous — net		99,666	12,053			111,719
Total operating revenues	12,337,396	8,037,703	9,694,210	(3,361,418)		26,707,891
OPERATING EXPENSES:						
Salaries and wages	4,442,932	3,132,613	899,052	(48,641)	(B)	8,425,956
Benefits	1,023,611	715,352	193,388	(11,214)	(B)	1,921,137
Supplies and other services	4,514,081	4,902,615	1,717,223	57,242	(B)	11,191,161
Utilities	6,488	152,690	4,007,055			4,166,233
Depreciation and amortization	94,760	1,606,299	356,645			2,057,704
Total operating expenses	10,081,872	10,509,569	7,173,363	(2,613)		27,762,191
OPERATING INCOME (LOSS)	2,255,524	(2,471,866)	2,520,847	(3,358,805)		(1,054,300)

(B) To eliminate interentity revenue/expense.

(Continued)

WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION

COMBINING SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION (DEFICIT) INFORMATION FOR THE YEAR ENDED JUNE 30, 2013

	Administrative Division	WVNET Division	Corporation	Eliminations		Combined
NONOPERATING REVENUES (EXPENSES):						
State appropriations	$ 48,661,525	$ 1,948,443	$ -	$ -		$ 50,609,968
State lottery appropriations	23,484,126					23,484,126
Investment income	74,729	5,048				79,777
Institutional debt service payments from institutions:						
Interest	6,855,426					6,855,426
Other	421,082					421,082
Interest on indebtedness	(19,806,828)					(19,806,828)
Student financial aid and other payments to institutions	(60,500,255)					(60,500,255)
Other nonoperating (expenses) revenues — net	595,785		(85,465)			510,320
Net nonoperating (expenses) revenues	(214,410)	1,953,491	(85,465)	-		1,653,616
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, OR TRANSFERS	2,041,114	(518,374)	2,435,382	(3,358,805)		599,317
STATE CAPITAL GRANTS (FEDERAL)		3,342,194				3,342,194
CAPITAL PAYMENTS AND TRANSFERS TO INSTITUTIONS AND OUTSIDE ENTITIES	(59,759,371)	325,000	6,610,591	3,358,805	(B)	(49,464,975)
(DECREASE) INCREASE IN NET ASSETS (DEFICIT)	(57,718,257)	3,148,820	9,045,973	-		(45,523,464)
NET POSITION (DEFICIT) — Beginning of year	(147,454,127)	5,215,212	37,251,934			(104,986,981)
NET POSITION (DEFICIT) — End of year	$ (205,172,384)	$ 8,364,032	$ 46,297,907	$ -		$ (150,510,445)

(B) To eliminate interentity revenue/expense.

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

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 Policy Commission (the "Commission") 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 a matter paragraph for the early adoption of Governmental Accounting Standards Board Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 material weaknesses or significant deficiencies. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of combined 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 Commission's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Commission's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Deloitte & Touche LLP

November 22, 2013