West Liberty University

Combined Financial Statements as of and for the
Years Ended June 30, 2013 and 2012 (As Amended),
and Independent Auditors' Reports

WEST LIBERTY UNIVERSITY

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Liberty University:

We have audited the accompanying combined financial statements of combined statements of net position, and the related combined statements of revenues, expenses, and changes in net position, and of cash flows of West Liberty University (the "University") as of and for the year ended June 30, 2013, and the related notes to the combined statements, which collectively comprise the University's combined financial statements as listed in the table of contents.

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 combined 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 audit. We did not audit the financial statements of West Liberty University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with Government Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the combined financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, such combined financial statements referred to above present fairly, in all material respects, the financial position of the University and the discretely presented component unit of the University as of June 30, 2013, and the respective changes in their net position, and, where applicable, their cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 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.

Other Information

The financial statements of the University as of June 30, 2012, were audited by other auditors whose report dated November 20, 2012, expressed an unqualified opinion on those statements.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2013, on our consideration of the University'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 the 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 University's internal control over financial reporting and compliance.

Costey + Associates, PLLC

October 31, 2013

208 University Drive
CUB 109
West Liberty, WV 26074-0295

Management Discussion and Analysis
Fiscal Year 2013 (Unaudited) Financial Statements

About West Liberty University

West Liberty University ("WLU" or "University") is a state supported institution founded in 1837 and is West Virginia's oldest institution of higher education. Founded as West Liberty Academy, it was privately operated until 1870 when it became West Liberty State Normal School. The name was changed to West Liberty State Teachers College in 1931 and West Liberty State College in 1943. It was approved to become a "University" by the Higher Education Policy Commission in November 2008 and approved by the Board of Governors' in May 2009.

West Liberty University serves approximately 2,795 students representing 25 states and the District of Columbia and 26 countries. WLU grants baccalaureate degrees in elementary and secondary education, arts and sciences, business administration, dental hygiene, nursing, clinical laboratory science as well graduate degrees in Education and Physician Assistant Studies.

West Liberty University is governed by a 10 member Board of Governors that determines, controls, supervises, and manages the financial, business and educational policies and affairs of the University.

Overview of the Financial Statements and Financial Analysis

The following discussion and analysis of WLU's financial statements provides an overview of its financial activities for fiscal years 2013 and 2012 with an emphasis on the year ended June 30, 2013 and is required supplementary information prepared in accordance with the Governmental Accounting Standards Board (GASB).

GASB has revised the financial reporting guidelines for organizations that support government entities, effective for reporting periods beginning after June 15, 2003. Under GASB Statement No. 39, if a private foundation that provides financial support to a public college or university meets specified criteria, the university is required to include the foundation's financial activities in the university's financial statements. As a result, the financial statements of the West Liberty University Foundation, Inc. are discretely presented following the University's financial statements. The University does not control the resources of the Foundation and therefore, discussion and analysis of this component unit is not included. The West Liberty University Research Corporation, Inc. is presented as a combined component entity of the University.

There are three financial statements presented: the Combined Statement of Net Position; the Combined Statement of Revenues, Expenses, and Changes in Net Position; and the Combined Statement of Cash Flows.

Combined Statements of Net Position

The Combined Statement of Net Position presents the Assets (current and non-current) plus deferred outflows of resources, Liabilities (current and non-current) plus deferred inflows of resources, and Net Position (assets plus deferred outflows minus liabilities minus deferred inflows) of WLU as of June 30, 2013 and 2012. Assets denote the resources available to continue the operations of the University. Liabilities indicate how much the University owes vendors, employees and lenders. Deferred outflows and inflows are a consumption or acquisition of net position applicable to a future reporting period and Net Position measures the equity or the availability of funds of the University for future periods.

Net position is divided into three major categories. The first category, net investments in capital assets, provides equity in the property, plant, and equipment owned by WLU. The next category is restricted net position, which is divided into two categories, nonexpendable (permanently restricted) and expendable. Expendable restricted net position is available for expenditure but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The balances that have been restricted by the West Virginia Legislature ("Legislature") are within the expendable net position. These restricted activities are fundamental to the normal ongoing operations of WLU and are subject to change by future actions of the Legislature. The final category is unrestricted net position, which is available for expenditure for any lawful purpose of WLU.

Condensed Combined Statements of Net Position
(In Thousands)

	2013	2012 As Amended	2011
ASSETS AND DEFERRED OUTFLOWS:			
Current assets	$ 11,034	$ 9,481	$ 9,698
Other noncurrent assets	10,795	2,024	2,099
Capital assets — net	63,154	50,633	46,333
Deferred outflows of resources	103		
TOTAL ASSETS AND DEFERRED OUTFLOWS	$ 85,086	$ 62,138	$ 58,130
LIABILITIES AND DEFERRED INFLOWS:			
Current liabilities	$ 8,625	$ 5,011	$ 4,792
Noncurrent liabilities	28,327	19,931	18,581
Deferred inflows of resources	50		
TOTAL LIABILITIES AND DEFERRED INFLOWS	37,002	24,942	23,373
NET POSITION:			
Net investments in capital assets	50,988	37,587	32,719
Restricted expendable	383	1,873	1,810
Unrestricted	(3,287)	(2,264)	228
TOTAL NET POSITION	48,084	37,196	34,757
TOTAL LIABILITIES, DEFERRED INFLOWS AND NET POSITION	$ 85,086	$ 62,138	$ 58,130

A review of the individual asset and liability categories that contributed to the overall increase in net position indicates the following:

<u>2013:</u>

Noncurrent Assets increased by $21,292,901, primarily due to the progress on the Campbell Hall Health Sciences Building and unspent 2012 Revenue Bonds.

- In 2012, WLU issued $10,000,000 Revenue Bonds to help fund the construction of Campbell Hall. Noncurrent Cash and Cash Equivalents increased by $8,817,348 due to the non-expensed portion of the 2012 Revenue Bonds. These funds will be spent on the completion of Campbell Hall in FY14. In 2013, WLU refinanced the 2003 revenue bonds and the debt service reserve funds required by the bonds in the amount of $1,111,667 were applied to the redemption of the bonds during the refinancing.
- Capital Assets increased by almost $13 million due to construction work in progress, primarily, for Campbell Hall.

Noncurrent Liabilities increased by $8,395,769. The increase is primarily related to the 2012 Revenue Bonds issued to fund Campbell Hall.

- In FY13, the Other Post-Employment Benefits (OPEB) liability, increased by $44,696 compared to an increase of $1,874,984 in FY12. It is the state's intention to cover this liability in whole, by July 1, 2037, by continuing to decrease the policy rate and provide credits beginning in 2017. The Annual Required Contribution (ARC) per policy per month in FY13 was $79, compared to $761 in FY12. The total liability of $6,011,898 significantly impacts our unrestricted net position.

2012:

Noncurrent Assets increased by $4,223,673 mostly due to the completion of the Shaw Hall renovation project.

Total Liabilities increased $1,568,203 in FY12. In Noncurrent Liabilities, OPEB increased $1,874,984. The OPEB liability on the balance sheet is $5,967,202, which has a significant impact on our noncurrent liabilities and unrestricted net position. See footnotes for more information on OPEB.

Combined Statements of Revenues, Expenses, and Changes in Net Position

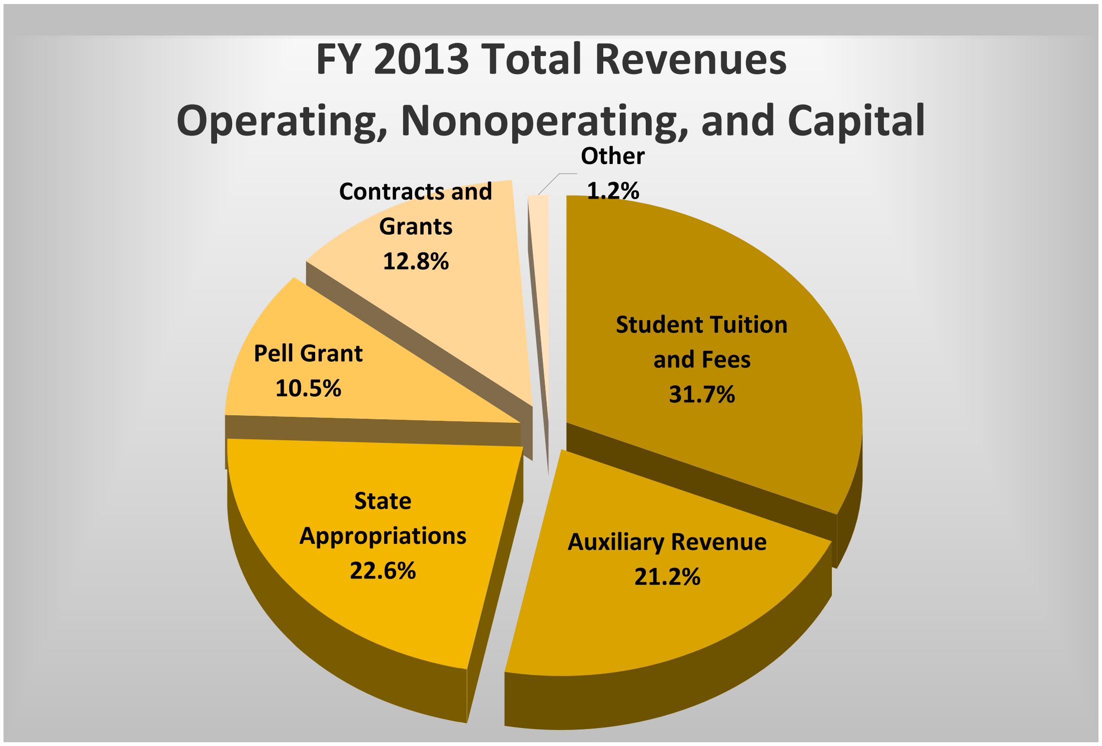
Changes in total net position, as presented on the Combined Statement of Net Position, is based on the activities presented in the Combined Statement of Revenues, Expenses, and Changes in Net Position (SRECNP). The purpose of the SRECNP is to present the revenues earned, both operating and non-operating, and the expenses incurred, operating and non-operating, and any other revenues, expenses, gains and losses earned or incurred by WLU.

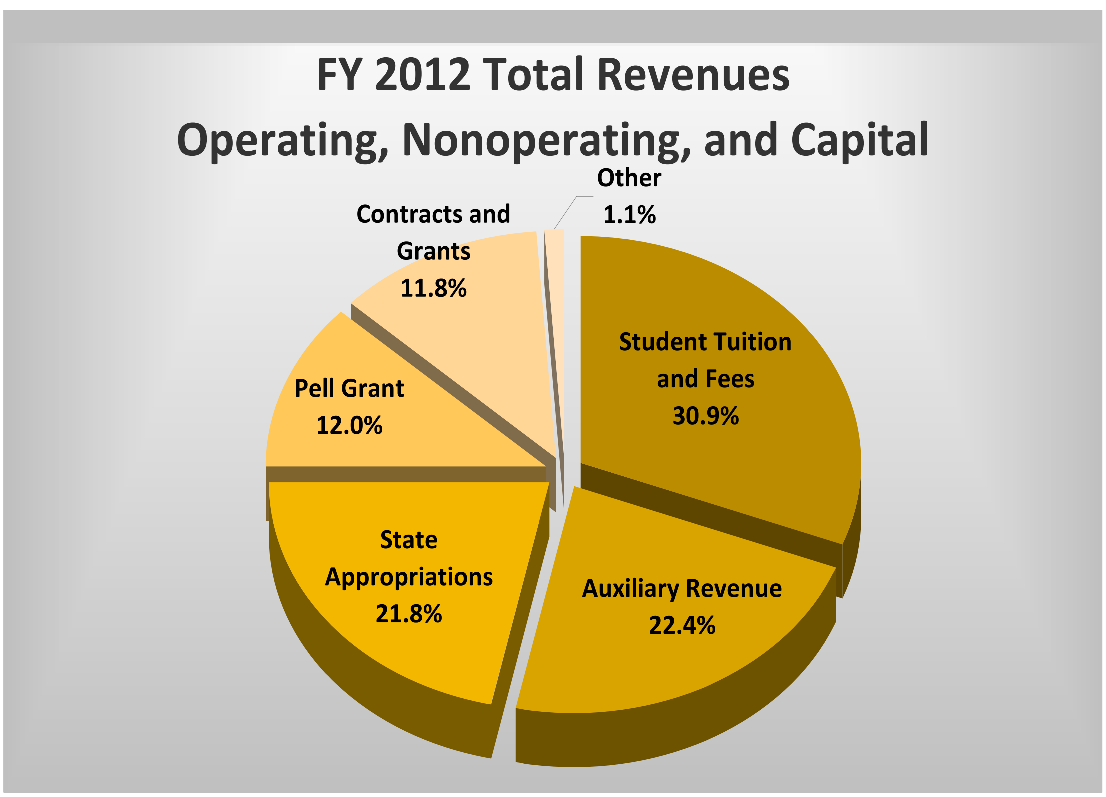
Generally speaking, operating revenues are earned for providing goods and services to the various customers and constituencies of WLU. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the WLU mission. Revenues for which goods and services are not provided are reported as non-operating revenues. For example, state appropriations are non-operating revenues because they are provided by the Legislature to WLU without the Legislature directly receiving commensurate goods and services for those revenues. Likewise, Pell grants are reported as non-operating, because of specific guidance in the AICPA industry audit guide.

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

	2013	2012 As Amended	2011
OPERATING REVENUES	$28,153	$26,614	$25,157
OPERATING EXPENSES	40,997	41,140	39,973
OPERATING LOSS	(12,844)	(14,526)	(14,816)
NON-OPERATING REVENUES (NET OF NON-OPERATING EXPENSES)	13,442	12,994	14,479
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	598	(1,532)	(337)
CAPITAL AND BOND PROCEEDS	8,640	3,277	736
CAPITAL STATE APPROPRIATION		694	56
CAPITAL GIFTS	1,650		
INCREASE IN NET POSITION	10,888	2,439	455
NET POSITION — Beginning of year	37,196	34,757	34,302
NET POSITION — End of year	$48,084	$37,196	$34,757

- A review of the individual revenue and expense categories that contributed to the overall increase in net position reveals the following:



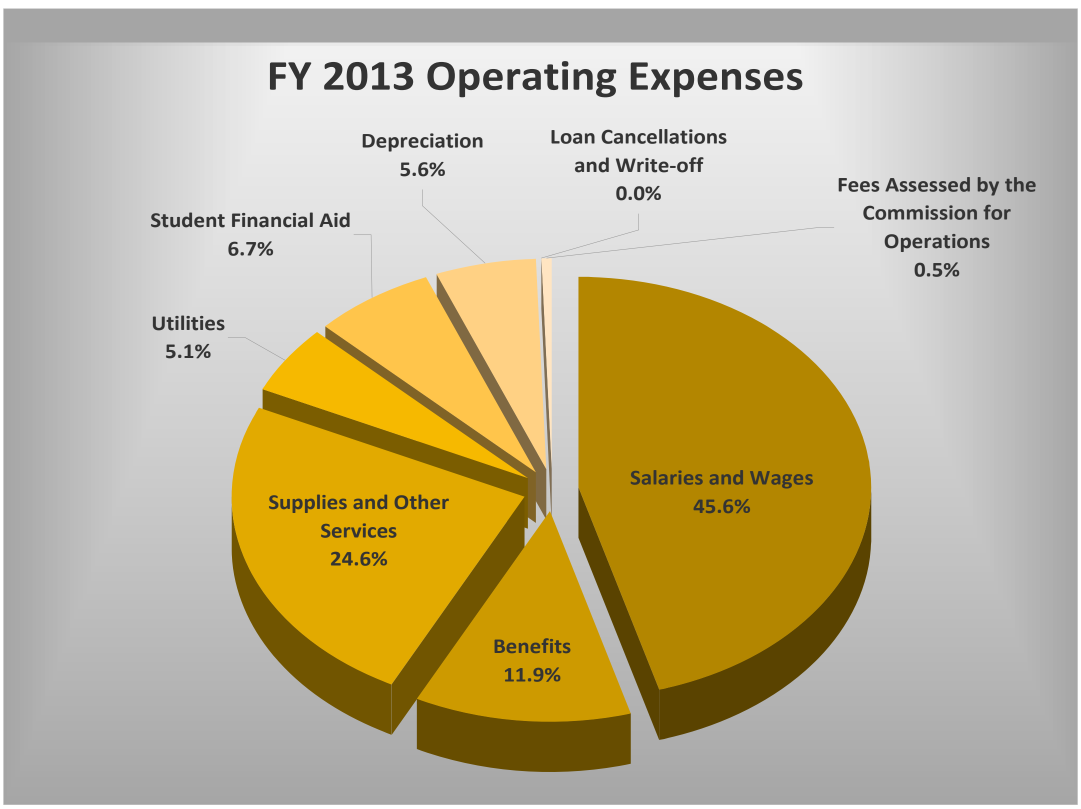


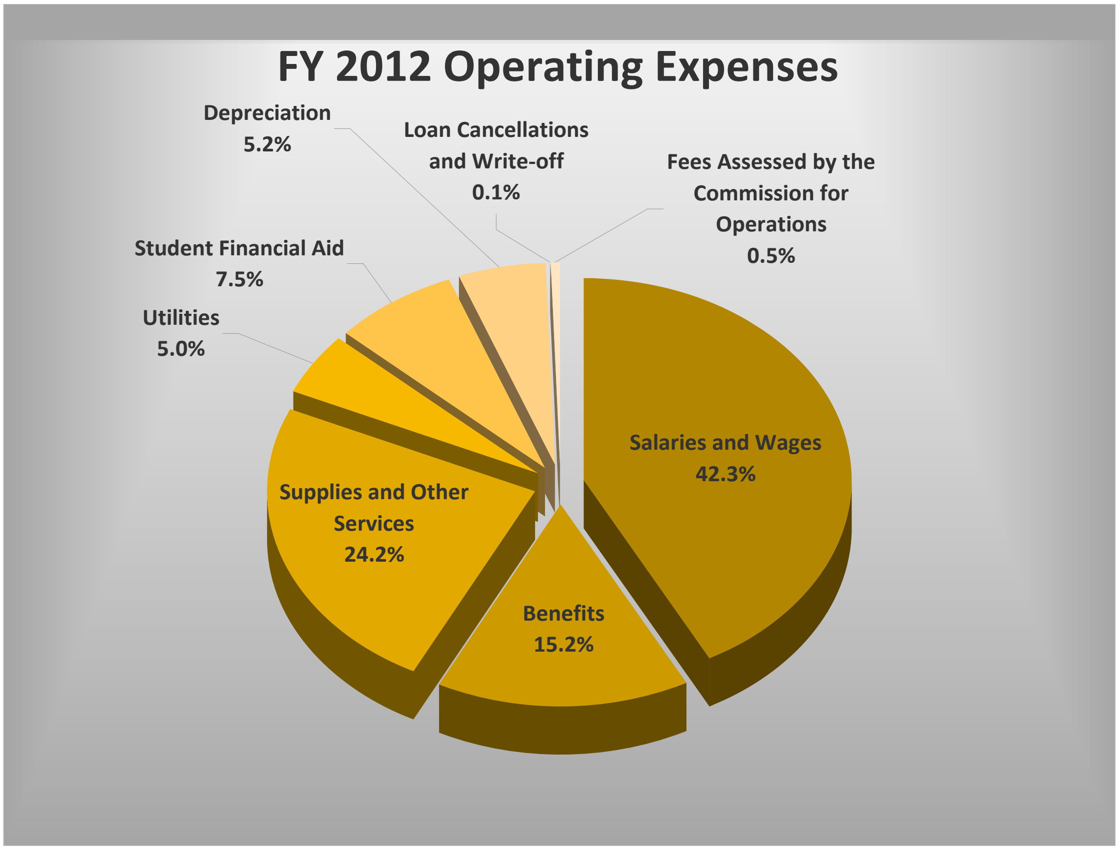
- Student tuition and fees (net of scholarship allowance) accounted for 48% of WLU's operating revenues in FY13, as opposed to 47% in FY12 and 31% of total revenues in FY13 and FY12.

- Pell decreased from $4,852,957 in FY12 to $4,435,617 in FY13, due to a further Federal reduction in the Estimated Family Contribution (EFC).

- The State Appropriation was $9,299,525 in FY12 and $9,322,525 in FY13. In FY12, an accounting error resulted in a loss of Appropriation and Tuition & Fees revenue totaling $494,468. WLU's administration petitioned the Legislature and the State only returned $247,233 into Appropriations in FY13. Therefore, Appropriations received were $8,805,057 in FY12 and $9,569,758 in FY13.

- Investment income increased to $15,961 in FY13 contrasted to $12,060 in FY12. WLU participates in the investment pool managed by the state.





- Salary/wages and employee benefit categories made up 57.5% and 57.7% of the operating expenses of WLU for FY13 and FY12, respectfully. The University has fully funded the Mercer Scale for Classified Staff. An employee raise of approximately 3% was given to eligible Non Classified and Faculty in January of FY13. Similar salary increases were made in July of FY12. Salary and wages increased by $1,283,611 in FY13. This can be attributed to the salary increases and the addition of faculty. Benefits decreased by $1,404,915 in FY13 due to the substantial reduction in the Annual Required Contribution (ARC).

Combined Statements of Cash Flows

The Combined Statement of Cash Flows presents detailed information about the cash activities of WLU during the year. The statement is divided into five parts. The first section deals with operating cash flows and shows the net cash used in the operating activities of WLU. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for non-operating, non-investing, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital assets and related items, and related funding received. The fourth section reflects the cash flows from investing activities and shows interest received from investing activities. The fifth section reconciles the net cash used in operating activities to the operating loss reflected in the SRECNP.

Condensed Combined Statements of Cash Flows
(In Thousands)

	2013	2012 As Amended	2011
Cash Provided by (Used in)			
OPERATING ACTIVITIES	$ (10,799)	$ (10,043)	$ (11,546)
NONCAPITAL FINANCING ACTIVITIES	14,005	13,658	14,323
CAPITAL FINANCING ACTIVITIES	(2,003)	(3,698)	(2,779)
INVESTING ACTIVITIES	16	11	16
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,219	(72)	14
CASH AND CASH EQUIVALENTS — Beginning of year	7,801	7,873	7,859
CASH AND CASH EQUIVALENTS — End of year	$ 9,020	$ 7,801	$ 7,873

Capital Asset and Debt Administration

<u>2013 Capital:</u>

- As of June 30, Campbell Hall was in the middle of completion. The funding for the building consists of $12.75 million in bond proceeds from the 2010 Lottery Revenue Bonds, $10 million in private placement bonds, $1.2 million generated from the sale/lease of natural gas rights and timber and $339,000 in private restricted funds with the Foundation. The University recognized $8,477,418 from the 2010 Lottery Revenue Bonds from the Commission in FY13.

- Other capital projects completed during FY13 were the Soccer Field $389,134, Kelly Hall Flue $141,114, Shaw Hall Columns $362,015 (partially funded with a $100,000 grant from the WV Archives and History Commission), and the Curtis Hall sewer $43,000.

2012 Capital:

- In FY12, the University completed several capital projects with spending over $5.8 million.
- The Shaw Hall Renovation was completed in FY12 costing $5,075,467. WV EDA Bonds contributed $2,750,000 to the project.
- The Main Hall window replacement project was completed in FY 12 and was funded by $611,929 ARRA Funds.
- The Commons window replacement project was completed in FY 12 and cost the University $125,741.
- The new parking lot project cost the University $61,004.
- The Shaw Hall sewer upgrade cost the University $25,756.
- The restoration of Shaw Hall columns commenced in FY12 with the assistance of a $100,000 WV History and Culture Grant. Total spent in FY12 was $39,221.
- The University invested in $113,000 in the build out of the new Taco Bell/Pizza Hut located in the Student Union.
- The University finalized the plans for the new 71,200 square foot Health Sciences Building. The project will cost over $22 million with funding sources of $12.75 million in bond proceeds from the 2010 Lottery Revenue Bonds, $10 million in private placement bonds, $1.2 million generated from the sale/lease of natural gas rights and timber and $339,000 in private restricted funds with the Foundation. The University recognized $999,814 of these bond proceeds from the Commission in FY12.

2013 Debt:

- On May 31, 2013, the University drew down the final balance of the 2012 Bonds, $9,925,000. The University did not expense any of these funds in FY13. The first principal payment on this debt will be in October, 2013.
- In FY13, the University refinanced $9,810,000 from the 2003 A, B, and C bonds. Due to the timing of the refinancing, WLU did not make a principal payment in FY 2013. The next principal payment on this debt will be due in May, 2014.

2012 Debt:

- In May 2012, the University authorized $10 million in private placement bonds to be acquired by a bank. As of June 30, 2012, the University has only issued $75,000 of these bonds for the payment of issuance costs.
- The University repaid $460,000 in FY12 for principal on bonds previously issued in 2003.

Economic Outlook

West Liberty University continues to be successful in student retention and enrollment increases. Admissions, up in FY13, represented the seventh consecutive year of enrollment increase. The University remains very competitive with four-year educational institutions in the geographical enrollment area.

The State of West Virginia is facing significant revenue declines which results in further reductions to State Appropriations. Although FY13 funding remained flat, the University faces an 8.9% reduction in FY14 and a projected 8.33% in FY15. The University has implemented cost efficiency strategies and continues to invest in initiatives that will increase retention and enrollment. The University is revising our strategic plan to ensure that we overcome any future challenges due to enrollment declines and additional reductions of State support.

The Physician Assistant Program will graduate its first class in June of 2014. The program receives over 700 applications for 18 positions and generates over $1,000,000 a year in revenue. The University's investment in international recruitment of students has also provided revenue and enrollment increases over the past few years.

We are currently in the planning phases of several Master's programs including an International MBA program (projected start Jan. 2015), Master of Professional Studies (projected start Sept. 2014) and Master of Science in Dental Hygiene (projected start Sept. 2016). The University continues to increase the development and offering of online classes and is awaiting HEPC approval to offer online programs.

WEST LIBERTY UNIVERSITY

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

	2013	2012 As Amended See Note 2
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 9,020,738	$ 7,800,866
Accounts receivable — net	1,494,399	1,198,580
Loans to students — current portion	399,765	377,307
Prepaid expenses	1,689	3,067
Inventories	116,913	101,598
Total current assets	11,033,504	9,481,418
NONCURRENT ASSETS:		
Cash and cash equivalents	9,929,015	1,111,667
Loans to students — net of allowance of $774,225 and $746,009 in 2013 and 2012, respectively	866,468	912,203
Capital assets — net	63,153,935	50,632,647
Total noncurrent assets	73,949,418	52,656,517
TOTAL ASSETS	84,982,922	62,137,935
DEFERRED OUTFLOWS OF RESOURCES		
Deferred loss on refunding of debt-net	102,557	
TOTAL	$85,085,479	$62,137,935

(Continued)

WEST LIBERTY UNIVERSITY

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

	2013	2012 As Amended See Note 2
LIABILITIES, DEFERRED INFLOWS AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 520,662	$ 643,899
Due to Commission	3	192,854
Accrued liabilities	5,269,537	2,296,790
Unearned revenues	148,661	128,703
Compensated absences	1,256,384	1,142,026
Debt obligation to Commission — current portion	129,794	126,086
Bonds payable — current portion	1,300,000	480,000
Total current liabilities	8,625,041	5,010,358
NONCURRENT LIABILITIES:		
Advances from federal sponsors	1,526,340	1,525,389
Other post employment benefits liability	6,011,898	5,967,202
Debt obligation to Commission	2,278,820	2,408,614
Bonds payable	18,510,000	10,030,084
Total noncurrent liabilities	28,327,058	19,931,289
Total liabilities	36,952,099	24,941,647
DEFERRED INFLOWS OF RESOURCES		
Service concession arrangement—net	49,579	
TOTAL	37,001,678	24,941,647
NET POSITION		
Net investment in capital assets	50,988,299	37,587,863
Restricted for — expendable:		
Scholarships	14,513	81,013
Debt service		1,109,081
Capital projects	367,746	682,672
Unrestricted (deficit)	(3,286,757)	(2,264,341)
TOTAL NET POSITION	$ 48,083,801	$ 37,196,288

See notes to combined financial statements.

(Concluded)

WEST LIBERTY UNIVERSITY

WEST LIBERTY UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF WEST LIBERTY UNIVERSITY
STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2013 AND 2012

	2013	2012
ASSETS		
Cash and cash equivalents	$ 1,360,933	$ 664,150
Unconditional promises to give	172,257	561,221
Other receivables	8,532	31,758
Investments at estimated fair value	10,561,251	10,103,269
Beneficial interest in perpetual trust	2,098,005	2,026,141
Other assets	44,036	44,036
Total assets	$ 14,245,014	$ 13,430,575
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable and accrued expenses	$ 21,591	$ 45,349
Liability for charitable gift annuities	60,607	65,354
Total liabilities	82,198	110,703
NET ASSETS		
Unrestricted	1,935,952	1,838,258
Temporarily restricted	2,806,822	2,322,218
Permanently restricted	9,420,042	9,159,396
Total net assets	14,162,816	13,319,872
TOTAL	$ 14,245,014	$ 13,430,575

WEST LIBERTY UNIVERSITY

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

	2013	2012 As Amended See Note 2
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $6,026,717 and $5,294,072 in 2013 and 2012, respectively	$ 13,407,500	$ 12,466,982
Contracts and grants:		
Federal	875,932	538,283
State	3,894,206	3,296,983
Private	632,481	944,934
Interest on student loans receivable	31,171	39,132
Auxiliary enterprise revenue — net of scholarship allowance of $4,040,962 and $3,840,022 in 2013 and 2012, respectively	8,986,236	9,042,847
Miscellaneous	325,891	284,917
Total operating revenues	28,153,417	26,614,078
OPERATING EXPENSES:		
Salaries and wages	18,686,184	17,402,573
Benefits	4,872,902	6,277,817
Supplies and other services	10,087,067	9,942,505
Utilities	2,104,254	2,071,303
Student financial aid — scholarships and fellowships	2,739,267	3,104,722
Depreciation and amortization	2,290,869	2,119,470
Loan cancelations and write-offs	16,768	27,368
Fees assessed by the Commission for operations	199,656	193,934
Total operating expenses	40,996,967	41,139,692
OPERATING LOSS	(12,843,550)	(14,525,614)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	9,569,758	8,805,057
Federal Pell Grants	4,435,617	4,852,957
Investment income	15,961	12,060
Gain (loss) on disposal of capital assets	3,798	(12,711)
Interest on indebtedness	(575,580)	(519,653)
Fees assessed by the Commission for debt service	(140,004)	(259,097)
Other nonoperating income	131,595	114,903
Net nonoperating revenues	13,441,145	12,993,516
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	597,595	(1,532,098)
CAPITAL AND BOND PROCEEDS FROM COMMISSION	8,639,918	999,814
BOND PROCEEDS FROM ECONOMIC DEVELOPMENT AUTHORITY		2,277,340
STATE CAPITAL GRANTS (FEDERAL)		694,329
CAPITAL GIFTS	1,650,000	-
INCREASE IN NET POSITION	10,887,513	2,439,385
NET POSITION — Beginning of year	37,196,288	34,756,903
NET POSITION — End of year	$ 48,083,801	$ 37,196,288

See notes to combined financial statements.

WEST LIBERTY UNIVERSITY

WEST LIBERTY UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF WEST LIBERTY UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2013

	2013			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
SUPPORT AND REVENUES				
Contributions	$ 59,298	$ 1,611,208	$ 93,618	$ 1,764,124
Interest and dividend income	47,915	140,486	95,164	283,565
Fundraising		20,774		20,774
Gain on investments	767,923	170,704		938,627
Change in value of split interest agreements		(6,518)	71,864	65,346
Other income	23,000	40,680		63,680
Net assets released from restrictions and other	1,492,730	(1,492,730)		
Total support and revenues	2,390,866	484,604	260,646	3,136,116
EXPENSES AND LOSSES				
West Liberty University support:				
Scholarships	563,365			563,365
Athletic programs	139,564			139,564
Academic programs	986,317			986,317
Capital improvements	127,199			127,199
Other programs	239,332			239,332
General and administrative	237,395			237,395
Total expenses and losses	2,293,172	-	-	2,293,172
Changes in net assets	97,694	484,604	260,646	842,944
NET ASSETS AT BEGINNING OF YEAR	1,838,258	2,322,218	9,159,396	13,319,872
NET ASSETS AT END OF YEAR	$ 1,935,952	$ 2,806,822	$ 9,420,042	$ 14,162,816

WEST LIBERTY UNIVERSITY

WEST LIBERTY UNIVERSITY FOUNDATION, INCORPORATED
A COMPONENT UNIT OF WEST LIBERTY UNIVERSITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

	2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**
SUPPORT AND REVENUES				
Contributions	$ 143,512	$ 721,581	$ 300,989	$ 1,166,082
Interest and dividend income	92,991	108,207	101,092	302,290
Fundraising		42,047		42,047
Loss on investments	(269,417)	(66,574)		(335,991)
Change in value of split interest agreements		(142,755)	39,171	(103,584)
Other income	32,000	23,014		55,014
Net assets released from restrictions and other	2,778,028	(2,758,455)	(19,573)	
Total support and revenues	2,777,114	(2,072,935)	421,679	1,125,858
EXPENSES AND LOSSES				
West Liberty University support:				
Scholarships	689,388			689,388
Athletic programs	79,806			79,806
Academic programs	939,572			939,572
Capital improvements	47,330			47,330
Other programs	356,447			356,447
General and administrative	227,496			227,496
Total expenses and losses	2,340,039	-	-	2,340,039
Changes in net assets	437,075	(2,072,935)	421,679	(1,214,181)
Net Assets at beginning of year	1,401,183	4,395,153	8,737,717	14,534,053
Net Assets at end of year	$ 1,838,258	$ 2,322,218	$ 9,159,396	$ 13,319,872

WEST LIBERTY UNIVERSITY

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

	2013	2012 As Amended See Note 2
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 13,183,892	$ 12,281,378
Contracts and grants	5,301,830	4,742,789
Payments to and on behalf of employees	(23,423,706)	(21,249,136)
Payments to suppliers	(10,141,610)	(9,917,056)
Payments to utilities	(2,089,302)	(2,016,188)
Payments for scholarships and fellowships	(2,739,267)	(3,104,722)
Loans issued to students	(219,433)	(201,455)
Collection of loans to students	212,375	237,050
Auxiliary enterprise charges	8,991,641	9,071,885
Fees assessed by Commission	(199,656)	(193,934)
Other receipts — net	324,543	305,429
Net cash used in operating activities	(10,798,693)	(10,043,960)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	9,569,758	8,805,057
Federal Pell grants	4,435,617	4,852,957
William D. Ford direct lending receipts	15,397,783	16,720,339
William D. Ford direct lending payments	(15,397,783)	(16,720,339)
Net cash provided by noncapital financing activities	14,005,375	13,658,014
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Purchases of capital assets	(9,884,329)	(6,854,116)
State capital grants (federal)		694,329
Capital project proceeds from Commission	8,288,532	1,188,699
Capital project proceeds from Economic Development Authority	1,718	2,750,000
Proceeds from bond issuance	19,735,000	75,000
Principal paid on long-term liabilities	(126,086)	(192,800)
Principal paid on bonds	(10,545,000)	(460,000)
Interest paid on bonds	(654,291)	(638,504)
Other nonoperating receipts	138,781	
Additions to noncurrent cash and cash equivalents	(8,817,348)	(1,514)
Fees assessed by Commission	(140,004)	(259,098)
Net cash used in capital financing activities	(2,003,027)	(3,698,004)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	16,217	11,340
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,219,872	(72,610)
CASH AND CASH EQUIVALENTS — Beginning of year	7,800,866	7,873,476
CASH AND CASH EQUIVALENTS — End of year	$ 9,020,738	$ 7,800,866

(Continued)

WEST LIBERTY UNIVERSITY

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

	2013	2012 As Amended See Note 2
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (12,843,550)	$ (14,525,614)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization expense	2,290,869	2,119,470
Changes in assets and liabilities:		
Accounts receivable — net	6,970	(182,204)
Loans to students — net	23,277	35,672
Prepaid expenses	1,378	(2,331)
Inventories	(15,315)	(15,132)
Accounts payable	(272,159)	139,164
Due to Commission	(183,919)	2,469
Accrued liabilities	755	375,516
Compensated absences	114,358	146,025
Other postemployment benefits	44,696	1,874,984
Unearned revenues	19,958	(18,202)
Advances from federal sponsors	951	(570)
Other	13,038	6,793
NET CASH USED IN OPERATING ACTIVITIES	$ (10,798,693)	$ (10,043,960)
NONCASH TRANSACTIONS — Property additions in accounts payable and accrued liabilities	$ 3,239,715	$ 268,022

See notes to combined financial statements.

(Concluded)

1. ORGANIZATION

West Liberty University (the "University") is governed by the West Liberty University Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653").

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the University under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and the University's budget request, the duty to review, at least every five years, all academic programs offered at the University, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

West Liberty University Research Corporation ("WLURC") has been created to foster and support research and academic program development at the University and further to provide services for inventions of the University faculty, staff, and students; and has been designated by the University to fulfill the provisions of the West Virginia Code pertaining to the role of public institutions to work in partnership with business, industry, or government. The University encourages the acceptance of grants, contracts, and equipment and the sharing of facilities, equipment, and skilled personnel to promote and develop joint, applied research and development, technical assistance, and instructional programs in West Virginia. WLURC has an approved Affiliation Agreement with the West Liberty University Board of Governors on behalf of West Liberty University providing for services and activities related to promotion, encouragement, and stimulation of research. This Affiliation Agreement is effective beginning July 1, 2010, and will be renewed automatically from fiscal year to fiscal year unless terminated or revised in writing by the parties as provided hereinafter within ninety (90) days of commencement of each new fiscal year.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with generally accepted accounting principles as prescribed by Governmental Accounting Standards Board (GASB) standards. The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity — The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. The University is a separate entity which, along with all the State institutions of higher education, the Commission (which includes the West Virginia Network for Educational Telecomputing (WVNET)), and the West Virginia Council for Community and Technical College Education, form the Higher Education Fund of the State. The 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 University, including its blended component unit, the WLURC, a nonprofit, nonstock corporation. The basic criterion for inclusion in the accompanying combined financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of the WLURC. A related organization of the University, the West Liberty University Foundation, Incorporated (the "Foundation") is not part of the University reporting entity and is not included in the accompanying combined financial statements, as the University has no ability to designate management, cannot significantly influence operations of this entity, and is not accountable for the fiscal matters of the Foundation under GASB.

In accordance with GASB, the audited financial statements of the Foundation are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2013 and 2012. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from the GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 13 and 18).

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

- *Net Investment in Capital Assets* — This represents the University's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent that 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, net of related debt.

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

  The West Virginia State Legislature (the "State Legislature"), as a regulatory body outside the reporting entity, has restricted the use of certain funds, by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 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 institution. These restrictions are subject to change by future actions of the State Legislature.

- *Restricted Net Position — Nonexpendable* — This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The University does not have any restricted nonexpendable net position as of June 30, 2013 and 2012.

- *Unrestricted Net Position* — This represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the Board to meet current expenses for any purpose.

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, 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 asset funds to reduce risk and offer investment liquidity diversification to the Fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual audited financial report. A copy of that annual 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.

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

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

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

Capital Assets — Capital assets include property, plant, and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair value at the date of donation in the case of gifts. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was $109,426 and $117,138 for the years ended June 30, 2013 and 2012, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, and 3 to 12 years for furniture and equipment. The University capitalizes all purchases of library books and uses a capitalization threshold of $5,000 for other capital assets. The combined financial statements reflect all adjustments required by GASB.

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

Compensated Absences and Other Postemployment Benefits (OPEBs) — GASB provides standards for the measurement, recognition, and display of 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 postemployment benefits for the State. Effective July 1, 2007, the University was required to participate in this multiple employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan and its stand-alone financial statements can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, West Virginia 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 University's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick-leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired 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 sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3 1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010 receive no health insurance premium subsidy from the University. Two groups of employees hired after July 1, 2010 will not be required to pay the unsubsidized rate: 1) active employees who were originally hired before July 1, 2010, who have a break in service of fewer than two years after July 1, 2010; and 2) retired employees who retired before July 1, 2010, return to active service after July 1, 2010, and then go back into retirement. In those cases, the original hire date will apply.

The estimated expense and expense incurred for 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.

Deferred Outflows of Resources — Consumption of net position by the University that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of new position. A deferred outflow on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This deferred outflow is accreted over the shorter of the life of the refunded bond or the refinancing bond issue.

Deferred Inflows of Resources — An acquisition of net position by the University that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. Renovations made to University facilities by vendors under a service concession arrangement are capitalized and accreted over the period of the contract.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property and casualty, and liability coverage to the University and its employees. Such coverage is provided to the University 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 University or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University'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 University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurers, the University has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — The University has classified its revenues according to the following criteria:

- *Operating Revenues* — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, and (4) sales and services of educational activities.

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

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

Use of Restricted Net Position — The University 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 University attempts to utilize restricted net position first when practicable. The University did not have any designated net position funds as of June 30, 2013 or 2012.

Federal Financial Assistance Programs — The University makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through entities like the University. Direct student loan receivables are not included in the University's statements of net position, as the loans are repayable directly to the U.S. Department of Education. In 2013 and 2012, the University received and disbursed $15,397,783 and $16,720,339, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses, and changes in net position.

The University also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant, Academic Competitive Grant, Science Math Access to Retain Talent Grant, Federal Teacher Education Assistance for College and Higher Education Grant, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In 2013 and 2012, the University received and disbursed approximately $4,828,000 and $5,280,000, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the combined financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the combined financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a University basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

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

Income Taxes — The University 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 statements of cash flows.

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

Risks 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.

Reclassification — Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 classifications for comparative purposes.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — The University has adopted GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The objective of this statement is to provide guidance for reporting deferred outflows of resources, deferred inflows of resources, and net position in the statement of financial position and related disclosures. The adoption of this statement resulted in the addition of deferred inflows and deferred outflows in the statement of net position. Also refer to Note 2 "Deferred Outflows of Resources" and "Deferred Inflows of Resources" and Note 15 for related disclosures.

The University 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 statements of position. See "Early Adoption of GASB No. 65" section below for further description of the amendments.

The University has early adopted GASB 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 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 University has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its 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 University has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB 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 encouraged. 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 University has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

Early Adoption of GASB No. 65 — As required with the adoption of GASB Statement No. 65 as discussed above, the University's financial statements have been amended from the amounts previously reported as described below. Such changes relate to removing bond issuance costs previously recorded as other assets to operating expenses in the amount of $73,844.

	As Previously Reported	Statement of Net Position Effect	Statement of Revenues, Expenses, and Changes in Net Position Effect	As Amended
Bond issuance costs - net	$ 73,844	$ (73,844)	$ -	$ -
Net investment in capital assets	37,661,707	(73,844)		37,587,863
Total operating expenses	41,058,491		81,201	41,139,692
Operating loss	(14,444,413)		(81,201)	(14,525,614)
Net nonoperating revenues	12,986,159		7,357	12,993,516
Loss before other revenues, expenses, gains, or losses	(1,458,254)		(73,844)	(1,532,098)
Increase in net position	2,513,229		(73,844)	2,439,385
Net position - end of year	37,270,132		(73,844)	37,196,288

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents held at June 30, 2013 and 2012, was as follows:

2013	Current	Noncurrent	Total
With State Treasurer	$ 8,728,219	$ -	$ 8,728,219
With Trustee Bank		9,929,015	9,929,015
In bank	290,379		290,379
On hand	2,140		2,140
	$ 9,020,738	$ 9,929,015	$ 18,949,753

2012	Current	Noncurrent	Total
With State Treasurer	$ 7,434,939	$ -	$ 7,434,939
With Trustee Bank		1,111,667	1,111,667
In bank	348,487		348,487
On hand	17,440		17,440
	$ 7,800,866	$ 1,111,667	$ 8,912,533

Cash and cash equivalents with trustee bank include deposits held by the Bond Trustee for the bonds issued in March 2013 and May 2012. The University uses WesBanco Bank (the "Trustee Bank") as its trustee bank for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2013 and 2012, is $9,929,015 and $1,111,667, respectively, and was invested in commercial paper and U.S. Treasury money market funds.

Cash and cash equivalents with the Trustee Bank in commercial paper and U.S. Treasury money market funds are rated AAAm by Standard and Poor's and Aaa by Moody's. The carrying values at June 30, 2013, of the U.S. Treasury money market funds were $9,929,015. The carrying values at June 30, 2012, of the commercial papers and U.S. Treasury money market funds were $1,107,828 and $3,839, respectively. These funds have neither significant custodial credit risk nor interest rate risk. These funds are neither exposed to a concentration of credit risk nor any foreign currency risk.

The combined carrying amount of cash in the bank at June 30, 2013 and 2012 was $290,379 and $348,487, respectively, as compared with the combined bank balance of $384,331 and $482,851, respectively. The difference in these balances was primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by State's agent. Regarding federal depository insurance, accounts are 100% insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. Cash and cash equivalents in the bank included $7,990 and $26,905 of restricted cash for grants as of June 30, 2013 and 2012, respectively.

Amounts with the State Treasurer 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 University 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 University’s ownership represented 0.32% and 0.23%, 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 University’s ownership represented 0.02% and 0.02%, respectively.

WV Short Term Bond Pool:

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

Security Type	Credit Rating* Moody's	Credit Rating* S&P	2013 Carrying Value	2013 Percent of Pool Assets	2012 Carrying Value	2012 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 University's ownership represented 0.10% and 0.17%, 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.

4. ACCOUNTS RECEIVABLE

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

	2013	2012
Student tuition and fees — net of allowance for doubtful accounts of $763,823 and $1,322,134 in 2013 and 2012, respectively	$ 1,129,354	$ 974,367
Due from West Virginia agencies	19,766	34,555
Interest receivable on State cash accounts	421	786
Due from Component Unit- West Liberty Foundation		5,443
Grants and contracts receivable	179,524	147,344
Due from other State Universities	2,834	
Due from the Commission	162,500	36,085
	$ 1,494,399	$ 1,198,580

5. CAPITAL ASSETS

Capital asset transactions for the years ended June 30, 2013 and 2012, were as follows:

	2013			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 132,777	$ 50,000	$ -	$ 182,777
Construction in progress	1,439,766	12,578,896	1,001,207	13,017,455
Total capital assets not being depreciated	$ 1,572,543	$ 12,628,896	$ 1,001,207	$ 13,200,232
Other capital assets:				
Infrastructure	$ 7,053,288	$ 640,844	$ -	$ 7,694,132
Buildings	65,958,596	2,168,916		68,127,512
Leasehold improvements	829,767			829,767
Equipment	7,170,603	328,814	336,862	7,162,555
Leased equipment	194,182		66,270	127,912
Library books	2,272,929	39,082	7,613	2,304,398
Total other capital assets	83,479,365	3,177,656	410,745	86,246,276
Less accumulated depreciation for:				
Infrastructure	1,994,044	374,523		2,368,567
Buildings	24,901,412	1,352,560		26,253,972
Leasehold improvements	239,955	82,332		322,287
Equipment	4,981,077	429,018	336,862	5,073,233
Leased equipment	194,183		66,270	127,913
Library books	2,108,590	45,624	7,613	2,146,601
Total accumulated depreciation	34,419,261	2,284,057	410,745	36,292,573
Other capital assets — net	$ 49,060,104	$ 893,599	$ -	$ 49,953,703
Capital asset summary:				
Capital assets not being depreciated	$ 1,572,543	$ 12,628,896	$ 1,001,207	$ 13,200,232
Other capital assets	83,479,365	3,177,656	410,745	86,246,276
Total cost of capital assets	85,051,908	15,806,552	1,411,952	99,446,508
Less accumulated depreciation	34,419,261	2,284,057	410,745	36,292,573
Capital assets — net	$ 50,632,647	$ 13,522,495	$ 1,001,207	$ 63,153,935

	2012			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 108,777	$ 24,000	$ -	$ 132,777
Construction in progress	1,864,814	5,597,701	6,022,749	1,439,766
Total capital assets not being depreciated	$ 1,973,591	$ 5,621,701	$ 6,022,749	$ 1,572,543
Other capital assets:				
Infrastructure	$ 6,915,654	$ 137,634	$ -	$ 7,053,288
Buildings	59,935,849	6,150,747	128,000	65,958,596
Leasehold improvements	829,767			829,767
Equipment	7,024,973	497,067	351,437	7,170,603
Leased equipment	292,090		97,908	194,182
Library books	2,248,140	39,515	14,726	2,272,929
Total other capital assets	77,246,473	6,824,963	592,071	83,479,365
Less accumulated depreciation for:				
Infrastructure	1,642,959	351,085		1,994,044
Buildings	23,789,309	1,227,516	115,413	24,901,412
Leasehold improvements	157,623	82,332		239,955
Equipment	4,924,397	407,993	351,313	4,981,077
Leased equipment	290,884	1,208	97,909	194,183
Library books	2,081,337	41,979	14,726	2,108,590
Total accumulated depreciation	32,886,509	2,112,113	579,361	34,419,261
Other capital assets — net	$ 44,359,964	$ 4,712,850	$ -	$ 49,072,814
Capital asset summary:				
Capital assets not being depreciated	$ 1,973,591	$ 5,621,701	$ 6,022,749	$ 1,572,543
Other capital assets	77,246,473	6,824,963	592,071	83,479,365
Total cost of capital assets	79,220,064	12,446,664	6,614,820	85,051,908
Less accumulated depreciation	32,886,509	2,112,113	579,361	34,419,261
Capital assets — net	$ 46,333,555	$ 10,334,551	$ 6,035,459	$ 50,632,647

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

The University had construction commitments of approximately $9 million as of June 30, 2013.

6. CHANGES IN LONG-TERM LIABILITIES

Long-term obligation transactions for the University for the years ended June 30, 2013 and 2012, were as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Revenue bonds payable	$ 10,620,000	$ 19,735,000	$ (10,545,000)	$ 19,810,000	$ 1,300,000
Discount on issuance	(109,916)		109,916		
Total bonds payable — net	10,510,084	19,735,000	(10,435,084)	19,810,000	
Other long-term liabilities:					
Advances from federal sponsors	1,525,389	951		1,526,340	
OPEB liability	5,967,202	737,496	(692,800)	6,011,898	
Debt obligation to Commission	2,534,700		(126,086)	2,408,614	129,794
Total long-term liabilities	$ 20,537,375	$ 20,473,447	$ (11,253,970)	$ 29,756,852	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable:					
Revenue bonds payable	$ 11,005,000	$ 75,000	$ (460,000)	$ 10,620,000	$ 480,000
Discount on issuance	(117,272)		7,356	(109,916)	
Total bonds payable — net	10,887,728	75,000	(452,644)	10,510,084	
Other long-term liabilities:					
Advances from federal sponsors	1,525,959		(570)	1,525,389	
OPEB liability	4,092,218	2,494,842	(619,858)	5,967,202	
Debt obligation to Commission	2,727,500		(192,800)	2,534,700	126,086
Total long-term liabilities	$ 19,233,405	$ 2,569,842	$ (1,265,872)	$ 20,537,375	

7. BONDS PAYABLE

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

	Original Interest Rates	Annual Principal Installment Due	2013 Principal Amount Outstanding	2012 Principal Amount Outstanding
Capital Improvements 2003:				
Series A Due 2028	4.125–6.125%	$235,000–650,000	$	$ 6,910,000
Series B Due 2018	4.125–5.625	80,000–120,000		620,000
Series C Due 2028	4.125–6.000	105,000–285,000		3,015,000
Series 2012 Due 2027	2.000-3.250	585,000-785,000	10,000,000	75,000
Series 2013 Due 2028	1.300-2.680	580,000-765,000	9,810,000	
			19,810,000	10,620,000
Discount				(109,916)
			$ 19,810,000	$ 10,510,084

The Board of Governors of the University issued bonds on September 3, 2003: the Dormitory Revenue Bonds or Series 2003A for $8,870,000, the University Union Revenue Bonds, or Series 2003B for $1,145,000, and the Capital Improvement Revenue Bonds, or Series 2003C for $3,890,000, for a total of bonds issued for capital improvements to the University of $13,905,000. The University had set up three separate Auxiliary and Institutional Capital Fees to be used solely for the payment of the bonds. The bond proceeds were maintained with a trustee until funds were requested for payments on capital projects that were preapproved by the Board of Governors of the University. The State Treasurer's Office verified and remitted payments for the bonds to the Trustee. The Series 2003A, 2003B and 2003C Bonds were refinanced by the Series 2013 Bonds.

The Board of Governors of the University issued bonds on May 1, 2012: the University Revenue Bonds, Series 2012 (the "Series 2012 Bonds") for $10,000,000. The proceeds of the Series 2012 Bonds will be used to finance certain capital improvements to the University. The University set up a separate 2012 Capital Fee to be used solely for the payment of the bonds. The University drew the required full principal amount by June 12, 2013. The bond proceeds will be expended from the trustee as funds are requested for payments on capital projects that were preapproved by the Board of Governors of the University. As of June 30, 2013, only $73,844 had been expended from the bond proceeds for costs of issuance on the Series 2012 Bonds.

The Board of Governors of the University issued bonds on March 6, 2013: the University Revenue Refunding Bonds, Series 2013 (the "Series 2013 Bonds") for $9,810,000. The proceeds of the Series 2013 Bonds were issued to (1) currently refund in full the outstanding Series 2003A, 2003B and 2003C Bonds, and (2) pay the costs of issuance of the Series 2013 Bonds and related costs. The Auxiliary and Institutional Capital Fees originally set up for the Series 2003A, 2003B and 2003C Bonds are to be used solely for the payment of the Series 2013 Bonds. The issuance of the Series 2013 Bonds resulted in a loss of $103,105 (which is reflected as deferred outflows of resources on the statement of net position and being amortized over the shorter of the life of the refunded or refunding debt) and an economic gain of $2,702,042.

The Bonds are special obligations of the State and are not general obligations or a debt of the State. Neither the credit nor the taxing power of the State is pledged for the payment of the Bonds. The above bond issues are fully insured as to principal and interest by the Federal Guaranty Insurance Company.

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

Years Ending June 30	**Principal**	**Interest**	**Total**
2014	$ 1,300,000	$ 440,490	$ 1,740,490
2015	1,175,000	449,340	1,624,340
2016	1,195,000	427,230	1,622,230
2017	1,220,000	404,080	1,624,080
2018	1,240,000	380,495	1,620,495
2019–2023	6,615,000	1,485,076	8,100,076
2024–2028	7,065,000	550,279	7,615,279
Total	$ 19,810,000	$ 4,136,990	$ 23,946,990

8. LEASE OBLIGATIONS

The University leases building and classroom/office space under an operating lease agreement. Aggregate payments under these agreements were $240,000 for each of the years ended June 30, 2013 and 2012, respectively.

The University does not have any noncancelable leases. Future minimum rental commitments as of June 30, 2013, are as follows:

Years Ending June 30	
2014	$ 240,000
2015	256,800
2016	256,800
2017	256,800
2018	256,800
2019 and thereafter	256,800
Total	$ 1,524,000

The University had no capital lease obligations as of June 30, 2013.

9. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, based upon actuarial determined amounts. At June 30, 2013, 2012, and 2011, the noncurrent liability related to OPEB costs was $6,011,898, $5,967,202, and $4,092,218, respectively. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $737,496 and $692,800, respectively, during 2013, or 90%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $2,494,842 and $619,858, respectively, during 2012, or 25%. The total of OPEB expense incurred and the amount of OPEB expense that relates to retirees was $2,406,222 and $544,228, respectively, during 2011, or 23%. As of the years ended June 30, 2013, 2012, and 2011, there were 54, 52, and 59, respectively, retirees receiving these benefits.

10. UNRESTRICTED NET POSITION (DEFICIT)

The University did not have any designated unrestricted net position as of June 30, 2013 or 2012.

	2013	2012
Total unrestricted net position before OPEB liability	$ 2,725,141	$ 3,702,861
Less: OPEB liability	6,011,898	5,967,202
Total unrestricted (deficit) net position	$ (3,286,757)	$ (2,264,341)

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education and the University receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of the University's operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the University. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002.

For the years ended June 30, 2013 and 2012, the debt services assessed were as follows:

	2013	2012
Principal	$ 126,086	$ 192,800
Interest	109,426	117,138
Other	30,579	141,959
	$ 266,091	$ 451,897

During December 2010, the West Virginia Higher Education Policy Commission (HEPC) issued $76,865,000 of the State of West Virginia Higher Education Policy Commission Revenue 2010 Series Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive $12,750,000 of these proceeds to be specifically used for the construction of the new Health Science Building. As of June 30, 2013 the University recognized $9,477,232 of these bond proceeds for this project. The University has no responsibility for the repayment of the debt.

12. RETIREMENT PLANS

Substantially, all full-time employees of the University participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the "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 University 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 West Virginia State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for each of the years ended June 30, 2013 and 2012, respectively. Required employee contributions were at the rate of 6% of total annual salary for each of the years ended June 30, 2013 and 2012, respectively. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2013, 2012, and 2011, were $130,251, $129,954, and $138,701, respectively, which consisted of $93,037, $92,824, and $99,072, from the University in 2013, 2012, and 2011, respectively, and $37,214, $37,130, and $39,629, from the covered employees in 2013, 2012, and 2011, respectively.

The contribution rate is set by the West Virginia State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. 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, West Virginia 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 University 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 University.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012, and 2011, were $1,931,526, $1,797,116, and $1,585,856, respectively, which consisted of contributions of $965,763 from the University and $965,763 from the covered employees in 2013, $898,558 from the University and $898,558 from the covered employees in 2012, and contributions of $792,928 from the University and $792,928 from the covered employees in 2011.

Total contributions to the Educators Money for the years ended June 30, 2013, 2012, and 2011, were $28,352, $28,822, and $25,924, respectively, which consisted of $14,176 from the University and $14,176 from the covered employees in 2013, $14,411 from the University and $14,411 from the covered employees in 2012, and $12,962 from the University and $12,962 from the covered employees in 2011.

The University's total payroll for the years ended June 30, 2013, 2012, and 2011 was $18,684,184 $17,402,573, and $15,921,926, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Educators Money were $620,244, $16,096,045 and $236,264 in 2013, respectively, $618,827, $14,975,974 and $240,174 in 2012, respectively, and $660,479, $13,215,459 and $216,036, in 2011, respectively.

13. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its purpose "… to aid, strengthen, and further in every proper and useful way, the work and services of the University and its affiliated nonprofit organizations …" Oversight of the Foundation is the responsibility of a separate and independently elected board of directors, not otherwise affiliated with the University. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the University by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB.

During the years ended June 30, 2013 and 2012, the Foundation contributed $1,124,960 and $1,330,265 respectively, to the University for scholarships, capital improvements, athletic, academic, and other programs.

14. CONTINGENCIES

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

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 University's management believes disallowances, if any, will not have a significant financial impact on the University's financial position.

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

The University owns various buildings that are known to contain asbestos. The University is not required by federal, state, or local law to remove the asbestos from its buildings. The University is required by Federal Environmental, Health, and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The University addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The University also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

15. SERVICE CONCESSION AGREEMENTS

The University has adopted GASB Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The University has identified two contracts for services that meet the four criteria of a service concession arrangement. SCAs are defined as a contract between a government and an operator, another government or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided and the government retains ownership of the assets at the end of the contract. The contracts are with Sodexo America, LLC and Barnes & Noble Booksellers, Inc.

The University has a contract with Sodexo America, LLC (Sodexo) to provide food services within University facilities. The contract was effective on July 1, 2011 for a period of five (5) years with five (5) additional one-year extension options. Sodexo provides meal plans to students through the University as well as offering cash sales to the University community. The University receives annual commission payments from Sodexo calculated as a contractually agreed percentage of cash sales and the University pays Sodexo for the meal plans from fees collected by the University from students. In 2013 and 2012 the University received $64,232 and $69,572, respectively, in commissions from Sodexo. No significant renovations to University facilities were made by Sodexo in 2013 and 2012.

The University contracts with Barnes & Noble Booksellers, Inc. (Barnes & Noble) to operate a bookstore located within University facilities. These services provide the University community with a professional bookstore. The contract was effective on August 1, 2002 for a period of ten (10) years. The contract was subsequently extended on August 1, 2012 for five (5) years through 2017, with five (5) additional one-year extension options. The University receives annual commission payments calculated as a contractually agreed percentage of bookstore revenue. In 2013 and 2012 the University received $95,000 and $83,468, respectively in commissions from Barnes & Noble. In addition to the commission, Barnes and Noble paid a one-time signing bonus of $40,000 in 2013. Barnes and Noble also provides $10,000 annually to the West Liberty University Foundation, Inc.'s Scholarship fund and Gala sponsorship. In 2013, $52,188 in bookstore renovations has been classified as a capital asset with an offsetting Deferred Inflow of Resources. Over the life of the contract, the university will amortize the Deferred Inflow of Resources, while recognizing Auxiliary Revenue each year. If the agreement expires, terminates, or is amended in a way that has an adverse impact on Barnes and Noble, the University will be liable for the unamortized portion of Barnes and Noble's investment. No significant renovations to University facilities were made by Barnes & Noble in 2012.

16. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors, the University issued revenue bonds to finance certain of its auxiliary enterprise activities and capital improvements. Investors in those bonds rely solely on the revenue generated from new capital fees created for repayment.

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

a. *The Board of Governors of the University issued University Revenue Refunding Bonds, Series 2013*

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

The Series 2013 Bonds outstanding consist of $9,810,000 Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$690,000	May 1, 2015	1.30%
$3,520,000	May 1, 2020	1.85%
$3,520,000	May 1, 2025	2.48%
$2,080,000	May 1, 2028	2.68%

b. *The Board of Governors of the University issued University Revenue Bonds, Series 2012*

On May 1, 2012, the University issued University Revenue Bonds, Series 2012, amounting to $10,000,000. The Series 2012 Bonds were issued to finance capital improvements.

The Series 2012 Bonds outstanding consist of $10,000,000 Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$4,000,000	November 1, 2019	2.00%
$3,000,000	November 1, 2023	2.75%
$3,000,000	November 1, 2027	3.25%

	2013		2012 As Amended See Note 2	
	WLU Revenue Refunding Bond 2013 As of/Year Ended June 30, 2013	WLU Revenue Bond Issue 2012 As of/Year Ended June 30, 2013	WLU Revenue Refunding Bond 2013 As of/Year Ended June 30, 2012	WLU Revenue Bond Issue 2012 As of/Year Ended June 30, 2012
Condensed Statements of Net Position				
Assets:				
Current assets	$ 5,576,132	$ 518,510	$ 4,147,448	$ -
Noncurrent assets	11,114,551	9,926,156	12,375,663	1,156
Total assets	$ 16,690,683	$ 10,444,666	$ 16,523,111	$ 1,156
Liabilities:				
Current liabilities	$ 617,610	$ 764,056	$ 531,371	$ 125
Noncurrent liabilities	9,230,000	9,280,000	9,955,086	75,000
Total liabilities	9,847,610	10,044,056	10,486,457	75,125
Net position:				
Net investment in capital assets	1,301,692	(73,844)	830,068	
Restricted — debt service			1,109,081	
Unrestricted	5,541,381	474,454	4,097,505	(73,969)
Total net position	6,843,073	400,610	6,036,654	(73,969)
Total liabilities and net position	$ 16,690,683	$ 10,444,666	$ 16,523,111	$ 1,156
Condensed Statements of Revenues, Expenses, and Changes in Net Position				
Operating:				
Operating revenues	$ 1,768,822	$ 521,635	$ 10,822,871	$ -
Operating expenses	169		5,952,973	
Net operating income	1,768,653	521,635	4,869,898	-
Nonoperating:				
Nonoperating revenues	3,693		6,678	
Nonoperating expenses	(965,927)	(47,056)	(901,438)	(73,969)
Net nonoperating expense	(962,234)	(47,056)	(894,760)	(73,969)
Income (loss) before other revenues expenses, gains or losses	806,419	474,579	3,975,138	(73,969)
Amounts transferred in from University			(3,091,833)	
Amounts retained by the University			1,400	
Net increase (decrease) in net position	806,419	474,579	884,705	(73,969)
Net position — beginning of year	6,036,654	(73,969)	5,151,949	
Net position — end of year	$ 6,843,073	$ 400,610	$ 6,036,654	$ (73,969)
Condensed Statements of Cash Flows				
Net cash provided by operating activities	$ 1,768,653	$ 521,635	$ 4,869,898	$ -
Net cash used in capital and related financing activities	(339,969)	(3,125)	(4,184,014)	
Net increase in cash and cash equivalents	1,428,684	518,510	685,884	-
Cash and cash equivalents — beginning of year	4,147,448		3,461,564	
Cash and cash equivalents — end of year	$ 5,576,132	$ 518,510	$ 4,147,448	$ -

17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2013 and 2012, the following table represents operating expenses within both natural and functional classifications:

2013	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	$10,191,282	$2,296,016	$ 1,322,492	$ 31,132	$ -	$ -	$ -	$ -	$13,840,922
Research	110,405	2,903	149,507	12,577					275,392
Public service			429						429
Academic support	1,293,281	303,400	381,720	2,199					1,980,600
Student services	1,540,947	416,170	561,090	15,540					2,533,747
General institutional support	2,878,224	1,071,490	2,245,569	12,250					6,207,533
Operations and maintenance of plant	819,917	262,380	719,622	1,319,102					3,121,021
Student financial aid					2,739,267				2,739,267
Auxiliary enterprises	1,852,128	520,543	4,706,638	711,454					7,790,763
Depreciation						2,290,869			2,290,869
Other							16,768	199,656	216,424
Total	$18,686,184	$4,872,902	$ 10,087,067	$2,104,254	$2,739,267	$2,290,869	$16,768	$199,656	$40,996,967

2012	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	$ 9,193,160	$2,885,624	$1,303,576	$ 31,403	$ -	$ -	$ -	$ -	$13,413,763
Research	148,214	6,229	275,786	5					430,234
Public service			230						230
Academic support	1,295,716	419,270	412,449	3,800					2,131,235
Student services	1,558,170	576,275	592,192	17,516					2,744,153
General institutional support	2,528,115	1,338,570	2,139,092	12,459					6,018,236
Operations and maintenance of plant	842,787	375,913	579,257	1,257,361					3,055,318
Student financial aid					3,104,722				3,104,722
Auxiliary enterprises	1,836,411	675,936	4,639,923	748,759					7,901,029
Depreciation						2,119,470			2,119,470
Other							27,368	193,934	221,302
Total	$17,402,573	$6,277,817	$9,942,505	$2,071,303	$3,104,722	$2,119,470	$27,368	$193,934	$41,139,692

18. COMPONENT UNIT'S DISCLOSURE

The notes taken directly from the audited financial statements of the Foundation are as follows:

NOTE 1 – NATURE OF ACTIVITIES

The West Liberty University Foundation, Inc. (the Foundation) was formed to receive and administer funds for scientific, educational, and charitable purposes for the support and benefit of West Liberty University (the University). Oversight of the Foundation is the responsibility of an independently elected Board of Directors not otherwise affiliated with the University. The President of the University is a non-voting member of the Board of Directors. While contributions are generally for the benefit and support of the University, the Foundation exercises discretion over the distribution of assets.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Accounting</u> – The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

<u>Basis of Presentation</u> – Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its statement of Accounting Standards Codification (FASB ASC) No. 958-205, *Not-for-Profit Entities, Presentation of Financial Statements*. Under FASB ASC No. 958-205, the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Assets and contributions that are not restricted by donors or for which restrictions have expired are unrestricted. Assets and contributions for which the donor has imposed restrictions that permit the Foundation to use or expend the donated assets for University support according to the restrictions are temporarily restricted. The restrictions are satisfied either by the passage of time or by actions of the Foundation. Assets and contributions for which the donor stipulates that resources be maintained permanently, but permits the Foundation to use or expend part or all of the income derived from the donated assets, are permanently restricted. Such assets are comprised of endowment accounts which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity. The investment income, including realized and unrealized gains and losses, is recorded as temporarily restricted until disbursed according to the terms of the gift instrument.

Both temporarily and permanently restricted net assets are to be used for the support and benefit of West Liberty University.

<u>Income Taxes</u>

The West Liberty Foundation, Inc. is a not-for-profit organization exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Foundation has analyzed tax positions taken for filing with the Internal Revenue Service and all state and local jurisdictions where it operates. The Foundation believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse effect on the Foundation's statement of financial position or statement of activities. Accordingly, the Foundation has not recorded any reserves, or related accruals, for interest and penalties for uncertain tax positions at June 30, 2013. The Foundation's tax returns through 2009 have been closed for purposes of examination by taxing authorities.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reporting amounts and disclosures. Accordingly, actual results could differ from those estimates.

Contributions – Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions of donated noncash assets are recorded at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or require specialized skills that are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Unconditional promises to give that are expected to be collected within one year are recorded at estimated net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using risk-free interest rates for United States Government securities. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not recorded as support until the conditions are substantially met.

Investments – Investments in equity securities and all debt securities are reported at their fair value based upon quoted market prices.

The Foundation operates a pooled investment portfolio for all funds. New funds or additions to existing funds are assigned a share in the investment pool based upon the amount of cash or estimated fair value of securities deposited. Income, including unrealized appreciation or depreciation and realized capital gains and losses, is allocated on a monthly basis. Consequently, investment income gains and losses allocated to temporarily restricted funds are also classified as temporarily restricted.

Split-interest agreements consist of beneficial interests in perpetual trusts and charitable gift annuities. The Foundation was bequeathed a beneficial interest in a perpetual trust established at a local bank in accordance with a decedent's will. Under the terms of this split-interest agreement, the Foundation is to receive distributions of 10 percent of the income from the trust in perpetuity. These distributions are to be used to establish an endowment, the income from which will be used to provide scholarships. The Foundation's beneficial interest is valued in the statement of financial position at 10 percent of the fair market value of the trust assets. Adjustments due to changes in the market value of the trust assets are recorded as changes in value of split interest agreements. Distributions received from the trust are permanently restricted for endowed scholarships and are recorded as permanently restricted investment income.

The Foundation participates in charitable gift annuity agreements with certain donors. Under these agreements, temporarily restricted contribution revenue is recorded when donors transfer assets to the Foundation. The amount of revenue recognized is the difference between the fair value of the assets received and the liability calculated at the net present value of the estimated future payments to the beneficiaries over their life expectancies. In estimating the net present value of the liability, the Foundation uses life expectancy information prepared by the American Council on Gift Annuities and discount rates ranging from 0.10 percent to 7.75 percent.

Cash and Cash Equivalents – For purposes of the statement of cash flows, the Foundation considers all highly liquid investments available for current use with an initial maturity of 3 months or less to be cash equivalents. Money market funds included in non-current investments are not considered cash equivalents.

NOTE 3 – UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give at June 30, 2013 and 2012, are as follows:

	2013	2012
Receivable in one year	$ 154,591	$ 537,656
Receivable in two to five years	18,980	24,756
Total unconditional promises to give	173,571	562,412
Less discounts to net present value	1,314	1,191
Net unconditional promises to give	$ 172,257	$ 561,221

The discount rate used on long-term promises to give was 3.25 percent for the period ended June 30, 2013.

An allowance for uncollectible promises is provided based on management's evaluation of potential uncollectible promises receivable at year end. At June 30, 2013 and 2012, management determined that all outstanding promises to give are fully collectible.

NOTE 4 – INVESTMENTS

The cost and estimated fair values of investments at June 30, 2013 and 2012, are as follows:

	2013		2012	
	Estimated Fair Value	Cost	Estimated Fair Value	Cost
Corporate bonds and notes	$ 321,716	$ 297,925	$ 746,541	$ 681,965
United States Treasury, government agency, and other government obligations	229,447	235,352	327,796	325,476
Equity securities	1,280,987	1,036,298	943,247	744,485
Mutual funds	8,382,101	7,971,056	7,738,685	7,431,288
Real estate available-for-sale	347,000	356,278	347,000	356,278
Total	$ 10,561,251	$ 9,896,909	$ 10,103,269	$ 9,539,492

Interest and dividends from investments are recorded net of investment expenses. These investment expenses totaled $44,542 and $30,364 in 2013 and 2012, respectively.

Investments include securities held to satisfy charitable gift annuity agreements as follows:

	2013	2012
Fair value	$ 180,692	$ 164,406
Cost	$ 143,228	$ 145,218

Gains (losses) on investments for the periods ended June 30 are summarized as follows:

	2013	2012
Net realized gains	$ 840,387	$ 457,261
Net unrealized gains (losses)	98,240	(793,252)
Total gains (losses) on investments	$ 938,627	$ (335,991)

NOTE 5 - SPLIT-INTEREST AGREEMENTS

The following summarizes the transactions affecting the beneficial interest in perpetual trust for the years ended June 30, 2013 and 2012:

	2013	2012
Distributions received from the trust recorded as a permanently restricted investment	$ 95,164	$ 96,392
Change in value of the split-interest agreement	$ 71,864	$ (104,310)

NOTE 6 - TEMPORARILY AND PERMANENTLY RESTRICTED NET ASSETS

Net assets were temporarily and permanently restricted for the following purposes at June 30, 2013:

	Temporarily Restricted	Permanently Restricted
Scholarships	$ 2,486,767	$ 8,729,031
Sponsored projects	319,811	691,011
Capital projects	244	-
Totals	$ 2,806,822	$ 9,420,042

NOTE 7 - CONCENTRATIONS OF CREDIT RISK

The Foundation maintains its cash in a financial institution account which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. Management believes the Foundation is not exposed to any significant credit risk related to its cash and cash equivalents.

NOTE 8 - SUPPLEMENTAL CASH FLOW INFORMATION

The Foundation has the following noncash transactions during the years ended June 30, 2013 and 2012:

	2013	2012
Noncash contributions received:		
Professional services	$ 10,540	$ 11,798
Property, equipment, and other goods	79,372	35,532
Investment securities	152,605	1,018
Total	$ 242,517	$ 48,348

NOTE 9 - FAIR VALUE MEASUREMENTS

As required by U. S. GAAP, each financial asset and liability must be identified as having been valued according to specified level of input, 1, 2, or 3. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Foundation has the ability to access at the measurement date. Fair values determined by Level 2 inputs utilize inputs other than quoted prices included in Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets, and inputs other than quoted prices that are observable for the asset or liability. Level 3 inputs are unobservable inputs for the asset, and include situations where there is little, if any, market activity for the asset or liability. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy, within which the fair value measurement in its entirety falls, has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Foundation's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset.

The measurement of fair value should be consistent with one of the following valuation techniques: market approach, income approach, and/or cost approach. As of June 30, 2013 and 2012, equity securities and mutual funds are classified as Level I securities and are valued using observable market prices. Debt securities are classified as Level II securities and are valued using matrix pricing or other market approaches. Real estate available-for-sale is valued using the cost reproduction approach.

The following table presents the assets and liabilities reported on the statement of financial position at their fair value as of June 30, 2013 and 2012, by level within the fair value hierarchy. As required by U. S. GAAP, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	Level I	Level II	Level III	Total
June 30, 2013				
Valued on a recurring basis:				
Assets:				
Equity securities	$ 1,280,987	$ -	$ -	$ 1,280,987
Debt securities	-	551,163	-	551,163
Mutual funds	8,382,101	-	-	8,382,101
Beneficial interest in perpetual trust	2,098,005	-	-	2,098,005
Valued on a non-recurring basis:				
Assets:				
Real estate	$ -	$ -	$ 347,000	$ 347,000

	Level I	Level II	Level III	Total
June 30, 2012				
Valued on a recurring basis:				
Assets:				
Equity securities	$ 943,247	$ -	$ -	$ 943,247
Debt securities	-	1,074,337	-	1,074,337
Mutual funds	7,738,685	-	-	7,738,685
Beneficial interest in perpetual trust	2,026,141	-	-	2,026,141
Valued on a non-recurring basis:				
Assets:				
Real estate	$ -	$ -	$ 347,000	$ 347,000

No activity has occurred in the Level III measurements during the periods ended June 30, 2013 and 2012.

NOTE 10 - SUBSEQUENT EVENTS

The Foundation assessed events occurring subsequent to June 30, 2013, through September 30, 2013, for potential recognition and disclosure in the financial statements. No events have occurred that would require adjustment to, or disclosure in, the financial statements which were available to be issued September 30, 2013.

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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 Governing Board of
West Liberty University:

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 West Liberty University (the "University") as of and for the year ended June 30, 2013, and the related notes to the combined financial statements, which collectively comprise the University's combined financial statements, and have issued our report thereon dated October 31, 2013, which states reliance on other auditors for the discretely presented component unit. The University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America, but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the University'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 opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the University's internal control. Accordingly, we do not express an opinion on the effectiveness of the University'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 a 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 was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control 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 University'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 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 University'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 University's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Costing + Associates, PLLC

October 31, 2013