West Virginia State University

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

WEST VIRGINIA STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
West Virginia State University

Report on the Financial Statements

We have audited the accompanying combined financial statements of West Virginia State University (the "University") which comprise the combined statement of net position as of June 30, 2013, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements.

Management's Responsibility for the 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.

Auditors' Responsibility

Our responsibility is to express opinions on these combined financial statements based on our audit. We did not audit the financial statements of the West Virginia State 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 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of 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 opinions.

Opinions

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

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 3-10 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 combined financial statements of the University as of June 30, 2012, were audited by other auditors whose report dated January 24, 2013, expressed an unmodified opinion on those combined financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2013, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Hayflich Grigoraci PLLC

Huntington, West Virginia
November 13, 2013

HISTORY OF WEST VIRGINIA STATE UNIVERSITY

West Virginia State University was founded under the provisions of the Second Morrill Act of 1890 as the West Virginia Colored Institute, one of 17 land-grant institutions authorized by Congress and designated by the states to provide for the education of black citizens in agriculture and the mechanical arts. West Virginia was one of the states that maintained segregated educational systems at that time.

From 1891 to 1915, the original Institute offered the equivalent of a high school education, vocational training and teacher preparation. In 1915 the West Virginia Collegiate Institute began to offer college degrees. Under the leadership of President John W. Davis, the academic program was expanded and new buildings were constructed, and in 1927 the institution was accredited by the North Central Association. In 1929, it became West Virginia State College (WVSC). Over the next decades, WVSC became recognized as one of the leading public institutions of higher education for blacks in the country.

In 1954 the United States Supreme Court gave its historic decision in Brown vs. Board of Education outlawing school segregation. The consequence of this decision for West Virginia State College was a rapid transition to an integrated institution serving a multiracial, multi-generational commuting student population. This shift in student population and mission occurred in part due to demographics and in part due to efforts made by the college administration to reverse a decline in enrollment during the early 1950's. Enrollment quadrupled during the following decades.

Meanwhile, by a decision of the West Virginia Board of Education, WVSC was compelled to surrender its land-grant status, the only one of the 1890 institutions to do so. Only after a 12-year quest was the college's land-grant status fully restored, in 2001 by act of Congress signed by President Bill Clinton.

In 2004, WVSC was granted university status by the West Virginia Legislature along with three other public four-year colleges and renamed West Virginia State University. The same piece of legislation (SB 448) also called for re-organization of community and technical colleges throughout the state which eventually led to WVSC's community and technical college component becoming a separate institution, Kanawha Valley Community and Technical College.

The first half-century of the history of WVSU epitomizes the long struggle of African-Americans for educational opportunity and political, social and economic equality. While desegregation changed the racial proportions of the student body, faculty and staff, WVSU still emphasizes the diversity of its people and derives important values and elements of its mission from its tradition as a historically black college. The motto "A Living Laboratory of Human Relations" is still a relevant depiction of West Virginia State University.

OVERVIEW OF THE FINANCIAL STATEMENTS AND FINANCIAL ANALYSIS

West Virginia State University (the "University") is pleased to present the combined financial statements for the year ended June 30, 2013. The combined information also includes the West Virginia State University Research and Development Corporation (the "Corporation"). The West Virginia State University Foundation is included as a discretely presented component unit.

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

The required, supplemental information in the form of a narrative analysis or management discussion and analysis offers an overview of the financial activities for the fiscal year ended June 30, 2013.

The Governmental Accounting Standards Board (GASB) has issued directives for the presentation of financial statements for colleges and universities in the United States. Previously, the reporting had presented financial information in the format of fund groups. The revised GASB format focuses on reporting the overall economic resources of the University. The University has adopted the new standards as of July 1, 2001.

STATEMENTS OF NET POSITION

The purpose of the University's Combined Statements of Net Position is to take a snapshot of the financial statements at a point in time. This statement shows the assets, liabilities and net position of the University as of June 30, 2013.

The year-end data regarding assets (current and noncurrent), liabilities (current and noncurrent) and net position (assets minus liabilities) is also presented in the financial statements. The difference between current and noncurrent assets and liabilities are discussed in the note section of the combined financial statements.

By reviewing the Combined Statement of Net Position, the reader is able to ascertain the assets available to continue the operations of the University. Also, readers can see data presented in a way to discern how much the institution owes vendors, employees and lending institutions. In addition, the Combined Statement of Net Position offers an overview picture of the net position (assets minus liabilities) and the availability of the assets to utilize for future expenditure by the University.

Net position is divided into four major types:

- Net Investment in Capital Assets: net book value of the University's capital assets less any related debt.
- Restricted:
    a. Nonexpendable — The nonexpendable component of net position is permanently restricted, and only the income from such resources can be used. The University does not have such assets as of June 30, 2013.
    b. Expendable — The expendable component of net position is available for expenditures as determined by donors and/or external entities in regard to time or purpose.
- Unrestricted: The unrestricted component of net position is the net amount of assets available to the institution to utilize for any lawful purpose.

Condensed Combined Schedules of Net Position

	FY 2013	FY 2012	Difference	FY 2011
Assets				
Total current assets	$9,128,481	$9,278,078	$ (149,597)	$9,118,312
Total non-current assets	53,901,449	30,391,650	23,509,799	28,746,998
Total assets	**$63,029,930**	**$39,669,728**	**$23,360,202**	**$37,865,310**
Liabilities				
Total current liabilities	$7,128,681	$5,047,877	$2,080,804	$5,226,354
Total non-current liabilities	24,274,053	17,940,641	6,333,412	14,991,986
Total liabilities	**$31,402,734**	**$22,988,518**	**$8,414,216**	**$20,218,340**
Net Position				
Net investment in capital assets	$41,680,275	$23,905,020	$17,775,255	$21,631,402
Restricted – expendable debt service	288,079	607,253	(319,174)	642,976
Restricted – expendable capital projects	6,258,130		6,258,130	
Unrestricted (deficit)	(16,599,288)	(7,831,063)	(8,768,225)	(4,627,408)
Total net position	**$31,627,196**	**$16,681,210**	**$14,945,986**	**$17,646,970**
Total liabilities and net position	**$63,029,930**	**$39,669,728**	**$23,360,202**	**$37,865,310**

Assets:

Total assets increased over the previous fiscal year by $23,360,202. This was caused by the increase in noncurrent assets, specifically capital assets. Total current assets of $9.1 million exceeded total current liabilities of $7.1 million, for a net working capital of $2 million.

Liabilities:

Total liabilities increased by $8.4 million over the prior fiscal year. Most of the difference is an increase in noncurrent liabilities of $6.3 million, which is mainly due to an increase in bonds payable of $8.4 million and a decrease in notes payable of ($2.3) million.

Net Position:

Net position's largest difference from the prior fiscal year is in the restricted category. These assets are proceeds from bond refinancing and are restricted for capital projects.

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

The purpose of the Combined Statements of Revenues, Expenses and Changes in Net Position is to present the operating and non-operating revenues earned and expenses incurred by the University and any other revenues, expenses, gains and losses of the University.

Operating revenues are earned by providing goods and services to the various customers and constituencies of the University. Operating expenses are those incurred to acquire or produce the goods and services provided in return for the operating revenues and to fulfill the mission of the University.

Revenues for which goods and services are not provided are reported as non-operating revenues. For example, State of West Virginia (the "State") appropriations are non-operating revenues because they are provided by the Legislature to the University without the Legislature directly receiving commensurate goods and services for those revenues.

Condensed Combined Schedules of Revenues, Expenses and Changes in Net Position

	FY 2013	**FY 2012**	**Difference**	**FY 2011**
Operating Revenues	$27,041,054	$34,399,425	$(7,358,371)	$33,650,929
Operating Expenses	48,581,755	55,102,452	(6,520,697)	57,829,427
Operating Loss	(21,540,701)	(20,703,027)	(837,674)	(24,178,498)
Nonoperating Revenues Net	18,667,736	18,409,680	258,056	18,775,518
Income before other revenue, expenses, gains or losses	**(2,872,965)**	**(2,293,347)**	**(579,618)**	**(5,402,980)**
Capital Projects proceeds from the commission	932,210	95,578	836,432	662,687
Capital gifts and Grants	6,531,677	414,619	6,117,058	710,805
Capital bond proceeds from the State	10,355,064	794,261	9,560,803	
State Capital Grants		23,128	(23,128)	141,820
(Decrease) Increase in Net Position	14,945,786	(965,761)	15,911,547	(3,887,488)
Net Position, beginning of year	16,681,210	17,646,971	(965,761)	21,534,459
Net position, end of year	**$31,626,996**	**$16,681,210**	**$14,945,786**	**$17,646,971**

Operating Revenues:

Student tuition and fees decreased by $.7 million for fiscal year 2013, federal contracts and grants decreased by $2 million, charges to the Kanawha Valley Community & Technical College decreased by $1.6 million, and auxiliary revenue decreased by $2.3 million.

Operating Expenses:

The decrease in supplies and other services of $2.2 million, salaries and wages of $1.3 million, benefits of $2.5 million, student financial aid of $.5 million were the significant changes for operating expenses.

Operating revenues of $27.0 million compared to operating expenses of $48.6 million resulted in an operating loss of $21.5 million. Although State Appropriations of $13.9 million are counted as non-operating revenues, we should point out that they should be added to the operating revenues when comparing operating revenues against operating expenses.

STATEMENTS OF CASH FLOWS

The final statement presented by the University is the Combined Statements of Cash Flows. The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. 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 reflects the cash flows from investing activities and shows the purchases, proceeds and interest received from investing activities. The fourth section deals with the cash used for the acquisition and construction of capital and related items. The fifth section reconciles the net cash used to the operating loss reflected on the Combined Statement of Revenues, Expenses and Changes in Net Position.

Condensed Combined Schedules of Cash Flows

	FY 2013	**FY 2012**	**Difference**	**FY 2011**
Cash provided by (used in):				
Operating activities	$(18,971,303)	$(16,099,535)	$(2,871,768)	$(19,042,041)
Noncapital financing activities	19,031,166	19,059,704	(28,538)	19,741,907
Capital financing activities	(1,633,733)	(2,745,970)	1,112,237	(1,659,967)
Interest on investments	22,996	20,946	2,050	19,027
Increase (decrease) in cash and cash equivalents	**(1,550,874)**	**235,145**	**(1,786,019)**	**(941,074)**
Cash — beginning of year	6,859,991	6,624,846	235,145	7,565,920
Cash — end of year	**$ 5,309,117**	**$ 6,859,991**	**$(1,550,874)**	**$ 6,624,846**

The major difference included in operating activities consists of grants and contracts of $(2.5) million, payment to suppliers of $2.6 million, and payment for scholarships and fellowships of $.5 million, and auxiliary enterprise charges of $(2.3) million.

Major differences in funding included in noncapital financing include state appropriations of $13.8 million compared to last year's receipts of $12.8 million, for a difference of $1.0 million, and Federal Pell grants of $5.2 million compared to last year's receipts of $5.9 million, for a difference of $(0.7) million.

Major differences in capital finance activities included purchases and construction of capital assets of $(10.8) million compared to last year's purchases of $(3.3) million for a difference of $(7.5) million, and proceeds from the sale of revenue bonds of $11.7 million.

CAPITAL ASSETS

In FY 2013, West Virginia State University exercised frugal management in regard to capital improvements. The purchase, renovation and restoration of capital assets, such as land and/or buildings, educational and scientific equipment, renovation of classroom and research facilities remain essential for the forward movement of the University.

Some of the capital projects for FY 2013 include the following.

- The Fleming Hall Renovation & Convocation Center Project continued from FY 2012. This $15 million dollar project is funded by Education, Arts, Science and Tourism bonds issued by the WV Development Office and expected to be complete in FY 2014.
- The Higher Education Policy Commission allocated $1,135,000 to WVSU for the renovation of Wallace Hall. The funding was used for a new roof, chiller and boiler.
- Energy management continues across campus with major buildings complete with energy efficient lighting and HVAC controls.
- The College of Arts & Humanities as well as the College of Business & Social Sciences were relocated to Cole Complex triggering renovations to the building to accommodate faculty offices and up-to-date classrooms.
- Classroom upgrades in Wallace Hall, Hamblin Hall and Ferrell Hall were started at the end of the fiscal year and continued through the summer of 2013. These upgrades include furniture, fixtures, and technology. They will be funded by a capital project allocation from refinancing debt. (See below)
- WVSU is making significant progress in implementing a campus-wide "Voice-over Internet" telephone system replacement of the antiquated phone system.
- A campus-wide wireless network upgrade began in late June and will continue through part of FY 2014.

On June 28, 2013, the University received a donation of assets (approximately 20 acres of land and buildings on the land) from the WV Department of Administration adjacent to the main campus. The University doesn't have any immediate plans for the property because at the time of the donation the buildings on the property had been condemned. Once funding is established, this property will be transformed into a vibrant part of West Virginia State University.

Finally, the WVSU Foundation is in the process of completing a $30 million dollar bond financing through the Kanawha County Commission on behalf of WVSU. These bond proceeds will fund the demolition of two outdated dormitories and the construction of the Judge Damon J. Keith Residence Hall.

DEBT ADMINISTRATION

In FY 2013, the West Virginia State University Board of Governors adopted a resolution authorizing University administration to (1) the refunding and redemption of the outstanding Board of Governors of West Virginia State College Student Union Revenue Bonds 2002 Series A, and the outstanding note issued on behalf of West Virginia State College in the connection with the Education Direct Loan Corporation Funding Bonds Series A 1996-1, (2) the design, acquisition, construction, and equipping of proposed capital improvement projects for WVSU, and (3) the financing of the costs of such refunding and such projects through the issuance by the WVSU BOG refunding and improvement revenue bonds in an aggregate principal amount of not more than $12,000.000.

ECONOMIC OUTLOOK

With a new administration under the lead of the new President, Dr. Brian O. Hemphill, WVSU is regaining ground in the higher education market. Efforts to increase recruitment and retention while maintaining an affordable education are the leading forces in establishing WVSU as the number one university in West Virginia. In addition, we are establishing new program offerings such as a pre-nursing program and a master's degree program for public administration that will generate revenue and develop a broader student base. Legislatively mandated higher entry level scores of students are already showing some measurable improvement in retention, and this should continue to have a positive impact on tuition revenue and state funding. Over the next year or two, the results are projected to build in the form of higher retention and graduation rates.

WVSU is continuing its $12.5 million capital campaign. Revenues from these efforts should help with projects and scholarships to attract and retain students, thus increasing the University's revenue base over time. Since taking office in July 2012, Dr. Hemphill has raised a record number of scholarship dollars and reconnected with the alumni to increase their contributions to the University.

Since the general economic climate of the Kanawha Valley continues to hold its own during the transitional stages of the national economy, it is believed WVSU will continue to be a dynamic higher education force in West Virginia.

With a massive loss of revenue from the state mandated separation of the Kanawha Valley Community and Technical College, WVSU appealed for support from the State legislature for $750,000 in FY 2013. In turn, the State legislature appropriated the WV Higher Education Policy Commission (WVHEPC) $1,500,000. The University received a portion of these funds with a one-time transfer of $750,000 and then a permanent appropriation of $750,000 in FY 2014.

There have been two new hotel/motels constructed within a mile of the institution, in proximity to the Mardi Gras Gaming Center. This places Institute in a positive location to host tourists and groups from the Mardi Gras Gaming Center (restaurant, hotel and gaming activities), as well as their employees and families needing to further their education.

The West Virginia State Capitol, State Museum and the Clay Center for the Arts and Sciences are also facilities near WVSU that boost the local economic climate attracting a workforce traditionally seeking higher education.

In conclusion, the future of West Virginia State University continues to be positive. Though there has been an adjustment in net position as a result of legislated changes for the institution, the overall outlook remains good. The University is taking steps in regard to construction of new facilities, continued maintenance and good upkeep of the campus, infrastructure and expanded technology possibilities that will bode well for years to come.

The emphasis on academic programs that are successful, as well as academic centers of excellence, will be attractions as the University recruitment, retention, and graduation rates increase. After over 120 years of service, the economic outlook should prove to offer slow, yet positive gains as WVSU continues into the future. Research efforts and program developments are being conducted and planned with Land-Grant funding sources. Being one of West Virginia's three research institutions helps with the attraction of faculty and students and serves as an attraction to help the University develop.

There is an optimistic outlook for WVSU as the future unfolds and the university attempts to map of legislative driven changes for higher education in West Virginia. The future continues to be welcoming as West Virginia State University moves forward.

WEST VIRGINIA STATE UNIVERSITY

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

	2013	2012
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 5,309,117	$ 6,859,991
Accounts receivable — net	3,222,854	1,770,056
Loans to students — current portion	104,922	109,824
Inventories	374,490	387,755
Prepaid expenses	117,098	150,452
Total current assets	9,128,481	9,278,078
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	6,546,209	593,938
Loans to students — net of allowance of $324,865 and $332,090 in 2013 and 2012, respectively	188,095	197,494
Capital assets — net	47,167,145	29,600,218
Total noncurrent assets	53,901,449	30,391,650
DEFERRED OUTFLOWS OF RESOURCES		
TOTAL	$63,029,930	$39,669,728

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	2013	2012
CURRENT LIABILITIES:		
Accounts payable	$ 3,289,142	$ 931,874
Due to Commission	25,491	77,084
Accrued liabilities	2,143,974	2,075,463
Compensated absences — current portion	829,046	857,530
Unearned revenue	496,028	724,732
Bonds payable — current portion	345,000	265,000
Notes payable — current portion		116,194
Total current liabilities	7,128,681	5,047,877
NONCURRENT LIABILITIES:		
Deposits	160,548	146,944
Compensated absences	395,254	420,472
Bonds payable	11,400,000	3,042,306
Notes payable		2,302,418
Advances from federal sponsors	579,122	579,122
Other post employment benefits liability	11,739,129	11,449,379
Total noncurrent liabilities	24,274,053	17,940,641
Total liabilities	31,402,734	22,988,518
DEFERRED INFLOWS OF RESOURCES		
TOTAL	31,402,734	22,988,518
NET POSITION:		
Net investment in capital assets	41,680,275	23,905,020
Restricted - Expendable capital projects	6,258,130	
Restricted - Expendable loans		13,315
Restricted - Expendable debt service	288,079	593,938
Total restricted	6,546,209	607,253
Unrestricted (deficit)	(16,599,288)	(7,831,063)
Total net position	31,627,196	16,681,210
TOTAL	$63,029,930	$39,669,728

See notes to combined financial statements.

(Concluded)

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 20, 2013 AND 2012

	2013	2012
ASSETS		
ASSETS		
Cash and cash equivalents (includes restricted funds of $1,459,269 and $1,009,788, respectively)	$1,706,517	$1,445,280
Unconditional promises to give	1,325,370	141,744
Investments	4,712,606	4,225,484
Beneficial interest in charitable trusts	218,181	210,814
Other assets	81,120	68,984
Property and equipment, net	831,589	866,623
TOTAL ASSETS	$8,875,383	$6,958,929
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	$ 9,086	$ 11,433
NET ASSETS		
Unrestricted	505,321	510,665
Temporarily restricted	4,219,400	2,403,946
Permanently restricted	4,141,576	4,032,885
Total net assets	8,866,297	6,947,496
	$8,875,383	$6,958,929

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

	2013	2012
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $4,138,408 and $3,462,253, in 2013 and 2012, respectively	$ 8,103,745	$ 8,751,219
Contracts and grants:		
Federal	10,721,679	13,305,666
State	3,591,286	3,139,842
Private	666,775	544,719
Sales and services of educational activities	86,035	68,483
Auxiliary enterprise revenue — net of scholarship allowance of $1,636,088 and $2,176,839 in 2013 and 2012, respectively	3,203,754	5,502,198
Miscellaneous — net	529,948	664,441
Fees charged to the students of Kanawha Valley Community and Technical College	137,832	822,857
Charges to Kanawha Valley Community and Technical College		1,600,000
Total operating revenues	27,041,054	34,399,425
OPERATING EXPENSES:		
Salaries and wages	22,617,911	23,910,730
Benefits	6,007,392	8,511,148
Supplies and other services	12,519,283	14,767,572
Utilities	1,783,752	1,818,032
Student financial aid — scholarships and fellowships	3,939,977	4,422,696
Depreciation and amortization	1,597,497	1,489,801
Loan cancellations and write-offs	7,225	60,535
Fees assessed by the Commission for operations	108,718	121,938
Total operating expenses	48,581,755	55,102,452
OPERATING LOSS	(21,540,701)	(20,703,027)
NONOPERATING REVENUES (EXPENSES):		
State appropriations	13,862,389	12,835,589
Federal Pell Grants	5,211,921	5,923,572
Investment income	22,996	20,946
Trustee management fees	(146,200)	
Interest on indebtedness	(264,310)	(334,284)
Loss on capital asset disposals		(12,610)
Fees assessed by the Commission	(19,060)	(23,533)
Net nonoperating revenues	18,667,736	18,409,680
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(2,872,965)	(2,293,347)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	932,210	95,578
CAPITAL BOND PROCEEDS FROM THE STATE	10,355,064	794,261
CAPITAL GRANTS AND GIFTS	6,531,677	414,619
STATE CAPITAL GRANTS (FEDERAL)		23,128
INCREASE (DECREASE) IN NET POSITION	14,945,986	(965,761)
NET POSITION — Beginning of year	16,681,210	17,646,971
NET POSITION — End of year	$ 31,627,196	$ 16,681,210

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	$ 163,986	$ 2,025,019	$ 101,040	$ 2,290,045
Gifts in kind				-
Administrative fees (expenses)	83,782	(83,782)		-
Rental income	2,748			2,748
Investment income	33	266,075		266,108
Net assets released from restrictions	630,571	(630,571)		-
	881,120	1,576,741	101,040	2,558,901
EXPENSES				
Salaries and wages	87,051			87,051
Taxes and licenses	28,074			28,074
Professional fees	26,961			26,961
Supplies	3,889			3,889
Maintenance	22,746			22,746
Travel	7,319			7,319
Telephone and utilities	2,177			2,177
Office expense	6,119			6,119
Printing	9,337			9,337
Meeting expense	38,373			38,373
Conference/seminar fees	2,545			2,545
Scholarships and grants				-
Depreciation		35,034		35,034
Miscellaneous	7,278			7,278
Retirement	15,000			15,000
Program expenses	630,571			630,571
	887,440	35,034	-	922,474
NET INCREASE (DECREASE)	(6,320)	1,541,707	101,040	1,636,427
CHANGE IN VALUE OF PERPETUAL TRUSTS AND OTHER ASSETS	976	1,053	7,651	9,680
UNREALIZED GAIN ON INVESTMENTS		272,694		272,694
RECLASSIFICATIONS				-
INCREASE (DECREASE) IN NET ASSETS	(5,344)	1,815,454	108,691	1,918,801
NET ASSETS AT BEGINNING OF YEAR	510,665	2,403,946	4,032,885	6,947,496
NET ASSETS AT END OF YEAR	$ 505,321	$ 4,219,400	$ 4,141,576	$ 8,866,297

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

THE WEST VIRGINIA STATE UNIVERSITY FOUNDATION, INCORPORATED, A COMPONENT UNIT OF WEST VIRGINIA STATE UNIVERSITY
CONSOLIDATED STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2012

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE				
Contributions and gifts	$ 111,425	$ 540,222	$ 159,950	$ 811,597
Gifts in kind		270,401		270,401
Administrative fees (expenses)	100,592	(100,592)		-
Rental income	5,324			5,324
Investment income	34	177,012		177,046
Net assets released from restrictions	829,348	(829,348)		
	1,046,723	57,695	159,950	1,264,368
EXPENSES				
Salaries and wages	123,317			123,317
Taxes and licenses	28,701			28,701
Professional fees	23,089			23,089
Supplies	16,115			16,115
Maintenance	11,989			11,989
Travel	11,374			11,374
Telephone and utilities	1,911			1,911
Office expense	8,238			8,238
Printing	6,859			6,859
Meeting expense	36,210			36,210
Conference/seminar fees	4,343			4,343
Scholarships and grants	2,755			2,755
Depreciation		34,325		34,325
Miscellaneous	4,089			4,089
Retirement				-
Program expenses	829,348			829,348
	1,108,338	34,325	-	1,142,663
NET INCREASE (DECREASE)	(61,615)	23,370	159,950	121,705
CHANGE IN VALUE OF PERPETUAL TRUSTS AND OTHER ASSETS			175,954	175,954
UNREALIZED LOSS ON INVESTMENTS		(235,840)		(235,840)
RECLASSIFICATIONS	(3,299)	54,221	(50,922)	-
INCREASE (DECREASE) IN NET ASSETS	(64,914)	(158,249)	284,982	61,819
NET ASSETS AT BEGINNING OF YEAR	575,579	2,562,195	3,747,903	6,885,677
NET ASSETS AT END OF YEAR	$ 510,665	$ 2,403,946	$ 4,032,885	$ 6,947,496

See notes to combined financial statements.

WEST VIRGINIA STATE UNIVERSITY

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

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 8,155,342	$ 8,073,001
Contracts and grants	14,966,954	17,495,850
Payments to and on behalf of employees	(28,320,744)	(29,107,800)
Payments to suppliers	(12,329,775)	(14,930,717)
Payments to utilities	(1,783,752)	(1,818,032)
Payments for scholarships and fellowships	(3,939,977)	(4,422,696)
Loans issued to students	(83,105)	(15,900)
Collection of loans to students	89,278	87,417
Sales and service of educational activities	86,035	68,483
Auxiliary enterprise charges	3,217,358	5,505,499
Fees retained by the Commission	(108,718)	(121,938)
Fees charged to Kanawha Valley Community and Technical College students	137,832	822,857
Fees charged to Kanawha Valley Community and Technical College		1,600,000
Other receipts — net	941,969	664,441
Net cash used in operating activities	(18,971,303)	(16,099,535)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	13,862,389	12,835,589
Other financing activities		579,122
William D. Ford direct lending receipts	11,378,211	11,488,316
William D. Ford direct lending payments	(11,413,524)	(11,739,322)
FFELP lending receipts	126,666	164,996
FFELP lending payments	(115,437)	(169,036)
Federal Pell grants	5,211,921	5,923,572
Fees assessed by the Commission	(19,060)	(23,533)
Net cash provided by noncapital financing activities	19,031,166	19,059,704
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
State capital grants (federal) received		23,128
Capital grants and gifts received	331,677	414,619
Proceeds from sale of revenue bonds	11,745,000	
Debt issue costs	(146,200)	
Capital projects proceeds from the State	8,222,730	794,261
Capital projects proceeds from the Commission	932,210	95,578
Purchases of capital assets	(10,839,633)	(3,295,879)
Principal paid on payable to the Commission		(111,805)
Credit issued by Huntington Bank for Union Bond	62,981	28,250
Principal paid on notes and bonds	(5,725,918)	(360,292)
Interest paid on notes, bonds, and leases	(264,310)	(334,284)
Withdrawals from non-current cash and cash equivalents	(5,952,270)	454
Net cash used in capital financing activities	(1,633,733)	(2,745,970)
CASH FLOWS FROM INVESTING ACTIVITY — Interest on investments	22,996	20,946
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,550,874)	235,145
CASH AND CASH EQUIVALENTS — Beginning of year	6,859,991	6,624,846
CASH AND CASH EQUIVALENTS — End of year	$ 5,309,117	$ 6,859,991

(Continued)

WEST VIRGINIA STATE UNIVERSITY

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

	2013	2012
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (21,540,701)	$ (20,703,027)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation and amortization expense	1,597,497	1,489,801
Loss on disposal of assets		(12,610)
Changes in assets and liabilities:		
Receivables — net	679,536	(80,648)
Loans to students — net	(14,301)	(689)
Prepaid expenses	(10,902)	53,844
Inventories	(13,265)	(83,492)
Accounts payable and accrued liabilities	599,635	3,068,025
Compensated absences	(53,702)	(55,134)
Deferred revenue	(228,704)	221,094
Deposits held in custody for others	13,604	3,301
NET CASH USED IN OPERATING ACTIVITIES	$ (18,971,303)	$ (16,099,535)
NONCASH TRANSACTIONS:		
Donated capital assets	$ 6,200,000	$
Loss on disposal of capital assets	$	$ 12,610
Capital asset additions in accounts payable	$ 2,166,146	$

See notes to combined financial statements.

(Concluded)

1. ORGANIZATION

West Virginia State University (the "University") is governed by the West Virginia State 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 University, 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 the University.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The combined financial statements of the University have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB provides a comprehensive, entity-wide perspective of the University's assets, liabilities, 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 West Virginia Network for Educational Telecomputing), and the West Virginia Council of 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 component unit, the West Virginia State University Research and Development Corporation (the "Research and Development Corporation"), a nonprofit, nonstock corporation. The basic criteria 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 Research and Development Corporation. Their related organizations, West Virginia State University Foundation, Incorporated (the "Foundation") and Alumni Association, are not part of the University reporting entity and are not included in the accompanying combined financial statements, as the University has no ability to designate management, cannot significantly influence operations of these entities, and is not accountable for the fiscal matters of the West Virginia State University Foundation and Alumni Association under GASB.

In accordance with GASB, the audited financial statements of the "Foundation" are discretely presented here with the University's combined financial statements. The Foundation is a private nonprofit organization that reports under FASB standards. As such, certain revenue recognition criteria and presentation features are different from 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 Note 20).

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires that financial statements be presented on a basis to focus on the University as a whole. The University's net position is classified into four categories according to external donor restrictions or availability of resources for satisfaction of University obligations. The components of the University's net position are 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 debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

- *Restricted — Expendable* — This includes resources in which the University is legally or contractually obligated to spend 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 No. 101 passed in March 2004 simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the State Legislature.

- *Restricted— 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 nonexpendable funds or components of net position of this type as of June 30, 2013 and 2012.

- *Unrestricted*— 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. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty, and staff.

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 are reported when materials or services are received. All interinstitution accounts and transactions have been eliminated.

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the "State Treasurer") are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds are transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with 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 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 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.

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 collectibility 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, (2) to purchase capital or other noncurrent assets, or (3) permanently restricted components of net position, are classified as a noncurrent assets in the combined statements of net position.

Capital Assets — Capital assets include property, plant, 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. 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 and library books, and 3 to 10 years for furniture and equipment. The University's threshold for capitalizing capital assets is $5,000. The financial statements reflect all adjustments required by GASB.

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

Compensated Absences and Other Post Employment Benefits — GASB provides standards for the measurement, recognition, and display of other postemployment benefit (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 of West Virginia. 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, WV 25305-0710 or http://www.wvpeia.com.

These statements require 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, 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. 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 statement of revenues, expenses, and changes in net position.

In July 2012, the PEIA Finance Board adopted a 3% cap on the amount that participating employers will pay in retiree premium subsidy annual increases. The Annual Required Contribution (ARC) is the employers responsibility to set aside a fixed amount to pay for future costs associated with employee benefits. The remaining ARC that was accrued in FY2013 was $79 per policy/participant. This is a decrease from $794 per policy/participant in FY2012.

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 net position. There are no deferred outflows of resources recorded in the financial statements at June 30, 2013 or 2012.

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. There are no deferred inflows of resources recorded in the financial statements at June 30, 2013 or 2012.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general, property, and casualty liability coverage to the University and its employees. Such coverage may be 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 West Virginia 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 insurer, 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 as either operating or nonoperating 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 nonexchange 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 sale of capital assets (including natural resources). Nonoperating revenues also exclude student fees which were billed for capital improvements.

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

Use of Restricted Component of 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 resources are available. Generally, the University attempts to utilize restricted resources first when practical.

Alternative Loans — Students apply for Alternative Loans through lenders who participate in the Alternative Loan Program when they have exhausted their Federal Loan Eligibility or need extra money to fill the gap of their cost of attendance. The University will certify these loans and, if approved by the lender, will receive the funds to disburse to the student accounts. Under this program, banks and loan companies make loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Student loan receivables are not included in the University's combined statements of net position, as the loans are repayable directly to the bank or loan company. For the years ended June 30, 2013 and 2012, the University received and disbursed approximately $127,000 and $165,000, respectively, which is not included as revenue and expense in the combined statement of revenues, expenses, and changes in net position.

Direct Lending — The University makes loans to students under Direct Lending (DL). Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students, via a guarantor. The University uses Sallie Mae as its guarantor. Direct Lending student loan receivables are not included in the University's combined statements of net position, as the loans are repayable directly to the U.S. Department of Education. In the years ended June 30, 2013 and 2012, the University received and disbursed approximately \$11.4 million and \$11.5 million, respectively, on behalf of the U.S. Department of Education, which is not included as revenue and expense in the combined statement 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, and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. In the years ended June 30, 2013 and 2012, the University received and disbursed approximately \$5.5 million and \$6.3 million, 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 combined statement 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 are 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 an 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.

Service Concession Arrangements – The University has a service concession arrangement for the operation of food services.

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, or in funded reserves have not been included as cash and cash equivalents for the purpose of the combined statement of cash flows.

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

Risk and Uncertainties — Investment securities are exposed to various risks, such as interest rate, credit, and overall market volatility. Due to the level of risk associated with certain investment securities, it is reasonably possible that changes in risk and values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the combined financial statements.

Reclassifications — Certain reclassifications have been made to the 2012 financial statements to conform to the 2013 classifications.

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 did not have a material impact on the financial statements.

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 did not have a material impact on the financial statements.

The University has early adopted Statement No. 66, *Technical Corrections — 2012: An Amendment of GASB Statements No. 10 and No. 64*. This statement improves accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November, 1989 FASB and AICPA Pronouncements. The adoption of this statement did not have a material impact on the 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 encourage. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The University has not yet determined the effect that the adoption of GASB Statement No. 70 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

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

	2013		
	Current	Noncurrent	Total
State Treasurer	$4,316,610	$ -	$ 4,316,610
In escrow		6,546,209	6,546,209
In bank	992,507		992,507
	$5,309,117	$ 6,546,209	$ 11,855,326

	2012		
	Current	Noncurrent	Total
State Treasurer	$5,940,038	$ -	$ 5,940,038
In escrow		593,938	593,938
In bank	919,953		919,953
	$6,859,991	$ 593,938	$ 7,453,929

Cash shown above as cash in escrow consists of two accounts. One is required by the Educational Direct Loan Mortgage Corporation to be held in escrow per agreement with other HBCU partners. See Note 8 for more details. The second is the new escrow account through Huntington National Bank for Bond Series 2012 and 2013 and it will hold funds for capital projects, principal, and interest payments as described in Note 7.

The combined carrying amounts of cash in the bank at June 30, 2013 and 2012, were $992,507 and $919,953, respectively compared with the combined bank balance of $1,442,261 and $1,333,127 respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2013 and 2012, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income; preserve capital; and, in general, avoid speculative investments. The BTI's investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund. Of the BTI's Consolidated Fund pools and accounts in which the University invests, all are subject to credit risk.

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 represents 0.16% and 0.19%, 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 represents 0.01% and 0.01%, respectively.

WV Short Term Bond Pool:

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

	Credit Rating*		2013		2012	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Corporate asset-backed securities	Aaa	AAA	$ 53,681	8.72 %	$ 95,628	18.99 %
	Aaa	NR *	59,810	9.71	38,524	7.64
	B1	CCC **			896	0.18
	B3	BB **			311	0.06
	B3	BBB- **			53	0.01
	B3	CCC **			280	0.06
	Ca	CCC **	308	0.05	586	0.12
	Ca	D **	95	0.02		
	Caa1	CCC **	932	0.15		
	Caa2	CCC **			186	0.04
	Caa3	CCC **			243	0.05
	Caa3	D **	367	0.06	26	0.01
	Caa3	NR **	24	0.00		
	NR	AAA	37,411	6.07		
	NR	AA+	2,514	0.41	3,900	0.77
	NR *	NR *	3,819	0.62	3,786	0.75
			158,961	25.81	144,419	28.68
Corporate bonds and notes	Aa2	AA+	3,002	0.49	9,025	1.79
	Aa2	AA	12,731	2.07		
	Aa2	AA-	9,192	1.49		
	Aa3	AA-	33,034	5.36	15,666	3.11
	Aa3	A+	11,693	1.90		
	Aa3	A			23,032	4.57
	A1	AA+	13,295	2.16		
	A1	AA	4,118	0.67	12,145	2.41
	A1	A+	47,500	7.71	30,684	6.09
	A1	A	13,522	2.19		
	A2	A+	9,348	1.52		
	A2	A	47,709	7.75	39,064	7.76
	A2	A-	5,052	0.82		
	A3	A-	7,986	1.30	7,755	1.54
	A3	BBB+			3,006	0.60
	Baa1	A- **	2,416	0.39	4,162	0.83
	Baa2	A- **	6,959	1.13	6,709	1.33
			227,557	36.95	151,248	30.03
U.S. agency bonds	Aaa	AA+	9,986	1.62	45,024	8.94
U.S. Treasury notes***	Aaa	AA+	140,154	22.76	44,251	8.79
U.S. agency mortgage backed securities****	Aaa	AA+	73,692	11.97	77,065	15.30
Money market funds	Aaa	AAAm	5,457	0.89	41,610	8.26
			$615,807	100 %	$503,617	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2013 and/or 2012. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

*** U.S. Treasury issues are explicitly guaranteed by the United States government and are not subject to credit risk.

**** U.S. agency mortgage backed securities are explicitly guaranteed by the United States government and are not subject to credit risk.

At June 30, 2013 and 2012, the University's ownership represents 0.05% and 0.14%, 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.

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4. ACCOUNTS RECEIVABLE

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

	2013	2012
Student tuition and fees — net of allowance for doubtful accounts of $335,999 and $728,991, in 2013 and 2012, respectively	$ 338,007	$ 398,640
Grants and contracts receivable	600,664	787,495
Due from the Commission	168	222,955
Due from other State agencies	2,269,968	326,868
Other accounts receivable	14,047	34,098
	$3,222,854	$1,770,056

5. CAPITAL ASSETS

Summary of capital asset transactions for the University for the years ended June 30, 2013 and 2012, are as follows:

	2013			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	$ 1,648,319	$ 6,200,000	$ -	$ 7,848,319
Construction in progress	2,409,659	11,731,283	(2,248,744)	11,892,198
Infrastructure in progress		135,335		135,335
Equipment in progress	31,378	219,861	(251,239)	
Total capital assets not being depreciated	$ 4,089,356	$ 18,286,479	$(2,499,983)	$19,875,852
Other capital assets:				
Land improvements	$ 1,578,930	$ -	$ -	$ 1,578,930
Infrastructure	4,149,923			4,149,923
Buildings	42,193,797	2,346,778	(27,000)	44,513,575
Equipment	7,118,183	717,635	(292,207)	7,543,611
Motor vehicles	501,604	64,601		566,205
Software	340,069			340,069
License	18,750			18,750
Library books	4,584,699	248,914	(96,460)	4,737,153
Total other capital assets	60,485,955	3,377,928	(415,667)	63,448,216
Less accumulated depreciation for:				
Land improvements	783,316	38,630		821,946
Infrastructure	3,254,309	56,704		3,311,013
Buildings	20,566,091	941,585	(27,000)	21,480,676
Equipment	5,589,227	369,540	(292,207)	5,666,560
Motor vehicles	314,100	76,494		390,594
Software	358,819			358,819
Library books	4,109,231	114,544	(96,460)	4,127,315
Total accumulated depreciation	34,975,093	1,597,497	(415,667)	36,156,923
Other capital assets — net	$25,510,862	$ 1,780,431	$ -	$27,291,293
Capital asset summary:				
Capital assets not being depreciated	$ 4,089,356	$ 18,286,479	$(2,499,983)	$19,875,852
Other capital assets	60,485,955	3,377,928	(415,667)	63,448,216
Total cost of capital assets	64,575,311	21,664,407	(2,915,650)	83,324,068
Less accumulated depreciation	34,975,093	1,597,497	(415,667)	36,156,923
Capital assets — net	$29,600,218	$ 20,066,910	$(2,499,983)	$47,167,145

	2012			
	Beginning Balance	Ending Additions	Reductions	Balance
Capital assets not being depreciated:				
Land	$ 1,538,075	$ 110,244	$ -	$ 1,648,319
Land — purchase in progress	8,900	101,344	(110,244)	
Construction in progress	1,114,061	2,424,232	(1,128,634)	2,409,659
Equipment in progress		31,378		31,378
Total capital assets not being depreciated	$ 2,661,036	$2,667,198	$(1,238,878)	$ 4,089,356
Other capital assets:				
Land improvements	$ 1,526,510	$ 52,420	$ -	$ 1,578,930
Infrastructure	4,149,923			4,149,923
Buildings	41,065,163	1,128,634		42,193,797
Equipment	7,259,561	415,177	(556,555)	7,118,183
Motor vehicles	486,292	115,284	(99,972)	501,604
Software	358,819			358,819
Library books	4,490,696	156,044	(62,041)	4,584,699
Total other capital assets	59,336,964	1,867,559	(718,568)	60,485,955
Less accumulated depreciation for:				
Land improvements	747,687	35,629		783,316
Infrastructure	3,197,605	56,704		3,254,309
Buildings	19,750,848	815,243		20,566,091
Equipment	5,733,472	399,700	(543,945)	5,589,227
Motor vehicles	350,498	63,574	(99,972)	314,100
Software	358,819			358,819
Library books	4,062,085	109,187	(62,041)	4,109,231
Total accumulated depreciation	34,201,014	1,480,037	(705,958)	34,975,093
Other capital assets — net	$25,135,950	$ 387,522	$ (12,610)	$25,510,862
Capital asset summary:				
Capital assets not being depreciated	$ 2,661,036	$2,667,198	$(1,238,878)	$ 4,089,356
Other capital assets	59,336,964	1,867,559	(718,568)	60,485,955
Total cost of capital assets	61,998,000	4,534,757	(1,957,446)	64,575,311
Less accumulated depreciation	34,201,014	1,480,037	(705,958)	34,975,093
Capital assets — net	$27,796,986	$3,054,720	$(1,251,488)	$29,600,218

The University maintains various collections of inexhaustible assets to which no value can be 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.

6. NONCURRENT LIABILITIES

Summary of noncurrent obligation transactions for the University for the years ended June 30, 2013 and 2012, are as follows:

	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$ 2,418,612		$ 2,418,612		
Bonds payable	3,307,306	$11,745,000	3,307,306	$ 11,745,000	$345,000
Other noncurrent liabilities:					
Deposits held in custody for others	146,944	16,304	2,700	160,548	
Accrued compensated absences	1,278,002	32,872	86,574	1,224,300	829,046
Advances from Federal Sponsors	579,122			579,122	
Other post employment benefits liability	11,449,379	289,750		11,739,129	
Total noncurrent liabilities	$ 19,179,365	$12,083,926	$ 5,815,192	$25,448,099	

	2012				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Note payable	$ 2,526,183		$107,571	$ 2,418,612	$ 116,194
Bonds payable	3,555,037	$ 7,269	255,000	3,307,306	265,000
Payable to the Commission	111,805		111,805		
Other noncurrent liabilities:					
Deposits held in custody for others	143,643	3,301		146,944	
Accrued compensated absences	1,333,136	10,826	65,960	1,278,002	857,530
Advances from Federal Sponsors	579,122			579,122	
Other post employment benefits liability	8,119,531	3,329,848		11,449,379	
Total noncurrent liabilities	$ 16,368,457	$3,351,244	$540,336	$ 19,179,365	

Additional information regarding noncurrent debt is included in Notes 7 and 8.

7. BONDS PAYABLE

In December 2012, the West Virginia State University Board of Governors (the "Board") sold $8,930,000 of University Refunding and Improvement Revenue Bonds, Series 2012 (the "2012 Bonds"). The 2012 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to an Indenture dated as of December 1, 2012, by and between the University and Huntington National Bank, as the Trustee. The 2012 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2012 Bonds were used to (1) refund the Eddie Mac Note, (2) fund the design, acquisition, construction and equipping of various capital projects and (3) pay the costs of issuance of the 2012 Bonds.

In March 2013, the Board sold $2,815,000 of University Refunding Revenue Bonds, Series 2013 (the "2013 Bonds"). The 2013 Bonds were issued under the authority contained in Article 10, Chapter 18B of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to an

Indenture dated as of March 1, 2013, by and between the University and Huntington National Bank, as the Trustee. The 2013 Bonds are secured by and payable from auxiliary fees and auxiliary capital fees as defined in the Indenture. The proceeds from the 2013 Bonds were used to (1) refund the 2002 Series A Bonds and (2) pay the costs of issuance of the 2013 Bonds.

It is estimated that the refunding of the 2002 Bonds will result in a reduction in the University's total debt service payments over the next 10 years of approximately $500,000. The refunding resulted in an economic gain (the difference between the present values of the debt service payments on the old debt and new debt) of approximately $450,000.

Principal maturities for the year ending after June 30, 2013, are as follows:

Years Ending June 30	Bond HNB 2012 Principal	Bond HNB 2012 Interest	Bond HNB 2013 Principal	Bond HNB 2013 Interest	Bonds Combined
2014	$ 45,000	$ 305,373	$ 300,000	$ 64,829	$ 715,202
2015	50,000	303,948	290,000	54,360	698,308
2016	50,000	302,448	300,000	48,460	700,908
2017	55,000	300,873	300,000	43,210	699,083
2018	55,000	299,223	305,000	38,215	697,438
2019–2023	625,000	1,468,160	1,320,000	70,995	3,484,155
2024–2028	2,205,000	1,250,066			3,455,066
2029–2033	2,680,000	767,406			3,447,406
2034–2038	3,165,000	273,934			3,438,934
Future payments	$ 8,930,000	$ 5,271,431	$ 2,815,000	$ 320,069	17,336,500
Less future interest					(5,591,500)
Total future principal					$ 11,745,000

8. NOTE PAYABLE

During fiscal year 1997, the University signed an agreement with the Educational Direct Loan Mortgage Corporation ("Eddie Mac") to have available a line of credit of $3,500,000 to be used to renovate dormitories.

In December 2012, a portion of the proceeds from Huntington National Bank Revenue Bond Series 2012 were used to refund 1996-1Eddie Mac note, thus the note is paid in full. See Note 7 for more details. The remaining funds in escrow are being held by Bank of New York Mellon Trust Company per agreement for potential default of notes by other Historically Black Colleges and Universities(HBCU). Barber-Scotia College is part of this HBCU partnership and defaulted in 2005. As of June 30, 2013 $62,935 in funds have been used from WVSU's escrow account, with $2,331 in 2013 and $2,961 in 2012. No steps have been taken to recover these funds at this time.

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 $11,739,129, $11,449,379 and $8,119,531, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $1,002,994 and $713,244, respectively, during 2013, or 71.11%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $4,027,917 and $698,069, respectively, during 2012, or 17.33%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,743,987 and $677,933, respectively, during 2011, or 18.10%. At June 30, 2013, 2012 and 2011, there were 39, 23 and 47 retirees receiving these benefits, respectively.

10. OPERATING LEASES

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

Years Ending June 30	
2014	$ 174,970
2015	102,450
Total	$ 277,420

Total rental expense for the years ended June 30, 2013 and 2012, was $214,215 and $192,298, respectively. The University does not have any non-cancelable leases.

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 the 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 University and College Systems (the "Boards").

Students of the State's universities and colleges, including students of the University, are assessed certain tuition charges and fees, which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed. 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 obligations 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. The University did not have any debt obligation to the Commission at June 30, 2013 or 2012.

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive $1,350,000 of these funds. The University had drawn the entire allotment by June 30, 2010. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove insufficient.

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 Series 2010 Bonds to fund HEPC Bond projects approved by the Commission. The University has been authorized to receive $1,135,000 of these proceeds to be specifically used for upgrades to Wallace Hall roof, windows and HVAC system. As of June 30, 2013, $892,887 of such proceeds have been received. The University began drawing the bond proceeds for this project in FY 2012; eighty-five percent of these bond proceeds must be spent by December 2013. The West Virginia Higher Education Policy Commission is responsible for repayment of this debt.

12. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2013 and 2012, the University has no designated components of unrestricted net position.

	2013	2012
Total unrestricted net position before OPEB liability	$ (4,860,159)	$ 3,618,316
Less: OPEB liability	11,739,129	11,449,379
Total unrestricted net position	$ (16,599,288)	$ (7,831,063)

13. 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 Educators Money 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2013 four employees were enrolled in the Educator's Money 401(a) basic retirement plan.

Total contributions to the Educators Money 401(a) for the years ended June 30, 2013, 2012 and 2011, were $25,311, $28,430 and $18,042, respectively, which consisted of $12,656, $14,215 and $9,021, respectively from the University, and $12,655, $14,215 and $9,021, respectively from the covered employees for 2013, 2012 and 2011.

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The contractual maximum contribution rate is 15%. The University accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2013 and 2012. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2013 and 2012. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years' salaries 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 $233,981, $281,431 and $304,253, respectively, which consisted of $167,129, $201,022 and $217,324, respectively, from the University and $66,852, $80,409 and $86,929, respectively, from the covered employees.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the University. Historical trend and net pension obligation information is available from the annual financial report of the Combined Public Retirement Board. A copy of the report may be obtained by writing to the Combined Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

The TIAA-CREF is a defined-contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan 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, which are not matched by the University.

Total contributions to the TIAA-CREF for the years ended June 30, 2013, 2012 and 2011, were $2,276,300, $2,302,795 and $2,275,876, respectively which consisted of contributions of $1,138,150, $1,151,397 and $1,137,927, respectively, from the University and $1,138,150, $1,151,397 and $1,137,927, respectively from the covered employees in 2013, 2012 and 2011.

The University's total payroll for the years ended June 30, 2013, 2012 and 2011, was $22,730,627, $23,333,910 and $21,552,823, respectively; total covered employees' salaries in the STRS, Educator's Money, and TIAA-CREF were $1,114,194, $210,925, and $18,969,166; $1,340,144, $236,981, and $19,189,956; $1,448,822, $150,715, and $18,965,628, respectively, in 2013, 2012 and 2011.

14. COOPERATIVE AGREEMENT

On July 1, 2000, the University entered into a cooperative agreement with the U.S. Department of Justice (the "Justice Department") to implement and operate a Regional Community Police Institute (RCPI). The RCPI is part of the Justice Department's involvement in the development and implementation of training and technical assistance services and product development for law enforcement agencies interested in implementing community policing. Total receipts and expenses during fiscal year 2013 were $26,775 and $26,775 and during fiscal year 2012 were $22,437 and $22,437, respectively. FY12 funding is only state-funding as this program is no longer federally funded.

15. 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 employ management, form policy, and maintain fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or the amount of receipts from the Foundation, the majority of resources, or income thereon, which the Foundation holds and invests are restricted to the activities by the 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 combined financial statements in accordance with GASB. Based on the Foundation's audited financial statements as of June 30, 2013 and 2012, the Foundation's net assets (including unrealized gains) totaled $8,866,297 and $6,947,496, respectively on the accrual basis of accounting.

During the years ended June 30, 2013 and 2012, the Foundation contributed $0 and $2,755, respectively to the University for scholarships.

16. AFFILIATED ORGANIZATION

The University has a separately incorporated affiliated organization, the Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the University. Accordingly, the financial statements of this organization are not included in the University's accompanying combined financial statements under the blended component unit requirements. They are not included in the University's accompanying combined financial statements under the discretely presented component unit requirements as they are not significant to the University.

17. 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 affect the financial position 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 are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2013 and 2012.

The University owns various buildings, which 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 under 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.

18. SEGMENT INFORMATION

In fiscal year 2013 the University acquired two revenue bond series (2012A and 2013) to refinance old bonds, to payoff a note, and to improve various capital projects. See Note 7 on Bonds Payables for details. As part of securing these new bonds, the University has pledged student fees collected in three funds: University Student Union (formerly Wilson Student Union), Residence Life (Dawson Hall), and the Capital Improvement Fund. Investors in these bonds rely solely on the revenues generated by the activities of the auxiliaries and capital fund for repayment.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2012 Series — On December 20, 2012, the University issued $8,930,000 of Revenue Bonds, 2012 Series (the "2012 Bonds"). The 2012 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2012 Bonds will be secured pursuant to the Bond Trust Indenture (the "Indenture") dated as of December 1, 2012, by and between the Board and Huntington National Bank (the "Trustee"). The 2012 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2012 Bonds are being used to (1) refund 1996-1 note from Educational Direct Loan Mortgage Corporation ("Eddie Mac") of $2,418,612 for renovation of Dawson Hall, (2) fund various capital projects of $6,260,033, and (3) pay the costs of issuance of the 2012 Bonds and related costs. Final payment date is October 1, 2037.

State of West Virginia, Board of Governors of West Virginia State University, Revenue Bonds, 2013 Series A — On February 20, 2013, the University issued $2,815,000 of Revenue Bonds, 2013 Series A (the "2013 Bonds"). The 2013 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2013 Bonds will be secured pursuant to the First Supplemental Bond Trust Indenture (the "Indenture") dated as of March 1, 2013, by and between the Board and Huntington National Bank (the "Trustee"). The 2013 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2013 Bonds are being used to (1) to refund 2002 Series A Call (3-25-2013) for $3,468,655, which were used to renovate the Student Union, acquire equipment, and pay costs of issuance of 2013 Bonds and its related costs. The difference in the amounts between the 2002 Bonds and the 2013 Bonds was the paying down of the principal by the 2002 Bond's escrow of $685,471, which the 2013 Bonds do not require as much. The final payment of 2013 Bonds will be on October 1, 2021.

State of West Virginia, Board of Governors of West Virginia State University, Student Union Revenue Bonds, 2002 Series A — On August 1, 2002, the University issued $5,500,000 of College Facilities Revenue Bonds, 2002 Series A (the "2002 Bonds"). The 2002 Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended, and the 2002 Bonds will be secured pursuant to the Indenture and Security Agreement (the "Indenture") dated as of August 1, 2002, by and between the Board and Huntington National Bank (the "Trustee"). The 2002 Bonds are secured by and payable from fees assessed to the students of the University held under the Indenture. The proceeds of the 2002 Bonds are being used to (1) finance the costs of renovation of, construction of an addition to and acquisition of equipment for the University Union, (2) establishing a debt service reserve fund, and (3) paying the costs of issuance of the 2002 Bonds and related costs.

The 2002 Bonds were refinanced with the 2013 Bonds.

Condensed financial information for the University's segment as of June 30, 2013 and 2012, is as follows:

Condensed Schedules of Net Position	**Capital, Housing, Student Union 2013**	**Student Union 2012**
Assets:		
Current assets	$ 857,977	$
Noncurrent assets	14,572,113	5,555,601
Total	$ 15,430,090	$5,555,601
Liabilities:		
Current	$ 1,848,241	$ 313,135
Noncurrent liabilities	11,400,000	3,045,273
Total liabilities	13,248,241	3,358,408
Net position:		
Net investment in capital assets	1,691,324	1,768,642
Restricted — expendable capital projects	6,258,130	
Restricted — expendable debt service	288,079	479,651
Unrestricted	(6,055,684)	(51,100)
Total net position	2,181,849	2,197,193
Total	$ 15,430,090	$5,555,601

Condensed Schedules of Revenues, Expenses, and Changes in Net Position	Capital, Housing, Student Union 2013	Student Union 2012
Operating:		
Operating revenues	$1,870,473	$ 847,178
Operating expenses	(1,480,656)	(688,367)
Net operating income	389,817	158,811
Nonoperating:		
Nonoperating revenues	5,349	651
Nonoperating expenses	(410,510)	(183,425)
Decrease in net position	(15,344)	(23,963)
Net position — beginning of year	2,197,193	2,221,156
Net position — end of year	$2,181,849	$2,197,193
Condensed Schedules of Cash Flows		
Net cash provided by operating activities	$1,201,675	$ 344,814
Net cash used in capital and related financing activities	(343,698)	(431,755)
Increase (decrease) in cash and cash equivalents	857,977	(86,941)
Cash and cash equivalents — beginning of year		86,941
Cash and cash equivalents — end of year	$ 857,977	$

19. EAST BONDS

The University has been approved to receive $15,000,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds issued by the West Virginia Development Office during August 2010. As of June 30, 2013, $9,247,392 of such proceeds have been received. The West Virginia Development Office is responsible for repayment of the debt.

20. COMPONENT UNIT DISCLOSURES

The following are the notes taken directly from the Foundation's financial statements as follows:

Summary of Significant Accounting Policies:

Organization and Nature of Activities — West Virginia State University Foundation, Inc. and Subsidiary (the "Foundation") was established to provide support for the private fundraising efforts of the West Virginia State University (the "University") and to manage privately donated funds on behalf of the University. The Foundation is a nonprofit corporation organized in accordance with the laws of the State of West Virginia and managed by a volunteer Board of Directors.

The private fundraising efforts of the University result in the Foundation receiving gifts and pledges for the benefit of the University. Such gifts and pledges include endowment gifts to be invested in perpetuity, remainder interests in charitable remainder trusts, gift annuities, and other gifts for the benefit of the University and its affiliates. The Foundation also receives gifts and pledges to be used to fund current Foundation activities.

Basis of Accounting — The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles.

Consolidation Policy — The accompanying consolidated financial statements include the accounts of the Foundation and its wholly owned subsidiary, West Virginia State University Foundation Properties, Inc. Intercompany transactions and balances have been eliminated in the consolidation.

Basis of Presentation — The Foundation presents its net assets and all balances and transactions based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Foundation and changes therein are classified and reported as follows:

- Unrestricted Net Assets — Net assets not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets — Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.
- Permanently Restricted Net Assets — Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes.

Cash Equivalents — For purposes of the reporting on the Consolidated Statement of Cash Flows, the Foundation considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents.

Investments — Investments are reported at fair value based on quoted prices in active markets. Investment income consists of interest and dividend income earned and realized gains or losses less any related fees, and is included in the Consolidated Statement of Activities.

Property and Equipment — The Foundation capitalizes all expenditures in excess of $500 for property and equipment at cost. All donated assets are stated at the fair market value at the time of donation. Depreciation is provided on the straight line method over the estimated useful lives of the assets as follows:

Buildings and improvements	31.5–39 years
Furniture and equipment	3–7 years

Contributions — Contributions are recognized as revenues in the period received. Unconditional promises to give (pledges) are recognized as revenues when the commitment is communicated to the Foundation. Conditional promises to give are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Pledges for the support of future operations, programs and activities are recorded at the present value of the estimated future cash flows. Amortization of discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions. An allowance for uncollectible contributions receivable is provided based upon management's judgment, including such factors as prior collection history, type of contribution, and nature of fundraising activity.

Outstanding Legacies — The Foundation is the beneficiary under various wills and trust agreements, the total realizable amounts of which are not presently determinable. The Foundation's share of such bequests is recorded when the probate court has declared the testamentary instrument valid and the proceeds are measurable.

Beneficial Interest in Trusts — The Foundation receives contributions of property in which the donor or donor-designated beneficiary may retain a life interest. The assets are invested and administered by a trustee and distributions are made to the beneficiaries during the term of the agreement. These funds are invested in debt and equity securities or property, and the Foundation records its interest in these trusts at fair value based on estimated future cash receipts. Initial recognition and subsequent adjustments to the assets' carrying value are reported as a change in the value of split-interest trusts in the accompanying financial statements and are classified as permanently restricted, temporarily restricted, or unrestricted depending on the existence of donor-imposed purpose or time restrictions, if any.

In-Kind Contributions — The Foundation receives contributed services from a large number of volunteers who assist in fundraising efforts through their participation in a range of activities. The value of such services, which the Foundation considers not practicable to estimate, have not been recognized in the Consolidated Statement of Activities.

Spending Policy — Effective July 2004, the Foundation's Board of Trustees implemented a revised spending policy with the dual objectives of preserving the real (after inflation) value of its current and subsequently acquired assets and providing the maximum flow of funds for current Foundation activities.

The revised spending policy provides that the amount which the Foundation makes available for scholarships, operating expenses and fees will be calculated by multiplying a Percentage by a Base. This computation will be made at the beginning of each fiscal year.

The Base for scholarship distributions will be an average of the market value of the Foundation's investments. The Foundation recognizes that certain circumstances may call for a different Base to be used. In such instances, the President of the Foundation, after consultation with the Investment Committee, may adjust the period of time used for the Base.

The determination of the Percentage factor for scholarship distributions will be reviewed periodically in the light of evolving trends with respect to investment returns and the rate of inflation, and adjustment will be made when it is considered appropriate. Should the total market value of any fund fall below the initial corpus plus additional contributions to the corpus, no distributions will be made unless authorized by the fund agreement or the Board of Trustees.

The Foundation recognizes that extremely unusual circumstances with respect either to financial markets or the needs of the communities it serves may, in rare instances, require temporary departures from the strict application of these Investment and/or spending policies.

Use of Estimates — The preparation of 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, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. In the opinion of the Foundation's management, such differences would not be significant.

Advertising and Promotional Expenses — Advertising and promotional costs are charged to expense as they are incurred.

Accounting for Uncertain Tax Positions — The Foundation has adopted the provisions of Accounting Standards Codification (ASC) Topic 740, *Income Taxes*, relating to unrecognized tax benefits. This standard requires an entity to recognize a liability for tax positions when there is a 50% or greater likelihood that the position will not be sustained upon examination. The Foundation is liable for taxes to the extent of any unrelated business income as defined by IRS regulations. The Foundation believes that it has not engaged in any unrelated business income as defined by IRS regulations and that it is more likely than not that this position would be sustained upon examination. As such, there were no liabilities recorded for uncertain tax positions as of June 30, 2013 and 2012.

Concentrations of Credit Risk — The Foundation's investments consist primarily of financial instruments including cash equivalents, equity securities, fixed income securities, certificates of deposit, and money market funds. These financial instruments may subject the Foundation to concentrations of credit risk as, from time to time, cash balances may exceed amounts insured by the Federal Deposit Insurance Corporation. In addition, the market value of securities are dependent on the ability of the issuer to honor its contractual commitments, and the investments are subject to changes in market values. Certain receivables also subject the Foundation to concentrations of credit risk. Management believes that risk with respect to these balances is minimal, due to the high credit quality of the institutions used.

The Foundation maintains cash balances at a local financial institution. Accounts at the institution are insured by the Federal Deposit Insurance Corporation. Cash and cash equivalents exceeding federally insured limits totaled $1,430,888 at June 30, 2013.

Unconditional Promises to Give — Unconditional promises to give at June 30, 2013 and 2012 consist of the following:

	2013	2012
Pledge receivable — unrestricted		
Receivable in less than one year	$ 12,595	$ 1,138
Receivable in one to five years	6,268	
Receivable in six to ten years	4,780	
Pledge receivable — temporarily restricted		
Receivable in less than one year	347,948	70,609
Receivable in one to five years	748,895	65,000
Receivable in six to ten years	320,000	
Pledge receivable — permanently restricted		
Receivable in less than one year	10,210	10,001
Total unconditional promises to give	1,450,696	146,748
Less discounts to net present value	(125,326)	(5,004)
Net unconditional promises to give	$ 1,325,370	$ 141,744

Investments — Investments are carried at market value at June 30, 2013 as follows:

	Cost	Fair Value	Unrealized Gain (Loss)
U.S. government obligations and agencies	$ 78,598	$ 85,809	$ 7,211
Common stock	123,882	159,219	35,337
Mutual funds	3,298,757	3,625,601	326,844
Corporate obligations	651,755	665,360	13,605
Cash equivalents	229,261	229,261	
Less administrative fees in transit	(52,644)	(52,644)	
	$ 4,329,609	$ 4,712,606	$ 382,997

Investments are carried at market value at June 30, 2012 as follows:

	Cost	Fair Value	Gain (Loss)
U.S. government obligations and agencies	$ 78,378	$ 94,350	$ 15,972
Common stock	107,156	137,501	30,345
Mutual funds	3,111,658	3,164,171	52,513
Corporate obligations	765,380	776,853	11,473
Cash equivalents	147,964	147,964	
Less administrative fees in transit	(95,355)	(95,355)	
	$ 4,115,181	$ 4,225,484	$ 110,303

Investment return for the years ended June 30, 2013 and 2012 is summarized as follows:

	2013	2012
Interest and dividends	$ 93,764	$ 89,106
Realized gains	172,344	87,940
Total investment income	$ 266,108	$ 177,046
Investment management fees	$ (31,073)	$ (25,919)
Unrealized gain (loss)	$ 272,694	$ (235,840)

In August 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 117-1, "*Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*" (FSP FAS 117-1). FSP FAS 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a nonprofit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006

(UPMIFA). FSP FAS 117-1 also requires additional disclosures about an organization's endowment funds (both donor restricted endowment funds and board-designated endowment funds) whether or not the organization is subject to UPMIFA.

The State of West Virginia enacted UPMIFA effective March 5, 2008, the provisions of which apply to endowment funds existing on or established after that date. The Board of Directors determined that the Foundation's permanently restricted net assets met the definition of endowment funds under UPMIFA and adopted FSP FAS 117-1.

The Foundation's endowment consists of funds established for a variety of purposes. Its endowment includes donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Foundation's Board of Directors has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA. In accordance with SPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of the Foundation, and (7) the Foundation's investment policies.

Investment Return Objectives, Risk Parameters and Strategies. The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 4%, while growing the funds if possible. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy. The Foundation has a policy of appropriating for distribution each year 4% of its endowment fund's fair value. In establishing this policy, the Foundation considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, many of which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. The Foundation expects the current spending policy to allow its endowment funds to grow at a nominal rate, which is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through investment return.

Fair Value Measurements — Fair values of assets measured on a recurring basis at June 30, 2013 and 2012 are as follows:

		Fair Value Measurements at Reporting Date Using:		
June 30, 2013	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
U.S. government obligations and agencies	$ 85,809	$ 85,809	$ -	$ -
Common stock	159,219	159,219		
Mutual funds	3,625,601	3,625,601		
Corporate obligations	665,360	665,360		
Cash equivalents	229,261	229,261		
Less administrative fees in transit	(52,644)	(52,644)		
Beneficial interest in charitable trusts	218,181	181,538		36,643
Total	$ 4,930,787	$ 4,894,144	$ -	$ 36,643
June 30, 2012				
U.S. government obligations and agencies	$ 94,350	$ 94,350	$ -	$ -
Common stock	137,501	137,501		
Mutual funds	3,164,171	3,164,171		
Corporate obligations	776,853	776,853		
Cash equivalents	147,964	147,964		
Less administrative fees in transit	(95,355)	(95,355)		
Beneficial interest in charitable trusts	210,814	175,073		35,741
Total	$ 4,436,298	$ 4,400,557	$ -	$ 35,741

Assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
	Contribution Receivable - Beneficial Interest in Charitable Remainder Trust
July 1, 2012	$ 35,741
Beneficial interest in charitable remainder trust	-
Total gains or losses (realized/unrealized)	902
June 30, 2013	$ 36,643

Financial assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Fair value for the contribution receivable from a beneficial interest in a charitable remainder trust (Level 3) is determined by calculating the present value of the future distributions expected to be received, using published life expectancy tables and a 5.0% discount rate.

Beneficial Interest in Trusts — The Foundation was the beneficiary of certain charitable trusts. The value of such trusts at June 30, 2013 and 2012 are as follows:

	2013	**2012**
Charitable remainder trust	$ 36,643	$ 35,741
Charitable trust	181,538	175,073
	$218,181	$ 210,814

Property and Equipment, Net — A summary of property and equipment as of June 30, 2013 and 2012 is as follows:

	2013	**2012**
Land	$ 166,000	$ 166,000
Buildings and improvements	1,282,353	1,282,353
Furniture and equipment	46,448	46,448
	1,494,801	1,494,801
Less accumulated depreciation	663,212	628,178
	$ 831,589	$ 866,623

Restrictions and limitations on net asset balances:

Temporarily restricted:

Temporary restricted net assets at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Athletic participation	$ 785,774	$ 138,070
Students' special projects	11,713	20,184
Academic programs	241,215	73,370
General scholarships	1,522,195	1,126,783
WVSU Foundation programs	353,015	91,308
Investment income and net appreciation	825,661	439,370
Properties	479,827	514,861
	$4,219,400	$2,403,946

Permanently restricted:

Permanently restricted net assets at June 30, 2013 and 2012 consisted of the following:

	2013	2012
Endowment principal	$ 4,141,576	$4,032,885

Compensated Absences — Compensated absences for sick pay and vacation time have not been accrued since they cannot be reasonably estimated. The Foundation's policy is to recognize these costs when actually paid.

Federal Income Taxes — The Foundation is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The wholly owned subsidiary, West Virginia State University Foundation Properties, Inc., is exempt from Federal income taxes under Section 501(c)(2) of the Internal Revenue Code.

Retirement Plan — All eligible employees of the Foundation are included in the West Virginia State University's retirement plan.

Gifts In Kind — The amounts reflected in the accompanying financial statements as Gifts in kind contributions are offset by like amounts included in additions to various program expense accounts. The Organization received contributions of equipment during the year ended June 30, 2012, with a fair value on the date of donation of $270,401.

Related parties — Various investment advice and custodial services, insurance and other professional services are performed for the Foundation by entities that have close relationships with various members of the Board of Directors.

Subsequent Events — The Foundation has evaluated all subsequent events through September 27, 2013, the date the financial statements were available to be issued.

Residence Hall Bond Financing: The Foundation is entering an unconcluded bond transaction with the Kanawha County Commission to build a new residence hall for the University with a total cost not to exceed $30,000,000. The University will manage and operate the residence hall for the Foundation, and the bond payments will be paid from revenue generated from student housing fees.

21. NATURAL CLASSIFICATIONS WITHIN 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-Off	Fees Assessed by the Commission	Total
Instruction	$ 8,329,824	$2,123,335	$ 1,148,775	$ 8,889					$11,610,823
Research	1,991,129	441,587	1,879,571	16,200					4,328,487
Public service	1,487,671	353,090	1,181,323	41,692					3,063,776
Academic support	977,741	257,186	505,195	(1,248)					1,738,874
Student services	1,480,139	444,320	708,817	18,542					2,651,818
General institutional support	5,206,307	1,340,937	3,247,873	19,178					9,814,295
Operations maintenance of plant	1,498,132	725,997	296,637	1,051,578					3,572,344
Scholarship and fellowship					$3,939,977				3,939,977
Auxiliary enterprises	1,646,968	320,940	3,551,092	628,921					6,147,921
Loan cancellations and write-off							$ 7,225		7,225
Depreciation and amortization expense						$1,597,497			1,597,497
Fees assessed by the Commission								$108,718	108,718
Total	$22,617,911	$6,007,392	$12,519,283	$1,783,752	$3,939,977	$1,597,497	$ 7,225	$108,718	$48,581,755

2012

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation and Amortization	Loan Cancellations and Write-Off	Fees Assessed by the Commission	Total
Instruction	$ 8,537,435	$3,040,574	$ 1,047,227	$ (26,558)					$12,598,678
Research	2,036,553	441,201	1,325,440	19,979					3,823,173
Public service	1,627,305	455,489	2,644,296	17,002					4,744,092
Academic support	1,023,087	414,252	520,405	9,562					1,967,306
Student services	1,647,743	724,837	845,818	6,799					3,225,197
General institutional support	5,587,894	1,561,779	4,679,567	24,099					11,853,339
Operations maintenance of plant	1,268,687	1,214,543	(252,159)	1,126,179					3,357,250
Scholarship and fellowship			(146,361)		$4,422,696				4,276,335
Auxiliary enterprises	2,182,026	658,473	4,103,339	640,970					7,584,808
Loan cancellations and write-off							$60,535		60,535
Depreciation and amortization expense						$1,489,801			1,489,801
Fees assessed by the Commission								$121,938	121,938
Total	$23,910,730	$8,511,148	$14,767,572	$1,818,032	$4,422,696	$1,489,801	$60,535	$121,938	$55,102,452

22. SERVICE CONCESSION ARRANGEMENTS

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 (SCA). SCAs are defined as a contract between a government and an operator, another government or 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 University had a contract with AVI Foodsystems, Inc. (AVI) who managed its dining services. The contract began on August 1, 2003 and allowed for nine annual renewals. AVI provided meal plans to students through the University as well as offering cash sales to the University community. The University received annual commission payments from AVI calculated as a contractually agreed percentage of cash sales and the University Paid AVI for the meal plans from fees collected by the University from students. In FY 2013 and 2012, the University received $40,079 and $49,361 respectively, in commissions. There were no major renovations of the facilities during FY 2013 or FY 2012.

On July 31, 2013 the University's contract ended with AVI and on August 1, 2013 the new food service contract was awarded to Thompson Hospitality.

23. DONATION OF ASSETS

The University received a donation of assets (land and buildings) from the WV Department of Administration on June 28, 2013. The net book value of the assets totaled $6,200,000 – the fair market value of the land. The buildings donated to the University were condemned by the WV Department of Rehabilitation Services before being turned over to the Department of Administration in FY 2012.

24. SUBSEQUENT EVENTS

RESIDENCE HALL BOND FINANCING

The Foundation entered into a bond transaction with the Kanawha County Commission to fund the construction of a new residence hall on behalf of the University. The total bond proceeds of $25.4 million were received on September 24, 2013. The University will manage and operate the residence hall for the Foundation and the bond payments will be paid from revenue generated from student housing fees.

OIL & GAS LEASE

The University has entered into a lease agreement with Reserve Oil and Gas Company. The lease allows for the Company to drill up to three wells on campus with 15% royalty to be paid to the University.

ATHLETIC FACILITY FUNDING

The University is in the process of obtaining a bridge loan to offset cash flows for pledged revenues associated with the building of a new athletic facility. The total value of the loan will not exceed $3.4 million.

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

To the West Virginia State
University Governing Board

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 Virginia State University (the "University"), as of and for the year ended June 30, 2013, and the related notes to the combined financial statements and have issued our report thereon dated November 13, 2013. Our report includes a reference to other auditors who audited the financial statements of the University's discretely presented component unit, as described in our report on the University's combined financial statements. The financial statements of the University's discretely presented component unit were not audited in accordance with *Government Auditing Standards*.

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 a 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 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 entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich Grigoraci PLLC

Huntington, West Virginia
November 13, 2013