

West Virginia Higher  
Education Policy  
Commission State  
University System Bonds

Combined Special-Purpose Financial  
Statements — Modified-Cash Basis as of and  
for the Years Ended June 30, 2013 and 2012, and  
Independent Auditors' Report

## INDEPENDENT AUDITORS' REPORT

To the West Virginia Higher Education  
Policy Commission  
Charleston, West Virginia

We have audited the accompanying combined special-purpose financial statements — modified cash basis of the West Virginia Higher Education Policy Commission State University System Bonds (the “Bonds”), which comprise the combined special-purpose statements of assets, liabilities, and fund balance (deficit) — modified cash basis as of June 30, 2013 and 2012, and the related combined special-purpose statements of revenues collected, expenses, and costs paid, and changes in fund balance (deficit) — modified cash basis for the years then ended, and the related notes to the financial statements, (collectively, the “Combined Special-Purpose Financial Statements”).

### Management’s Responsibility for the Combined Special-Purpose Financial Statements

Management is responsible for the preparation and fair presentation of these Combined Special-Purpose Financial Statements in accordance with the modified cash basis of accounting described in Note 1 to the Combined Special-Purpose Financial Statements; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of Combined Special-Purpose Financial Statements that are free from material misstatement, whether due to fraud or error.

### Auditors’ Responsibility

Our responsibility is to express an opinion on these Combined Special-Purpose Financial Statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Combined Special-Purpose Financial Statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Combined Special-Purpose Financial Statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the Combined Special-Purpose Financial Statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bond’s preparation and fair presentation of the Combined Special-Purpose Financial Statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bond’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the Combined Special-Purpose Financial Statements.

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

### **Opinion**

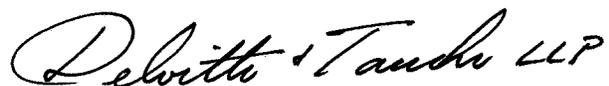
In our opinion, the Combined Special-Purpose Financial Statements referred to above present fairly, in all material respects, the combined assets, liabilities, and fund balance (deficit) of the Bonds as of June 30, 2013 and 2012, and its combined revenues collected, expenses, and costs paid, and changes in fund balance (deficit) for the years then ended in accordance with the modified cash basis of accounting described in Note 1 to the Combined Special-Purpose Financial Statements.

### **Basis of Accounting**

We draw attention to Note 1 of the Combined Special-Purpose Financial Statements, which describes the basis of accounting. As described in Note 1 of the Combined Special-Purpose Financial Statements, these Combined Special-Purpose Financial Statements were prepared for the purpose of complying with the related bond agreements and are intended to present only the selected assets, liabilities, fund balances, revenues, and expenses and costs paid of the West Virginia Higher Education Policy Commission required to be presented under these agreements. The Combined Special-Purpose Financial Statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. These Combined Special-Purpose Financial Statements are not intended to be a complete presentation of the West Virginia Higher Education Policy Commission. Our opinion is not modified with respect to this matter.

### **Restriction on Use**

Our report is intended solely for the information and use of the West Virginia Higher Education Policy Commission, management of the West Virginia Higher Education Policy Commission, and the bondholders and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

September 27, 2013

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
STATE UNIVERSITY SYSTEM BONDS**

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

	2013				2012			
	Revenue Fund	Construction Fund	Bond Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Combined
<b>ASSETS</b>								
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF THE POLICY COMMISSION	\$ 705,393	\$ -	\$ -	\$ 705,393	\$ 738,375	\$ -	\$ -	\$ 738,375
DEPOSITS WITH THE STATE TREASURER IN ACCOUNTS OF THE MUNICIPAL BOND COMMISSION			583,822	583,822			583,288	583,288
DEPOSITS WITH TRUSTEE BANK		20	58,511	58,531		20	58,513	58,533
<b>TOTAL</b>	<u>\$ 705,393</u>	<u>\$20</u>	<u>\$642,333</u>	<u>\$ 1,347,746</u>	<u>\$ 738,375</u>	<u>\$20</u>	<u>\$641,801</u>	<u>\$ 1,380,196</u>
<b>LIABILITIES AND FUND BALANCE (DEFICIT)</b>								
LIABILITIES:								
Bond indebtedness	\$ 72,152,004	\$ -	\$ -	\$ 72,152,004	\$ 77,065,868	\$ -	\$ -	\$ 77,065,868
Amount due to West Virginia Higher Education Policy Commission State College System Bonds			1,541	1,541			1,541	1,541
Amount due to West Virginia Higher Education Policy Commission Revenue Refunding Bonds Higher Education Facilities 2007 Series A			7	7			7	7
Total liabilities	72,152,004	-	1,548	72,153,552	77,065,868	-	1,548	77,067,416
FUND (DEFICIT) BALANCE	(71,446,611)	20	640,785	(70,805,806)	(76,327,493)	20	640,253	(75,687,220)
<b>TOTAL</b>	<u>\$ 705,393</u>	<u>\$20</u>	<u>\$642,333</u>	<u>\$ 1,347,746</u>	<u>\$ 738,375</u>	<u>\$20</u>	<u>\$641,801</u>	<u>\$ 1,380,196</u>

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

**WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION  
STATE UNIVERSITY SYSTEM BONDS**

**COMBINED SPECIAL-PURPOSE STATEMENTS OF REVENUES COLLECTED, EXPENSES AND COSTS PAID, AND  
CHANGES IN FUND BALANCE (DEFICIT) — MODIFIED CASH BASIS  
FOR THE YEARS ENDED JUNE 30, 2013 AND 2012**

	2013				2012			
	Revenue Fund	Construction Fund	Bond Fund	Combined	Revenue Fund	Construction Fund	Bond Fund	Combined
REVENUES COLLECTED:								
Student fees — net	\$ 10,769,694	\$ -	\$ -	\$ 10,769,694	\$ 12,295,432	\$ -	\$ -	\$ 12,295,432
Income from investments	1,157		656	1,813	1,425		1,333	2,758
Total revenues collected	<u>10,770,851</u>	<u>-</u>	<u>656</u>	<u>10,771,507</u>	<u>12,296,857</u>	<u>-</u>	<u>1,333</u>	<u>12,298,190</u>
EXPENSES AND COSTS PAID:								
Service fees	188,770		124	188,894	199,530		2,000	201,530
Interest (including defeased bonds redemption premium) in 2012			5,701,199	5,701,199			2,644,888	2,644,888
Total expenses and costs paid	<u>188,770</u>	<u>-</u>	<u>5,701,323</u>	<u>5,890,093</u>	<u>199,530</u>	<u>-</u>	<u>2,646,888</u>	<u>2,846,418</u>
EXCESS (DEFICIENCY) OF REVENUES COLLECTED OVER EXPENSES AND COSTS PAID	10,582,081		(5,700,667)	4,881,414	12,097,327	-	(2,645,555)	9,451,772
RETIREMENT OF BONDS	4,913,864		(4,913,864)	-	9,440,000		(9,440,000)	-
TRANSFERS (FROM) TO						(2)	2	-
TRANSFERS (FROM) TO — For payment of current debt service requirement	(10,615,063)		10,615,063	-	(12,084,888)		12,084,888	-
FUND (DEFICIT) BALANCE — Beginning of year	<u>(76,327,493)</u>	<u>20</u>	<u>640,253</u>	<u>(75,687,220)</u>	<u>(85,779,932)</u>	<u>22</u>	<u>640,918</u>	<u>(85,138,992)</u>
FUND (DEFICIT) BALANCE — End of year	<u>\$ (71,446,611)</u>	<u>\$ 20</u>	<u>\$ 640,785</u>	<u>\$ (70,805,806)</u>	<u>\$ (76,327,493)</u>	<u>\$ 20</u>	<u>\$ 640,253</u>	<u>\$ (75,687,220)</u>

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

# WEST VIRGINIA HIGHER EDUCATION POLICY COMMISSION STATE UNIVERSITY SYSTEM BONDS

## NOTES TO COMBINED SPECIAL-PURPOSE FINANCIAL STATEMENTS — MODIFIED CASH BASIS AS OF AND FOR THE YEARS ENDED JUNE 30, 2013 AND 2012

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### 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization** — The West Virginia Higher Education Policy Commission State University System Bonds (the “Bonds”) are obligations of the West Virginia Higher Education Policy Commission (the “Commission”), an agency of the State of West Virginia (the “State”). Senate Bill 653 (S.B. 653) was enacted by the West Virginia Legislature on March 19, 2000, and restructured public higher education in West Virginia. S.B. 653 created the Commission, which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda. It is charged with oversight of public higher education institutions to ensure they are accomplishing their missions and implementing the provisions set by the State statute.

S.B. 653 abolished the Board of Trustees of the University System of West Virginia effective June 30, 2000, and created a one-year Interim Governing Board. Effective July 1, 2001, certain powers were transferred to newly created Governing Boards at each of the institutions of higher education. These powers and duties include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the institution(s) under its jurisdiction; the duty to develop a master plan for the institution; the power to prescribe the specific functions and institution’s budget request; the duty to review at least every five years all academic programs offered at the institution; and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

The Board of Trustees State University System Bonds were issued between 1996 and 2000 to construct, renovate, and maintain various academic and other facilities of the State’s universities. These obligations were assumed by and are administered by the Commission, as successor to various former governing boards of the West Virginia public higher education system by virtue of S.B. 653. The Commission issued University Bonds in 2003, and together with the 1996–2000 Bonds, collectively comprise the State University System Bonds per the State University General Resolution (the “General Resolution”).

The Commission has the authority to assess each public institution of higher education for payment of debt service on these 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 an institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Pledged collections were \$19.0 million and \$13.4 million for the years ended June 30, 2013 and 2012, respectively. The Bonds remain an obligation of the Commission.

**Basis of Presentation** — The General Resolution requires that the Commission is to maintain certain accounts and funds related to the Bonds. The Commission prepares annual combined special-purpose financial statements that set forth the balances and activity in the specified funds. The following is a description of the funds that the Commission is required to maintain and to present in the form of combined special-purpose financial statements:

*Revenue Fund* — The revenue fund accounts for pledged revenues and expenses and costs paid related thereto, and outstanding bonds.

*Construction Fund* — The construction fund accounts for the proceeds of revenue bonds and subsequent disbursement thereof for their intended purpose.

*Bond Fund* — The bond fund accounts for the transfers from the revenue fund and subsequent disbursement thereof for their intended purpose and the payment of bond principal and interest.

Included in these combined special-purpose financial statements are the funds and accounts of the University System Revenue Bonds, 1998 Series A, the State University System Revenue Bonds, 2000 Series A, and State University System Refunding Bonds, 2003 Series A.

These combined special-purpose financial statements do not constitute a complete presentation of the assets, liabilities, net assets, revenues, and expenses of the Commission, but present only the funds the Commission is required to present in the combined special-purpose financial statements pursuant to the provisions of the General Resolution.

In accordance with requirements of the General Resolution as amended, accounting records for the Bonds are maintained on the cash receipts and disbursements basis. Consequently, certain revenues and the related assets are recognized when received rather than when earned, and certain expenses and costs are recognized when paid rather than when the obligation is incurred. These combined special-purpose financial statements are prepared on the modified-cash basis of accounting, which is another comprehensive basis of accounting as required by the General Resolution. The principal modification to the cash basis of accounting is the recording of bond indebtedness. Consequently, as these are combined special-purpose financial statements to comply with the General Resolution, a Management Discussion and Analysis is not included in the combined special-purpose financial statements.

Deposits with the State Treasurer have been pooled for maximization of investment income. These deposits are combined with deposits of various other funds. Investment income on these deposits is allocated to the various funds based on the balance of these deposits at the end of the month in which the income was earned.

Deposits with the Trustee Bank (the “Trustee”) as of June 30, 2013 and 2012, include \$58,512 and \$58,533, respectively, of cash invested in a money market fund sponsored by an investment company, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities. The U.S. government agency securities are held in safekeeping with the Trustee.

Fixed assets are not included in these combined special-purpose financial statements since they do not represent financial resources available for expenditure, but are items for which financial resources have been used. Fixed assets are capitalized in the financial statements of the respective institutions.

Certain ongoing costs associated with the planning and administration of capital improvements at University System institutions are paid from these funds on a regular basis.

## **2. STATE UNIVERSITY SYSTEM BONDS**

In May 1998, the 1998 Series A Bonds were issued with an original accreted value of \$55,025,000 with varying rates up to 5.5% and mature serially commencing April 2013 through April 2020 with term bonds, which have mandatory sinking fund redemptions due April 2021 through April 2028. The 1998 Series A Bonds were issued for the purpose to finance a portion of the costs of design, acquisition, construction, and equipping a new Life Sciences Building and improvements to several existing facilities on the campus of West Virginia University, and to pay costs relating to the issuance of the 1998 Series A Bonds. At June 30, 2013, the outstanding bonds have interest rates ranging from 5.25% to 5.5%.

In June 2000, the 2000 Series A Bonds were issued in the original principal amount of \$36,590,868 with rates of 5.82% to 6.26% and mature serially commencing April 1, 2013 through April 2031. The 2000 Series A Bonds were issued for the purpose of financing a portion of the costs of design, acquisition, construction, and equipping of, and certain renovations, upgrades, repairs, and improvements to several existing facilities on the campus of West Virginia University in Morgantown, West Virginia University at Parkersburg, and Potomac State College of West Virginia University, and to pay costs relating to the issuance of the 2000 Series A Bonds. At June 30, 2013, the outstanding bonds have interest rates ranging from 5.88% to 6.26%.

On April 17, 2007, \$6,970,000 of \$7,780,000 2000 Series A Bonds were refinanced with a transfer from the issuance of the 2007 Series A Bonds of the Commission. The transfer was used to acquire direct obligations of the United States, the State, or other obligations; the principal and interest of which are guaranteed by the United States. The principal and interest of the acquired obligations, when due, will provide monies sufficient to pay, when due, the remaining principal and interest on the outstanding bonds. These bonds were paid in full.

The 2003 Series A Bonds were issued in August 2003 in the original principal amount of \$60,380,000 under the provisions of the Code of West Virginia, 1931, as amended, particularly Chapters 13 and 18. The Bonds were issued simultaneously with a University Facilities bond issued by the Commission to provide monies which, together with other monies available to the respective boards, were used to (i) refund and defease all outstanding University System of West Virginia Board of Trustees, Series 1992 Bonds and (ii) to provide for the payment of costs of issuing the 2003 Series A Revenue Refunding Bonds. The 2003 Series A Bonds, with varying interest rates up to 5% per annum, matured serially through April 2007 with term bonds that had mandatory sinking fund redemptions due April 2008 through April 2012. At June 30, 2012, there were no outstanding bonds.

The Bonds are revenue bonds payable solely from pledged University System Institutions' revenues, including tuition and registration fees, and earnings attributable to the investment of pledged revenues. The 2004 Series B Bonds, the 2007 Series A Bonds, the 2010 Series A, B, and C Bonds, and the 2012 Series A and B Bonds are on parity with the Bonds with respect to sources of, and security for, payment and in all other respects. No provision of the General Resolution is to be construed to authorize the Commission, at any time or in any manner, to pledge the credit or taxing power of the State nor is any obligation or debt created by the Commission or issued under the General Resolution deemed to be an obligation of the State. The remaining outstanding Bonds are fully insured as to principal and interest by the American Municipal Bond Assurance Corporation and Financial Guaranty Insurance Company.

Under the amended General Resolution, the Commission shall at all times fix and otherwise provide for the collection of revenues (as defined in the General Resolution), which includes tuition and registration fees, from University System institutions as defined in the General Resolution, in an amount not less than 1.0 times the principal and interest due in each fiscal year the Bonds are outstanding. On October 29, 1999, the Board of Trustees approved University System of West Virginia, Administrative Bulletin No. 37, which was retroactive to July 1, 1999. The purpose of the administrative bulletin was to provide a more efficient and manageable process for assignment of responsibility by institution for payment of capital fund obligations. In addition, it is to simplify the process used for retention of the tuition and registration fee revenue collections, remitting only the required amounts to the Commission as scheduled. During the years ended June 30, 2013 and 2012, the University System institutions remitted revenues approximating 1.01 and 1.02 times the principal and interest due, respectively.

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

Fiscal Years Ending June 30	1998 Series A		2000 Series A		Total Principal and Interest		
	Principal Payments	Interest (Due April 1 and October 1)	Principal Payments	Interest (Due April 1 and October 1)	Total Principal	Total Interest	Total
2014	\$ 1,740,000	\$ 2,074,313	\$ 3,057,212	\$ 3,742,788	\$ 4,797,212	\$ 5,817,101	\$ 10,614,313
2015	1,840,000	1,978,613	2,860,284	3,939,716	4,700,284	5,918,329	10,618,613
2016	1,940,000	1,877,413	2,677,024	4,122,976	4,617,024	6,000,389	10,617,413
2017	2,045,000	1,770,713	2,503,148	4,296,852	4,548,148	6,067,565	10,615,713
2018	2,160,000	1,658,238	2,338,248	4,461,752	4,498,248	6,119,990	10,618,238
2019	2,275,000	1,539,438	2,186,064	4,613,936	4,461,064	6,153,374	10,614,438
2020	2,400,000	1,414,313	2,046,188	4,753,812	4,446,188	6,168,125	10,614,313
2021	2,535,000	1,282,313	1,914,064	4,885,936	4,449,064	6,168,249	10,617,313
2022	2,670,000	1,149,225	1,797,104	5,002,896	4,467,104	6,152,121	10,619,225
2023	2,810,000	1,009,050	1,686,944	5,113,056	4,496,944	6,122,106	10,619,050
2024	2,955,000	861,525	1,583,176	5,216,824	4,538,176	6,078,349	10,616,525
2025	3,110,000	706,388	1,485,528	5,314,472	4,595,528	6,020,860	10,616,388
2026	3,275,000	543,113	1,397,128	5,402,872	4,672,128	5,945,985	10,618,113
2027	3,445,000	371,175	1,310,564	5,489,436	4,755,564	5,860,611	10,616,175
2028	3,625,000	190,313	1,229,168	5,570,832	4,854,168	5,761,145	10,615,313
2029			1,152,600	5,647,400	1,152,600	5,647,400	6,800,000
2030			1,083,648	5,716,352	1,083,648	5,716,352	6,800,000
2031			1,018,912	5,781,088	1,018,912	5,781,088	6,800,000
	<u>\$38,825,000</u>	<u>\$18,426,143</u>	<u>\$33,327,004</u>	<u>\$89,072,996</u>	<u>\$72,152,004</u>	<u>\$107,499,139</u>	<u>\$179,651,143</u>

**3. OTHER TRANSACTIONS**

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

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