West Virginia State University Research and Development Corporation

Financial Statements as of and for the Years Ended June 30, 2016 and 2015, and Independent Auditors' Report and Reports Required by the Uniform Guidance for the Year Ended June 30, 2016

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

TABLE OF CONTENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
West Virginia State University Research and Development Corporation:

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia State University Research and Development Corporation (the "Corporation"), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 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 financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2016 and 2015, and the changes in its net position and its cash flows for the years 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 3–9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who consider it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 11, 2017, on our consideration of the Corporation'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 Corporation's internal control over financial reporting and compliance.

Hayflich CPAs

Huntington, West Virginia
January 11, 2017

West Virginia State University
Research and Development Corporation
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2016

I. Introduction

A. *Historical Background*

West Virginia State University Research and Development Corporation (WVSURDC or the Corporation) was incorporated in 1991, under the W.Va. Code Chapter 18B. The Corporation serves as the West Virginia State University's (WVSU or the University) primary fiscal management agent of its externally sponsored funding including grants, contracts, and gifts derived from federal, state, municipal, corporate, foundation, and private individuals. The Corporation operates as a nonprofit entity exclusively for charitable, educational, and scientific purposes within the meaning of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. The WVSURDC formally provides management and oversight of external support for WVSU via their affiliations and operating agreements with the University's Board of Governors and the University's Chief Executive Officer, respectively. The Corporation and its functions, in turn, reside within the Research and Public Service Unit of the University.

West Virginia State University is an 1890 Land-Grant and Historically Black institution of higher education founded in 1891. The University's central mission is to become the most student-centered, research and teaching, land-grant University in the State of West Virginia and beyond, by meeting the higher education and economic development needs of the state and region through innovative teaching and applied research. The re-attainment of its Land-Grant status, combined with the implementation of graduate programs, has significantly augmented activities related to research, teaching, and public service over the last decade. This successful expansion of the University's research and outreach programming has been only possible through the attainment of supplementary external resources. Therefore, the University's faculty along with research and outreach staff, and administrators are continually seeking opportunities for enhancing research, teaching, and public service through external sponsored support. In fact, activities which result in the attainment of external funding, in support of the institution's mission, are gradually and increasingly recognized by the University as scholarly merited. This collective and dynamic effort, infused with innovative ideas and approaches, has resulted in the University's capability to sustain the level of these resources constant within the last 5 years; in spite of economic challenges being reflected in the local, national and global landscape.

The overall availability of externally sponsored support has become increasingly more competitive as funding from derived sources contract or are prevalent. Innovative ideas and new approaches have become the new standard in order for organizations to sustain or grow their revenues. This year, the Corporation's revenues improved from the previous year. WVSURDC is committed, through its strategic planning (Vision 2020), to continue exploring innovative ways to increase its overall funding by the year 2020.

B. *Overview of the Financial Statements and the Financial Analysis*

The present document provides an overview of the Corporation's financial statements to its stakeholders for the year ended June 30, 2016. Based on these financial statements, the Corporation's management also presents discussion and analysis which highlights the successes and challenges experienced throughout the reporting year. This management's discussion and analysis is required as supplemental information prescribed by the Governmental Accounting Standards Board (GASB No. 34 & 35 directives). This financial information is structured into an activity-based reporting format and offers an overview of the Corporation's fiscal activities focusing on the year ended. The analysis is based on the position of three main financial statements: (1) Net Position; (2) Revenues, Expenses, and Changes in Net Position; and (3) Cash Flows. Additional information relevant to fiscal years 2015 and 2014 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

II. Statement of Net Position

The "Statement of Net Position" reflects the Corporation's assets, liabilities, and its net position at the end of the fiscal year. This statement provides stakeholders with fiscal information of the Corporation at a point in time (June 30, 2016). It also offers readers an overview of the net position and the assets (and liabilities) which are available to the Corporation for future investments and to continue operating.

The statements' net position is divided into three main categories: (1) net investment in capital assets; (2) restricted net position; and (3) unrestricted net position. The first asset category provides information on the Corporation's interest in property, plant, and equipment owned by the institution. The second category is further divided into non-expendable and expendable components of restricted net position. Non-expendable assets of restricted net position are only available for investment purposes; usually the Corporation does not operate restricted net position assets. Expendable components of restricted net position are to be expended by the institution for the purpose in which grantors and donors have intended, such as time and purpose restrictions. Finally, unrestricted components of net position are not restricted as to use, but only available to the institution for allowable expenditures.

Statements of Net Position

	FY 2016	FY 2015	FY 2014
Assets			
Current assets	$944,747	$1,021,455	$1,040,820
Cash and cash equivalents	565,594	162,476	307,060
Non-current assets:			
Capital assets, net	1,673,082	1,840,030	1,386,079
Total Assets	**$3,183,423**	**$3,023,961**	**$2,733,959**
Liabilities			
Current liabilities	692,649	570,321	569,399
Non-current liabilities	2,934,505	3,023,977	2,881,598
Total Liabilities	**3,627,154**	**3,594,318**	**3,450,997**
Net Position			
Net investment in capital assets	1,673,082	1,840,030	1,386,079
Restricted – expendable			
Unrestricted	(2,116,813)	(2,410,387)	(2,103,117)
Total Net Position	**(443,731)**	**(570,357)**	**(717,038)**
Total Liabilities and Net Position	**$3,183,423**	**$3,023,961**	**$2,733,959**

Assets: In fiscal year 2016, the Corporation's total assets increased by $159,462 which represents a 5 percent expansion in comparison to the previous year. There was an eleven percent increase in total assets the previous year as well. The overall increase in total assets this year resulted from a significant increase in the portion of the current assets associated with cash and cash equivalents. In fact, cash and cash equivalents expanded by $403,118 from the previous year. The overall value of current assets decreased this year by $76,708 or an 8 percent reduction. Non-current assets did see a reduction of ($166,948) when compared to the previous year. Current assets this year represented 47 percent of the total assets (compared to a 39 percent the previous year); whereas the non-current portion represented 53 percent. The value of the Corporation's cash and cash equivalents depends on the level of grant activity and the time at which this report is prepared, and thus is affected by receivables and payables in transit as well as by outstanding items, such as checks.

Liabilities: The balance of total liabilities during the current fiscal year increased by less than one percent ($32,836); compared to the previous year's total liabilities increase of four percent ($143,321). The overall increase effect was the result of a reduction of the non-current liabilities portion, which decreased by 3 percent (-$89,492) and an increase as it relates to the change in the current liabilities portion ($122,328). The decrease in non-current liabilities this year was a result of a pay down of liabilities related to the portion of compensated absences (-$186,848), and the corresponding annual increase in Other Post-Employment Benefits (OPEB) ($97,356). The increase in current liabilities is the result of unearned revenue received during fiscal year 2016 for activities that will occur in fiscal year 2017. A small decrease in compensated absences (from $230,071 to $226,589) was accompanied by a small decrease in accounts payable (from $338,952 to $324,762). Accounts payable (and receivable) are variable throughout the year and vary from year to year depending upon the Corporation's level of activity. In relation to the total liabilities' value, current and non-current liabilities this year contributed again with 19 percent and 81 percent respectively this year, which has been a similar ratio compared to the previous four years. The current sustained ratio suggests that the Corporation operates with less current liabilities; and that most of its liabilities derive from components comprising non-current liabilities.

Net Position: The value of total net position this year improved by $126,626 or 28 percent increase, compared to a 20 percent improvement the previous year. The current value of total net assets changed from -$570,357 to -$443,731. This position's improvement was aided by a change in unrestricted net assets of $293,574 (changed from -$2,410,387 to -$2,116,813) in relation to the value of net investments in capital assets. The deficit in unrestricted net position was again largely attributed to the booking of OPEB related to this year's corresponding accrued liability entry. The total accumulated depreciation expense (-$441,954) this year, combined with equipment reductions or disposals (-$266,533), was offset by additions in capital assets of ($288,145), resulted in a decrease in capital assets net ($166,948) which went from $1,840,030 to $1,673,082. Net investment in capital assets comprised the purchase of fixed assets that are required to fulfill the goals and objectives obligated within the Corporation's grants and contracts agreements. The value of net investments in capital assets ($1,673,082) minus expenditures for unrestricted assets (-$2,116,813) resulted in a total net position this year of ($443,731), compared to -$570,357 the previous year. Unrestricted components of net position this year continued being negative due to the inclusion of the OPEB liability accumulated up to date allocated to the portion of unrestricted net assets as per GASB mandate (since 2011). Other unrestricted components of net position are utilized by the Corporation to support expenses related to reimbursable grants in excess of the grant and to reimburse the institution for facilities and administrative costs incurred in performing research or associated educational activities. These additional unrestricted net assets derived from external support and the recovery of indirect costs from grants and sponsored agreements.

III. Revenue, Expenses, and Changes in Net Position

The statement of "Revenue, Expenses, and Changes in Net Position" reveals the financial activities that contributed to changes in the total net position. The statement offers information related to operating and non-operating revenues earned, and all of the expenses, gains and losses incurred by the Corporation during the reporting fiscal year. Both the revenues earned and the expenses incurred by the Corporation are disclosed as operating and non-operating revenues to distinguish as to their purpose and their associated distribution. All other revenues, expenses, gains, and losses are also part of this statement to identify other less common sources of revenue and expenses not being directly associated with the Corporation's chief activities.

Operating revenues, for the Corporation are usually attained from grants, contracts, private gifts and other externally sponsored agreements in exchange for goods and services as agreed with the respective funding agencies, grantors, or constituents providing these resources. Operating expenses are those expenses incurred with the acquisition or delivery of promised goods and services provided in return for revenues and to carry out the mission of the Corporation. Non-operating revenues are those revenues not directly linked to providing specific goods and/or services.

Revenues, Expenses and Changes in Net Position

	FY 2016	FY 2015	FY 2014
Operating revenues	$11,243,545	$11,336,171	$12,157,773
Operating expenses	11,391,962	12,087,043	12,535,084
Operating Gains/Losses	**(148,417)**	**(750,872)**	**(377,311)**
Non-operating revenues and expenses:	1,398	10,717	(33,651)
Capital Grants & Gifts	611,928	1,000,453	334,053
Increase (Decrease) in Net Assets	464,909	260,298	(76,909)
Transfer of assets to the University	(338,283)	(113,617)	
Net Position – Beginning of Year	(570,357)	(717,038)	(640,129)
Net Position – End Year	**($443,731)**	**($570,357)**	**($717,038)**

The sources of operating revenues for the Corporation commonly derive from federal, state, and private externally sponsored funding. Operating revenues this year contracted by (-$92,626), compared to the previous year. The decrease in operating revenues stems from a decrease in state funding (-$274,074) and private (-$86,810) funding which was partially offset by a rise in federal funding of ($268,258). State and private funding, compared to last year, decreased by 11 percent and 22 percent, respectively. The increase in federal funds was aided by an overall increase in new grants received by the Corporation. As expected, continued budget cuts by the State government resulted in funding derived from this source to decrease this year (13 percent). State revenue was impacted by unearned revenue received in fiscal year 2016 for services to be conducted in fiscal year 2017. The University and Corporation will continue to strategize ways to compensate for fluctuations in state and federal funding in the following fiscal years. Each year, the revenue composition of the Corporation changes depending upon the availability of funds from each revenue source, and the overall level of combined efforts made by faculty, staff, and administrators. In an effort to reverse overall reduction in operating revenues, the Corporation will continue its efforts in seeking external funding.

The Corporation's total operating expenses this year decreased by six percent, which held steady to the three percent decrease that occurred the previous year. Operating expenses decreased from $12,087,043 to $11,391,962. The resulting overall decrease (-$695,081) in the Corporation's total operating expenses was driven by a reduction in expenses (-$228,994) related to payments for salaries and wages (-4%). Other expense accounts including employee benefits, utilities and depreciation had modest decreases. Benefits decreased by -$133,844 (-10%); utilities decreased by -$4,067 (-6%); depreciation decreased by $1,607 (less than 1%), while Payments to Suppliers had a decrease of $326,569 (8%). Because operating expenses are closely associated with the level of operating revenues; the more (or less) revenues the Corporation manages, the higher (or lower) the level of expenditures it incurs.

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an operating loss for the year of $148,417; compared to a loss of $750,872 and $377,311 the previous two consecutive years. There were, on the other hand, gains in non-operating revenues, as well as capital grants and gifts of $1,398 and $611,928, respectively. Net Asset gain was offset by the transfer of assets to the University (-$338,283) compared the previous year (-$113,617). The combined overall gain in non-operating revenues, capital grants and gifts and assets transferred to the University offset the overall operating loss, resulting in a $126,626 overall increase in Net Position, compared the previous year increase of $146,681. Operating losses this year were contributed again by the booking of accumulated depreciation, and the inclusion of the OPEB as a component of liability. The activity-based financial reporting format, to which the Corporation is subject through GASB 34, must account for the value of depreciation of its capital assets; and as per GASB 45, the value of OPEB liability. Capital assets (e.g. research and other educational equipment) acquired through grants and contracts are recorded as capital expenses and capitalized by the Corporation or the University's fiscal entities (depending on the type of asset acquired). The cost of the assets' depreciation is not recoverable due to the fact that it cannot be charged back to federal or state grants and/or contracts in subsequent years. In other words, these assets are not normally replenished at the end of their useful life. Thus, accumulated depreciation is a factor which affects the value of net assets reported within a given year. Another factor affecting the status of the Corporation's operating activity (gains or losses) is the reimbursable nature of its revenues. Revenues are recovered based on the expenditures terms of the agreement, and thus a transient deficit status results while the revenue is reimbursed to the Corporation.

Non-operating revenues and expenses are minimal compared to the value of their operating counterparts, as the Corporation does not purposely engage in promoting this activity as part of its financial operations. This year's operating loss (-$148,417) combined with the gain on disposal of capital assets ($1,361), contributed to an increase of ($126,626) in the Corporation net position, also aided by a gain in capital grants and gifts contributions ($611,928) received by the institution. The capital grants and gifts were offset by the transfer of assets to the University (-$338,283). Thus, the overall net position in net assets at the end of the year slightly improved from -$570,357 to -$443,731.

IV. Cash Flows

The "Statement of Cash Flows" is the third and last component of the financial statements presented by the Corporation. This particular statement offers detail information regarding the Corporation's cash position during the year's end. The statement of cash flows is comprised of five elements: (1) Operating cash flows, which reflect the net cash used by the Corporation in carrying out its operating activities; (2) The cash flow activities from non-capital financial activities, which reveal the cash received and spent for non-operating, non-investing, and non-capital financial purposes; (3) The cash flows from investing activities, which indicates the level of purchases, proceeds, and interests received from investing activities; (4) The cash flows from capital and related financing activities, invested in the acquisition of fixed or capital assets as per agreements with funding agencies; and (5) The reconciliation of net cash used to the operating income (or losses) reflected on the Statement of Revenues, Expenses, and Changes in Net Position.

Cash Flows

	FY 2016	FY 2015	FY 2014
Cash provided (used) by:			
Operating activities	$403,081	($144,625)	($126,547)
Investing activities	37	41	52
Capital and related financing activities	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	**403,118**	**(144,584)**	**(126,495)**
Cash, beginning of year	162,476	307,060	433,555
Cash, end of year	**$565,594**	**$162,476**	**$307,060**

The Corporation's cash and cash equivalents value as of July 1, 2015 was $162,476 compared to the $307,060 from the previous year. The cash and cash equivalents value of as of June 30, 2016 was $565,594. This year's higher value can be attributed to a surplus from the cash provided by operating activities $403,081 compared to the deficit in last year of (-$144,625). Cash flow provided by financing activities is normally inconspicuous and represented only $37, derived from interest income. Interest income derived from federal and state accounts is always minimized as the Corporation does not purposely engage in investing activities of any funding derived from externally sponsored support. The combined carrying amount of cash in bank at June 30, 2016 and 2015 was $565,594 and $162,476, respectively. The difference, from year to year, is normally caused by outstanding checks and items in transit during the span of the fiscal year. The Corporation carries a certain level of cash in the banks in order to effectively conduct its operating activities. In relation to the operating expenses, the level of cash required this year was five percent which was slightly higher compared to the average level of cash required within the last 10 years (three percent).

The total value of cash and cash equivalents this year, in relation to the total value of operating revenues and operating expenses was five percent, compared to a one percent ratio from the previous year. This level of overall cash, as a percentage of operating revenues and expenses, suggests that the Corporation operated and met its obligations with slightly more cash in relation to the previous year.

V. Capital Assets and Debt Administration

The Corporation, as established in the aforementioned operations agreement with the University, is charged with the administrative and fiscal management of all grants, contracts, and sponsored agreements for the institution. Frequently some of these agreements allow the purchases of capital assets, including educational and research equipment, land and buildings, new construction and renovation of educational facilities, infrastructure development, and motored vehicles. The Corporation, is currently renovating the F. Ray Power Building on campus, related expenses along with costs incurred at various University owned property are being tracked with a Transfer to Assets to the University line as stated previously. Total related costs of $338,283 are included in this year's, new purchase of capital assets, derived from capital grants and gifts received, totaled $611,928 compared to the $1,000,453, reported the previous year. Total new asset additions equaled $288,145 in this year. The level of total accumulated depreciation this year was $441,954 compared to $443,561 last year. As per institutional and State's guidelines, major assets such as real state and capital improvements are titled to the University (its Board of Governors) and thus transferred and recorded on the University's financial statements. These assets are normally recorded as expenditures within the Corporation and capitalized on the University's side. As per agreement and policy, the assets carried in the Corporation's capital assets are limited to vehicles, computing, scientific, and research equipment.

The Corporation did not administer any debt during fiscal year 2015 or 2016.

VI. Economic Outlook

West Virginia State University, as a historically black and 1890 Land-Grant Institution, receives through the Corporation, federal and state appropriations used to build capacity and strengthen its research, teaching, and public service missions. These resources are regularly leveraged tri-fold with additional external support attained by the University from competitive grants, contracts, donations, and other revenue means. In the last few years, including within this reporting period, government-derived resources have contracted and become more difficult to attain. Despite this economic environment, the Corporation's revenues this year, derived from federal and private sources, experienced a modest increase. The increase can be attributed to the Corporation's efforts in seeking new federal funding and revenues. Similarly, funding in private revenue was higher this year as a result of the University's improved efforts to pursue and expand funding sources derived from non-traditional sources, such as partnerships with private and non-private institutions and foundations, and generating program income through the sale of services. Compared to last year's level of funding derived from State's sources, however, state funding decreased slightly this year. This reduction in state funds reflects the continued budget adjustments at the state level. To offset this declining funding trend, the University will continue its efforts to work with federal agencies and private-corporate organizations to attain additional externally sponsored funding.

The national federal funding climate is level at best for most agencies. However, Congress has provided strategic increases in areas of research associated with STEAM, or Science, Technology, Engineering, Agriculture and Mathematics. Some of these agencies are the National Institute of Health (NIH), the National Science Foundation (NSF), and the United States Department of Agriculture (USDA). The University received federal funding from all of these agencies in federal fiscal year 2016 and is expected to do so in fiscal year 2017 as well. Unfortunately, during federal fiscal year 2016, the U.S. Department of Education's HBCU Master's program was eliminated. Thanks to an increase in Title III funding for the University in FY2016 from the Department of Education, WVSU was able to support graduate programming at the same funding level as the HBCU Master's program did in previous years. As stated earlier, the University will continue to aggressively seek funding via competitive grants and contracts in an attempt to both bring in resources to support the University's mission, as well as offset spending cuts.

Incentivized by new administrative leadership and organizational restructuring, the University continues to seek external and internal resources for the conduct of its institutional mission: research, instruction and outreach programming. Furthermore, new academic offerings including additional graduate (e.g. engineering and energy management) and undergraduate programs (pre-engineering and pre-medicine), along with their associated research and public service, have been established. WVSU is also positioning itself as an active participant in statewide initiatives, along with other state Universities, related to research infrastructural improvements which in turn translate into regional economic development. These efforts provide the basis for greater opportunities for external funding.

West Virginia Research and Development Corporation will continue supporting and playing a vital role, as the designated fiscal manager of external resources, in the administration and advancement of research, teaching, and public service for the University. The Corporation has been, and will continue to be, a foundational fiscal catalyst in increasing sponsored activities at the University. As previously discussed, this year's financial statements reflect a slightly better position (based on revenue and net assets outcomes), in spite of a still quiescent economic environment. Through its "Vision 2020" Strategic Plan, the University is committed to increasing efforts related to expanding external resources, which, in turn, generate positive impacts on the communities and citizenry served throughout the state, regional economic development, increased research capacity, and expansion of educational facilities and programming.

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WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 565,594	$ 162,476
Grants and contracts receivable	807,161	873,077
Other receivables	4,000	-
Due from West Virginia State University	48,739	12,965
Prepaid expense	84,847	135,413
Total current assets	1,510,341	1,183,931
NONCURRENT ASSETS - Capital assets - net	1,673,082	1,840,030
TOTAL ASSETS	3,183,423	3,023,961
DEFERRED OUTFLOWS OF RESOURCES	-	-
TOTAL	$ 3,183,423	$ 3,023,961

See notes to financial statements.

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF NET POSITION
AS OF JUNE 30, 2016 AND 2015

	2016	2015
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	$ 324,762	$ 338,952
Due to other	1,298	1,298
Unearned revenue	140,000	-
Compensated absences - current portion	226,589	230,071
Total current liabilities	692,649	570,321
NONCURRENT LIABILITIES:		
Compensated absences - noncurrent portion	991	187,839
Other post employment benefits liability	2,933,514	2,836,158
Total noncurrent liabilities	2,934,505	3,023,997
Total liabilities	3,627,154	3,594,318
DEFERRED INFLOWS OF RESOURCES	-	-
TOTAL	3,627,154	3,594,318
NET POSITION:		
Net investment in capital assets	1,673,082	1,840,030
Unrestricted	(2,116,813)	(2,410,387)
Total net position	(443,731)	(570,357)
TOTAL	$ 3,183,423	$ 3,023,961

See notes to financial statements. (Concluded)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES — Contracts and grants:		
Federal	$ 8,777,307	$ 8,509,049
State	2,158,748	2,432,822
Private	307,490	394,300
Total operating revenues	11,243,545	11,336,171
OPERATING EXPENSES:		
Salaries and wages	5,376,597	5,605,591
Supplies and other services	4,255,793	4,582,362
Benefits	1,256,898	1,390,742
Depreciation	441,954	443,561
Utilities	60,720	64,787
Total operating expenses	11,391,962	12,087,043
OPERATING INCOME (LOSS)	(148,417)	(750,872)
NONOPERATING REVENUES (EXPENSES):		
Investment income	37	41
Gain (loss) on disposal of capital assets	1,361	10,676
Net nonoperating revenue (expenses)	1,398	10,717
INCOME (LOSS) BEFORE CAPITAL GRANTS AND GIFTS	(147,019)	(740,155)
CAPITAL GRANTS AND GIFTS	611,928	1,000,453
INCREASE IN NET POSITION BEFORE TRANSFERS	464,909	260,298
TRANSFER OF ASSETS TO THE UNIVERSITY	(338,283)	(113,617)
NET POSITION — Beginning of year	(570,357)	(717,038)
NET POSITION — End of year	$ (443,731)	$ (570,357)

See notes to financial statements.

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2016 AND 2015

	2016	2015
CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Contracts and grants	$ 11,409,687	$ 11,299,344
Payments to and on behalf of employees	(6,726,469)	(6,840,815)
Payments to suppliers	(4,219,417)	(4,538,367)
Payments to utilities	(60,720)	(64,787)
Net cash provided by (used in) operating activities	403,081	(144,625)
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	611,928	1,000,453
Purchases of capital assets	(611,928)	(1,000,453)
Net cash provided by capital financing activities	-	-
CASH FLOWS PROVIDED BY INVESTING ACTIVITIES — Investment income	37	41
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	403,118	(144,584)
CASH AND CASH EQUIVALENTS — Beginning of year	162,476	307,060
CASH AND CASH EQUIVALENTS — End of year	$ 565,594	$ 162,476
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	$ (148,417)	$ (750,872)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:		
Depreciation expense	441,954	443,561
Changes in assets and liabilities:		
Grants/contracts receivable	65,916	(25,874)
Other receivable	(4,000)	337
Due from West Virginia State University	(35,774)	(11,290)
Prepaid expenses	50,566	56,192
Accounts payable and due to other	(14,190)	(12,197)
Unearned revenue	140,000	
Compensated absences and other post employment benefits liability	(92,974)	155,518
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 403,081	$ (144,625)
NONCASH TRANSACTIONS —		
Equipment purchased from trade-in of equipment	$ 14,500	$ 70,000
Capital assets transferred to the University	$ (338,283)	$ (113,617)
Gain on disposal of capital assets	$ 1,361	10,676

See notes to financial statements

1. ORGANIZATION

West Virginia State University Research and Development Corporation (the "Corporation") is a not-for-profit corporation incorporated in 1991, pursuant to the laws of the State of West Virginia (the "State"). The purpose of the Corporation is to foster, support, and assist in any research and economic development activities consistent with the educational objectives and mission of West Virginia State University (the "University"). With the assistance of the University, the Corporation has been designated by the University to fulfill the role of public institutions to work in partnership with business, industry, or government and encourages the acceptance of gifts, grants, contracts, and equipment and the sharing of facilities, equipment, technical assistance, and instructional programs in the State. The Corporation is governed by a board of directors (the "Board of Directors"), the chairperson of which is the president of the University. The Corporation receives grants on behalf of the University, some of which are for the construction or acquisition of capital assets. These expenditures are recorded on the Corporation's records and the completed or substantially completed asset is transferred to the University as the beneficiary of the asset.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity — The Corporation is included in the financial statements of the University (its Parent), as the University is the sole member of the nonstock not-for-profit corporation. The University is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The University is a separate entity which, along with all State institutions of higher education, the West Virginia Higher Education Policy Commission (which includes West Virginia Network for Educational Telecomputing) (the "Commission"), and the West Virginia Council for Community and Technical College Education form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State and its financial statements are discretely presented in the State's comprehensive annual financial report.

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

Net Investment in Capital Assets — This represents the Corporation's total investment in capital assets, net of accumulated 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. The Corporation has no capital-related debt.

Restricted, Expendable — This includes resources in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The Corporation did not have any restricted, expendable components of net position at June 30, 2016 and 2015.

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 Corporation did not have any restricted, nonexpendable components of net position at June 30, 2016 and 2015.

Unrestricted — This represents resources that are not subject to externally imposed stipulations. Such resources are derived from investment income and sales and services of educational activities. These resources are used for transactions related to the educational and general operations of the Corporation and may be designated for specific purposes by action of the Board of Directors.

Basis of Accounting — For financial reporting purposes, the Corporation is considered a special-purpose government engaged only in business-type activities. Accordingly, the Corporation's 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.

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

Allowance for Doubtful Accounts — It is the Corporation'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 Corporation on such balances, and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts. As of June 30, 2016 and 2015, the Corporation has not recorded an allowance for doubtful accounts.

Capital Assets — Capital assets include property, plant, and equipment, software, 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 acquisition value at the date of donation in the case of gifts. Donated capital assets acquired prior to July 1, 2015 are stated at fair value as of the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 7 years for library books, 5 years for software, and 3 to 10 years for furniture and equipment. The Corporation's threshold for capitalizing capital assets is $5,000.

Unearned Revenue — Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as unearned revenue, including advance payments on sponsored awards.

Compensated Absences and Other Post Employment Benefits Liability — GASB provides for the measurement, recognition, and display of OPEB expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. The Corporation is 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 financials can be obtained by contacting the West Virginia Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The Corporation's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988, but did not choose such coverage until after 1988, but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally, 3 1/3 years of teaching service extend health insurance for one year of single coverage, and five years extend health insurance for one year of family coverage. Faculty hired after July 1, 2009, will no longer receive years of service credit toward insurance premiums when they retire. Employees hired after July 1, 2010, receive no health insurance premium subsidy from the Corporation. 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 is recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net position.

Risk Management — The State's Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation 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 Corporation or other participants in BRIM's insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation's actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

Classification of Revenues — The Corporation 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 most federal, state, local, and nongovernmental grants and contracts, and 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 investment income and sale of capital assets (including natural resources).

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

Use of Restricted Components of Net Position — The Corporation 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 Corporation attempts to utilize restricted resources first when practical.

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

Tax Status — The Corporation has applied for and received from the Internal Revenue Service an exemption from taxation under Section 501(c)(3) of the Internal Revenue Code as an entity organized for educational, research, and economic development purposes.

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 financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Reclassifications — Certain reclassifications have been made to the 2015 financial statements to conform to the current year's classifications.

3. CASH AND CASH EQUIVALENTS

The carrying amount of cash in bank at June 30, 2016 and 2015 was $565,594 and $162,476, respectively, compared with the bank balance of $647,237 and $398,485, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2016 and 2015, $407,559 and $398,485, respectively, were covered by Federal Deposit Insurance Corporation, while $239,678 and $0 respectively, was uninsured and uncollateralized and therefore exposed to custodial credit risk. The Corporation does not have a policy related to this type of deposit risk.

4. CAPITAL ASSETS

A summary of capital asset transactions for the years ended June 30, 2016 and 2015, is as follows:

2016	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 4,757,924	$ 234,458	$ (244,652)	$ 4,747,730
Motor vehicles	562,379	53,687	(21,880)	594,186
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	5,866,317	288,145	(266,532)	5,887,930
Less accumulated depreciation for:				
Equipment	3,015,293	386,031	(244,652)	3,156,672
Motor vehicles	464,980	55,923	(8,741)	512,162
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	4,026,287	441,954	(253,393)	4,214,848
Capital assets — net	$ 1,840,030	$ (153,809)	$ (13,139)	$ 1,673,082
Capital asset summary:				
Capital assets	$ 5,866,317	$ 288,145	$ (266,532)	$ 5,887,930
Less accumulated depreciation	4,026,287	441,954	(253,393)	4,214,848
Capital assets — net	$ 1,840,030	$ (153,809)	$ (13,139)	$ 1,673,082

2015	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	$ 3,952,291	$ 896,233	$ (90,600)	$ 4,757,924
Motor vehicles	566,106	60,603	(64,330)	562,379
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	5,064,411	956,836	(154,930)	5,866,317
Less accumulated depreciation for:				
Equipment	2,665,329	381,240	(31,276)	3,015,293
Motor vehicles	466,989	62,321	(64,330)	464,980
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	3,678,332	443,561	(95,606)	4,026,287
Capital assets — net	$ 1,386,079	$ 513,275	$ (59,324)	$ 1,840,030
Capital asset summary:				
Capital assets	$ 5,064,411	$ 956,836	$ (154,930)	$ 5,866,317
Less accumulated depreciation	3,678,332	443,561	(95,606)	4,026,287
Capital assets — net	$ 1,386,079	$ 513,275	$ (59,324)	$ 1,840,030

Title for motor vehicles is with the University.

5. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, which are based upon actuarial determined amounts. At June 30, 2016, 2015 and 2014, the noncurrent liability related to OPEB costs was $2,933,514, $2,836,158 and $2,739,183, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $97,356 and $0, respectively, during 2016, $96,975 and $0, respectively, during 2015, and $47,416 and $0, respectively, during 2014. As of the year ended June 30, 2016, there were no retirees receiving these benefits.

6. RETIREMENT PLAN

All eligible employees of the Corporation participate in the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (the TIAA-CREF). The TIAA-CREF is a defined contribution plan in which benefits are based solely upon amounts contributed plus investment earnings. Each employee who elects to participate in this plan is required to make a contribution equal to 6% of total annual compensation. The Corporation matches the employees' 6% contributions. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF, which is not matched by the Corporation.

Total contributions to the TIAA-CREF for the years ended June 30, 2016, 2015 and 2014, were $527,167, $494,639 and $501,258, respectively, which consisted of equal contributions from the Corporation and covered employees in 2016, 2015 and 2014 of $263,583, $247,319 and $250,629, respectively.

The Corporation's total payroll for the years ended June 30, 2016, 2015 and 2014, was $5,064,850, $5,140,372, and $5,303,143, respectively; total covered employees' salaries for TIAA-CREF were $4,190,540 , $4,121,988, and $4,177,150 in 2016, 2015 and 2014, respectively.

7. CONTINGENCIES

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

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation 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 Corporation would not seriously affect the financial position of the institution.

8. SUBSEQUENT EVENTS

The Corporation did not have any recognized or nonrecognized subsequent events that need to be recorded or disclosed after June 30, 2016, the statement of net position date. Subsequent events have been evaluated through the date of the auditors' report, the date the financial statements were available to be issued.

9. OPERATING LEASES

Future minimum lease payments for years subsequent to June 30, 2016, are as follows:

2017	$ 39,913

The total operating lease expense for the years ended June 30, 2016 and 2015, was $160,412 and $192,312, respectively. The Corporation does not have any noncancelable leases.

10. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2016 and 2015, the Corporation has no designated unrestricted components of net position.

11. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2016 and 2015, are as follows:

2016	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 2,028,655	$ 466,049	$ 1,468,999	$ 18,658	$ -	$ 3,982,361
Public service	1,951,340	487,832	1,302,679	40,143	-	3,781,994
General institutional support	1,396,602	303,017	1,484,115	1,919	-	3,185,653
Auxiliary enterprises	-	-	-	-	-	-
Depreciation	-	-	-	-	441,954	441,954
Total	$ 5,376,597	$ 1,256,898	$ 4,255,793	$ 60,720	$ 441,954	$ 11,391,962

2015	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	$ 2,454,667	$ 650,363	$ 1,625,305	$ 26,288	$ -	$ 4,756,623
Public service	1,860,050	491,955	1,179,772	35,553	-	3,567,330
General institutional support	1,290,874	248,424	1,776,594	2,946	-	3,318,838
Auxiliary enterprises	-	-	691	-	-	691
Depreciation	-	-	-	-	443,561	443,561
Total	$ 5,605,591	$ 1,390,742	$ 4,582,362	$ 64,787	$ 443,561	$ 12,087,043

12. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2016 and 2015, is as follows:

	2016				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 417,910	$ 297,997	$ (488,327)	$ 227,580	$ 226,589
Total long-term liabilities	$ 417,910	$ 297,997	$ (488,327)	$ 227,580	

	2015				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	$ 359,367	$ 277,271	$ (218,728)	$ 417,910	$ 230,071
Total long-term liabilities	$ 359,367	$ 277,271	$ (218,728)	$ 417,910	

* * * * * *

SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures	Passed through to Sub-recipients
RESEARCH AND DEVELOPMENT CLUSTER:							
Cooperative State Research Education and Extension Service							
Cooperative Research (Evans Allen —Section 1445) 1890	D	10.205			$ 1,759,894		
		10.205 Subtotal				$ 1,759,894	$ -
Capacity Building Grant — TROUT	D	10.216			21,809		
Capacity Building Grant — ONLINE TEACHING	D	10.216			41,665		
Capacity Building Grant — CGIAR	D	10.216			98,215		24,047
Capacity Building Grant — ALCORN SUBAWARD	I	10.216	Alcorn State	2012-38821-20036	24,746		
Capacity Building Grant — WATERMELON	D	10.216			158,506		4,397
Capacity Building Grant — PLANT BREEDING	D	10.216			36,834		
Capacity Building Grant — 4-H FAMILY	D	10.216			16,337		
Capacity Building Grant — TOMATOES	D	10.216			15,846		
Capacity Building Grant — MINE SITES	D	10.216			7,858		
Capacity Building Grant — BIO TECHNOLOGIES	D	10.216			22,853		
Capacity Building Grant — BIO ENERGY COMM	D	10.216			248		
Capacity Building Grant — 4-H PLANTERS	D	10.216			136,701		
Capacity Building Grant — PUMPKIN	D	10.216			39,805		
Capacity Building Grant — COLD STORAGE	D	10.216			65,860		
Capacity Building Grant — KSU SUBAWARD	I	10.216	KY State University	2014-38821-22413	4,662		
Capacity Building Grant — MICROBIOMES	D	10.216			72,274		
Capacity Building Grant — MUSHROOM SUBAWARD	I	10.216	Southern University	2013-38821-21386	17,122		
Capacity Building Grant — PHENOMICS FOR CROP IMPROVE.	D	10.216			18,262		
Capacity Building Grant — HIBISCUS	I	10.216	Southern University	2012-38821-20092	8,959		
Capacity Building Grant — AG INCUBATOR	D	10.216			52,342		
Capacity Building Grant — WHITEFLY RESISTANCE WATERMELON	D	10.216			35,029		
		10.216 Subtotal				895,933	28,444

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures	Passed through to Sub-recipients
Sustainable Agriculture (SARE) 16	I	10.215	University of Vermont	2015-38640-23777	3,712		
Sustainable Agriculture PDP (SARE) 14	I	10.215	University of Vermont	2014-38640-22161	5,716		
		10.215 Subtotal				9,428	-
National Science Foundation (NSF)							
LSAMP	I	47.076	University of Kentucky	HRD-1305039	17,628		
CLiPS 15	I	47.049	Case Western Reserve	DMR-0423914	15,255		
CLiPS 16	I	47.049	Case Western Reserve	DMR-0423914	21,115		
EPSCOR — Track 1	I	47.081	WVRO HEPC	EPS-1003907	277,655		
EPSCOR — 15-20	I	47.079	WVRO HEPC	OIA-1458592	203,319		
NSF-RIA-SANJAYA	I	47.076			4,104		
		Subtotal				539,076	-
National Institutes of Health (NIH)							
WV INBRE NATURAL PRODUCTS-BITTERMELON	I	93.859	MURC	2P20GM103434-14	16,789		
WV INBRE NATURAL PRODUCTS-PEPPER	I	93.859	MURC	2P20GM103434-14	20,403		
WV INBRE NATURAL PRODUCTS-FULTZ 14	I	93.859	MURC	2P20GM103434-14	21,080		
WV INBRE BIOINFORMATICS	I	93.859	MURC	2P20GM103434-14	148,187		
WV INBRE BIOINFORMATICS 2016	I	93.859	MURC	2P20GM103434-15	24,846		
WV INBRE HANKINS 13	I	93.859	MURC	5P20GM103434-13	2,629		
WV INBRE HANKINS 14	I	93.859	MURC	2P20GM103434-14	16,229		
		93.859 Subtotal				250,163	-
Total research and development cluster						3,454,494	28,444
U.S. Department of Agriculture							
Morrill Act Celebration	D	10.001			50,000		
		10.001 Subtotal				50,000	-

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures	Passed through to Sub-recipients
Small Fruit Trees 2	I	10.170	WV Dept. of Agriculture	2013SC08	9,116		
Speciality Mushrooms	I	10.170	WV Dept. of Agriculture	2014SC07	7,006		
Speciality Hops	I	10.170	WV Dept. of Agriculture	2014SC06	2,853		
Speciality High Tunnel	I	10.170	WV Dept. of Agriculture	2015SC05	978		
Speciality Pecan	I	10.170	WV Dept. of Agriculture	2015SC07	171		
Speciality Creepy Vegetables	I	10.170	WV Dept. of Agriculture	2016SC02	1,269		
		10.170 Subtotal				21,393	-
MCINTIRE STENNIS 13	D	10.202			439		
MCINTIRE STENNIS 14	D	10.202			76,054		
MCINTIRE STENNIS 15	D	10.202			81,569		
MCINTIRE STENNIS 16-HASS	D	10.202			1,028		
		10.202 Subtotal				159,090	-
Capacity Building Grant - Healthy Grandfamilies - Extension	D	10.216			42,929		
Capacity Building Grant - Healthy Grandfamilies - Teaching	D	10.216			58,120		
		10.216 Subtotal				101,049	-
AFRI Food Security	I	10.310	Pennsylvania State	2011-68004-30057	12,085		
		10.310 Subtotal				12,085	-
EXTENSION IMPLEMENTATION	I	10.329	West Virginia University	2014-70006-22578	5,911		
EXTENSION IMPLEMENTATION 2	I	10.329	West Virginia University	2014-70006-22578	3,761		
		10.329 Subtotal				9,672	-
Disadvantage Farmers	D	10.443			137,631		71,124
Disadvantage Farmers 16	D	10.443			38,566		
		10.443 Subtotal				176,197	71,124

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures	Passed through to Sub-recipients
Cooperative State Research Education and Extension Service							
Cooperative Extension Service (Smith Lever - Section 1444)	D	10.500			1,279,830		
1890 Facilities Grant Extension Service	D	10.500			292,585		
Renewable Resources Extension Act - RREA 14	D	10.500			3,885		
Renewable Resources Extension Act - RREA 15	D	10.500			7,277		
Expanded Food and Nutrition Education Program - EFNEP 14	D	10.500			34,816		
Expanded Food and Nutrition Education Program - EFNEP 15	D	10.500			74,198		
Children, Youth, and Families at Risk Program - CYFAR SCRATCH 4	D	10.500			59,081		
Children, Youth, and Families at Risk Program - CYFAR SCRATCH 5	D	10.500			82,325		
Get Fit McDowell	D	10.500			36,080		
WV Agrability	I	10.500	West Virginia University	2014-41590-22385	45,986		
Cape II-CABELL Co	I	10.500	Michigan State University	2013-48765-21544	118,200		53,027
Cape II-Kanawha Co	I	10.500	Michigan State University	2013-48765-21544	61,767		
		10.500 Subtotal				2,096,030	53,027
Cold Storage Initiative	D	10.890			106,456		
		10.890 Subtotal				106,456	-
NRCS HIGH TUNNEL	D	10.902			508		
NRCS Drilling Mud	D	10.902			22,214		
		10.902 Subtotal				22,722	-
Forest Services	D	15-JB-11242306-095			9,938		
		Subtotal				9,938	-
FSA OUTREACH	D	58-0510-4-069			4,368		
		Subtotal				4,368	-
Department of Defense							
DOD Gas Chromatograph	D	12.630			136,919		
		12.630 Subtotal				136,919	-

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number		Federal Expenditures	Passed through to Sub-recipients
U.S. Department of the Interior							
4-H Youth Mentoring 15	I	16.726	4-H	2013-JU-FX-0022	46,352		
4-H Youth Mentoring 16	I	16.726	4-H	2014-JU-FX-0025	1,555		
		16.726 subtotal				47,907	-
U.S. Department of Transportation (DOT)							
STI 15	I	20.205	WV DOT	N/A	7,311		
STI 16	I	20.205	WV DOT	N/A	8,276		
		20.205 Subtotal				15,587	-
Appalachian Regional Commission							
ARC Renewable Energy	I	23.002	MURC	WV-16454-C1-13	150		
Aeroponic High Tower	I	23.002	MURC	WV-16454-C1-13	26,445		
		23.002 Subtotal				26,595	-
U.S. Department of Education (D of Ed)							
Title III-B-2014 Strengthening Historically Black College	D	84.031			5,396		
Title III-B-2015 Strengthening Historically Black College	D	84.031			561,196		
Title III-B-2016 Strengthening Historically Black College	D	84.031			1,173,382		
Title III Part F 2014	D	84.031 B			2,148		
Title III Part F 2015	D	84.031 B			366,781		
Title III Part F 2016	D	84.031 B			302,181		
		Subtotal				2,411,084	-
Title VII Master 2015	D	84.382 G			119,431		
		84.382 G Subtotal				119,431	-
GearUP	I	84.334S	WVHEPC	2015-NEWGU-12	46,564		
GearUP U	I	84.334S	WVHEPC	2016-WVGU-15	48,166		
		84.334S Subtotal				94,730	-
ITQ Hungry for Words	I	ITQ-15	WVHEPC	ITQ-15-WVSU-1	36,164		
ITQ Building Literacy	I	ITQ-15	WVHEPC	ITQ-16-WVSU-1	23,598		
		Subtotal				59,762	-
TOTAL FEDERAL EXPENDITURES						$ 9,135,509	$ 152,595

(Concluded)

See notes to schedule of expenditures of federal awards

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

1. The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal grant activity of West Virginia State University Research and Development Corporation (the "Corporation") for the year ended June 30, 2016, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 2 C.F.R. 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.

2. Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.

3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is unlikely.

4. Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2016, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
U.S. Department of Agriculture	Kanawha Institute for Social Research and Action, Inc.	10.443	$ 71,124
U.S. Department of Agriculture	Alabama A&M University	10.216	4,397
U.S. Department of Agriculture	Florida A&M University	10.216	24,047
U.S. Department of Agriculture	United Way of the River Cities, Inc.	10.500	53,027
	Total all Subrecipients		$ 152,595

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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 Board of Directors of
West Virginia State University Research and Development Corporation

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 financial statements of West Virginia State University Research and Development Corporation (the "Corporation"), which comprise the statements of net position as of June 30, 2016, and the related statements of revenues, expenses and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated January 11, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Corporation's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, we do not express an opinion on the effectiveness of the Corporation'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 Corporation'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 Corporation'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 Corporation's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Hayflich CPAs

Huntington, West Virginia
January 11, 2017

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

To the Board of Directors of
West Virginia State University Research and Development Corporation

Report on Compliance for Each Major Federal Program

We have audited West Virginia State University Research and Development Corporation's (the "Corporation") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Corporation's major federal programs for the year ended June 30, 2016. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Corporation's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Corporation's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Corporation's compliance.

Opinion on Each Major Federal Program

In our opinion, the Corporation complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2016.

Report on Internal Control Over Compliance

Management of the Corporation is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Corporation's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Hayflich CPAs

Huntington, West Virginia
January 11, 2017

PART I. — SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	Unmodified opinion	
Internal control over financial reporting:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies) identified not considered to be material weakness(es)?	____ Yes	X No
Noncompliance material to financial statements noted?	____ Yes	X No

Federal Awards

Internal control over major programs:		
Material weakness(es) identified?	____ Yes	X No
Significant deficiency(ies)identified not considered to be material weakness(es)?	____ Yes	X No
Type of auditors' report issued on compliance for major programs:	Unmodified opinion	
Any audit findings disclosed that are required to be reported in accordance with the Uniform Guidance (Section 200.516(a))?	____ Yes	X No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
Various	Research and Development Cluster

Dollar threshold used to distinguish between Type A and Type B Programs $ 750,000

Auditee qualified as low-risk auditee? X Yes ____ No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.