

West Virginia State University
Research and Development
Corporation

Financial Statements as of and for the Years Ended
June 30, 2018 and 2017, and Independent Auditors'
Report and Reports Required by the Uniform Guidance
for the Year Ended June 30, 2018

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of West Virginia State University Research and Development Corporation (the "Corporation"), as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statements as listed in the table of contents.

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 opinions 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Corporation, as of June 30, 2018 and 2017, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, the Corporation implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, for the year ended June 30, 2018, which represents a change in

accounting principle. As of July 1, 2017, the Corporation's net position was restated to reflect the impact of the adoption. A summary of the restatement is presented in Note 2. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3–9 and the schedules of proportionate share of net OPEB liability and contributions on page 28 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 considers 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 opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic 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 October 15, 2018, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Corporation's 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
October 15, 2018

West Virginia State University
Research and Development Corporation
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2018

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.

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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, 2018. 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 2017 and 2016 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

For year ended June 30, 2018 the Corporation implemented Governmental Accounting Standards Board (GASB) No. 75 directive which pertains to accounting and financial reporting for Other Postemployment Benefits (OPEB). By implementing this statement, the Corporation had to restate OPEB liability for prior years within fiscal year 2018. As a result, the liabilities and net position within these financial statements will differ from prior year ending balances. In circumstances where this occurs, the restated beginning year balance is clearly labeled. However, since the prior year financial statements had already been published; year to year comparisons will be based on the original prior year ending balances.

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, 2018). 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 2018	FY 2017	FY 2016
Assets			
Current assets	\$ 1,465,468	\$ 2,236,511	\$ 944,747
Cash and cash equivalents	437,093	105,089	565,594
Non-current assets:			
Capital assets, net	1,811,675	2,071,637	1,673,082
Total Assets	<u>3,714,236</u>	<u>4,413,237</u>	<u>3,183,423</u>
Deferred Outflows of Resources	126,201	-	-
Total	<u><u>\$ 3,840,437</u></u>	<u><u>\$ 4,413,237</u></u>	<u><u>\$ 3,183,423</u></u>
Liabilities			
Current liabilities	854,490	1,943,086	692,649
Non-current liabilities	1,554,667	2,990,294	2,934,505
Total Liabilities	<u>2,409,157</u>	<u>4,933,380</u>	<u>3,627,154</u>
Deferred Inflows of Resources	288,857	-	-
Total	<u><u>2,698,014</u></u>	<u><u>4,933,380</u></u>	<u><u>3,627,154</u></u>
Net Position			
Net investment in capital assets	1,811,675	2,071,637	1,673,082
Restricted - expendable	-	-	-
Unrestricted	(669,252)	(2,591,780)	(2,116,813)
Total Net Position	<u>1,142,423</u>	<u>(520,143)</u>	<u>(443,731)</u>
Total Liabilities and Net Position	<u><u>\$ 3,840,437</u></u>	<u><u>\$ 4,413,237</u></u>	<u><u>\$ 3,183,423</u></u>

Assets: In fiscal year 2018, the Corporation's total assets decreased by -\$699,001 which represents a 16 percent reduction in contrast to the previous year which experienced a 39 percent increase in total assets. The deferred outflow of resources that resulted from the implementation of GASB 75-Other Postemployment Benefits added \$126,201 to total assets \$3,840,437. The overall reduction in total assets this year resulted from a significant decrease in the portion related to current assets. In fact, grant receivables contracted by -\$886,750 from the previous year. The overall value of current assets decreased this year by -\$771,043. Non-current assets also experienced a decrease of -\$259,962 when compared to the previous year. Current assets this year represented 51 percent of the total assets (compared to a 53 percent the previous year); whereas the non-current portion represented 49 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 decreased by 51 percent (-\$2,524,223); compared to the previous year's total liabilities increase of 36 percent (\$1,306,226). The overall reduction effect was the result of a decrease in the current liabilities portion, which contracted by 56 percent (-\$1,088,596). The current liabilities balance is the result of a decrease as it relates to compensated absences (from \$230,569 to \$202,119) and a decrease in Accounts Payable (from \$1,712,517 to \$652,371). Non-current liabilities also decreased this year from the Implementation of GASB 75-Other Post-Employment Benefits (OPEB) and restatement of prior year's balances resulting in a reduction of (\$1,434,214). Liabilities did increase by \$288,857 for deferred inflows of resources also from the Implementation of GASB 75. Accounts payable (and receivableS) 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 35 percent and 65 percent respectively this year, this is a decline in current to non-current ratio compared to the previous year. The current ratio continues to suggest 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 \$1,662,566, compared to a -\$76,412 decline the previous year. The current value of total net assets changed from -\$520,143 to \$1,142,423. This position's improvement was aided by a change in unrestricted net assets of \$1,922,528 (changed from -\$2,591,780 to -\$669,252) in relation to the value of net investments in capital assets. The improvement in unrestricted net position was the result of GASB 75-Other Postemployment Benefits implementation. The total depreciation expense (-\$421,316) this year, combined with equipment reductions or disposals (-\$41,293), was offset by additions in capital assets of (\$161,354), resulted in a decrease in capital assets net -\$259,962 which fell from \$2,071,637 to \$1,811,675. 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 (\$1,811,675) minus expenditures for unrestricted assets (-\$669,252) resulted in a total net position this year of \$1,142,423, compared to -\$520,143 the previous year. Unrestricted components of net position this year were impacted by the implementation of GASB 75 which included the restatement of prior year's OPEB Liability. 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 2018	FY 2017	FY 2016
Operating revenues	\$ 10,198,414	\$ 9,648,585	\$ 11,243,545
Operating expenses	10,015,031	10,563,400	11,391,962
Operating Gains/Losses	183,383	(914,815)	(148,417)
Non-operating revenues and expenses	98,066	30	1,398
Capital Grants & Gifts	4,905,013	3,916,627	611,928
Transfer of Assets to the University	(4,743,659)	(3,078,254)	(338,283)
Increase (Decrease) in Net Assets	442,803	(76,412)	126,626
Net Position – Beginning of Year	(520,143)	(443,731)	(570,357)
Restatement – GASB 75 Implementation	1,219,763	-	-
Net Position – Beginning of Year, Restated	699,620	(443,731)	(570,357)
Net Position – End Year	\$ 1,142,423	\$ (520,143)	\$ (443,731)

The sources of operating revenues for the Corporation commonly derive from federal, state, and private externally sponsored funding. Operating revenues this year improved by (\$549,829), compared to the previous year. The growth in operating revenues stems from an increase in federal funding (\$932,372) which was partially offset by decreases in state (-\$309,178) and private funding of (-\$73,365). Federal funding, compared to last year, grew by 13 percent. As expected, continued budget cuts by the State government resulted in funding derived from this source to fall by (15 percent). The level of private funding also experienced a decrease of 21 percent. The University and Corporation continues 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 expand operating revenues, the Corporation continues to seek external funding sources.

The Corporation's total operating expenses this year decreased by five percent, which held steady with the seven percent decrease that occurred the previous year. Operating expenses decreased from \$10,563,400 to \$10,015,031. The resulting overall decrease (-\$548,369) in the Corporation's total operating expenses was driven by a reduction in expenses related to payments for salaries and wages -\$378,703 (-7%). Other expense accounts experienced decreases including employee benefits -\$53,188 (-5%), depreciation -\$18,502 (-4%) and Payments to Suppliers -\$120,258 (-3%). Utilities did see an increase of \$22,282 (37%).

The Statement of Revenues, Expenses, and Changes in Net Assets reflect an operating gain for the year of \$183,383; compared to a loss of (\$914,815) and (\$148,417) the previous two consecutive years. There were gains in non-operating revenues, as well as capital grants and gifts of \$98,066 and \$4,905,013, respectively. Non-operating revenues included investment income \$95 and Payments on behalf of the Corporation related to OPEB of \$97,971. Transfer of assets to the University (-\$4,743,659) compared to the previous year (-\$3,078,254). The Implementation of GASB 75 resulted in a restatement of the beginning year Net Position \$669,620 compared to -\$520,143; this in combination with non-operating revenues, capital grants and gifts and assets transferred to the University improved the overall operating gain, resulting in a \$1,662,566 overall increase in Net Position, compared to the previous year decrease of (-\$76,412). Operations were impacted again this year by the booking of accumulated depreciation, and the inclusion of 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. However, there were Payments on behalf of the Corporation totaling \$97,971. This year's operating gain (\$183,383) was aided by capital grants and gifts contributions (\$4,905,013) received by the institution. The capital grants and gifts were reduced by the transfer of assets to the University (-\$4,743,659) and resulted in an increase of (\$1,662,566) in the Corporation's net position. Thus, the overall net position in net assets at the end of the year improved from (-\$520,143) to (\$1,142,423).

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 2018	FY 2017	FY 2016
Cash provided (used) by:			
Operating activities	\$ 331,909	\$ (460,535)	\$ 403,081
Investing activities	95	30	37
Capital and related financing activities	-	-	-
Net Increase (Decrease) in Cash and Cash Equivalent:	<u>332,004</u>	<u>(460,505)</u>	<u>403,118</u>
Cash, beginning of year	<u>105,089</u>	<u>565,594</u>	<u>162,476</u>
Cash, end of year	<u><u>\$ 437,093</u></u>	<u><u>\$ 105,089</u></u>	<u><u>\$ 565,594</u></u>

The Corporation’s cash and cash equivalents value as of July 1, 2017 was \$105,089 compared to the \$565,594 from the previous year. The cash and cash equivalents value of as of June 30, 2018 was \$437,093. This year’s higher value can be attributed to a surplus from the cash provided by operating activities \$331,909 compared to the deficit last year of -\$460,535. Cash flow provided by investing activities is normally inconspicuous and represented only \$95, 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, 2018 and 2017 was \$437,093 and \$105,089, 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 four percent which was 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 one percent, compared to a five 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 less 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 \$4,743,659 are included in this years, new purchase of capital assets, derived from capital grants and gifts received, totaled \$4,905,013 compared to the \$3,916,627 reported the previous year. The level of total depreciation expense this year was

\$421,316 compared to \$439,818 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 2017 or 2018.

VI. Economic Outlook

West Virginia State University (WVSU), as a historically black and 1890 Land-Grant Institution, receives through the Corporation, federal and state appropriations, competitive grants and contracts, and county, local, foundation and private funding, to build capacity and strengthen its research, teaching, and public service missions. 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 remained level. The Corporation considers level funding a success in this economic climate.

In today's economic environment, Federal funding climate is level at best for most agencies. However, Congress has provided strategic increases last year and this year in those research areas related to STEAM (Science, Technology, Engineering, Agriculture and Mathematics, disciplines). These increases are proposed mostly for competitive grant funding, and not formula allocated funding (e.g., USDA Evans-Allen research funding). Some of these agencies availing these resources include the National Institute of Health (NIH), the National Science Foundation (NSF), Department of Defense, Department of Energy, and the United States Department of Agriculture (USDA). Both the NSF and NIH, have, and continue to see modest increases annually.

In federal fiscal year 2017, the University did not receive U.S. Department of Education Upward Bound funding for the first time over a minor budget technicality. The University, to that point, had received this funding continuously in an uninterrupted manner for 25 years. The University was not alone in being rejected for funding over an insignificant technicality. More than 100 colleges and universities were rejected for similar technicalities, including West Virginia University, WVSU's sister land-grant institution. This resulted in a lost for the University of \$522,363. Thanks to the support of the collective congressional delegations of most of the institutions that did not receive funding over these technicalities, the upward bound/Trio funding was recently restored for 2018. These funds are managed by the Corporation and play a significant role in the institutional efforts geared towards STEM outreach for youth.

For the first time in nearly six years, the State of West Virginia did not significantly cut funding to its higher education system. State match funding dedicated to research and outreach activities remained flat, as opposed to the decrease experienced during previous fiscal years. In an effort to offset the funding cuts from previous years, the University, via the Corporation, actively pursued alternative funding streams and sources for program development, growth and sustainability.

The University, assisted by the Corporation, continues to seek external and internal resources for the conduct of its institutional mission: research, instruction and outreach programming. The University has invested significant resources to staff and equip the Office of Sponsored Programs (OSP) to assist with this endeavor. The Office currently has resources to support a staff of three. For years, the office functioned with one individual, who was expected to implement all areas of the sponsored programs operations. OSP currently has an individual dedicated to pre-awards, a person dedicated to post-awards, and a support staff person. The goal is to add an additional FTE. The expectation is that not only will OSP help to increase extramural funding, but it will also help to diversify the University's funding portfolio.

The University continues to grow academically, which is reflected by the approval of the MS in Computer Science by the University's Board of Governors and the West Virginia Higher Education Policy Commission. On June 12, 2018, The Higher Learning Commission, the University's regional accrediting body, approved the institutions request to offer the Master of Science in Computer Science. With all of the necessary approvals in place, the University will begin its first cohort for the Master of Science in Computer Science in the Spring Fall of 2019. This represents the University's second Master's program in a Science, Technology, Engineering and Mathematics (STEM) discipline. The Corporation has already began to seek funding to support the program.

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 (based on revenue and net assets outcomes), as a result of a still quiescent economic environment declined slightly. 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.

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017**

	2018	2017
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 437,093	\$ 105,089
Grants and contracts receivable	1,177,805	2,064,555
Other receivables	1,617	(119)
Prepaid expense	<u>286,046</u>	<u>172,075</u>
Total current assets	1,902,561	2,341,600
NONCURRENT ASSETS - Capital assets - net	<u>1,811,675</u>	<u>2,071,637</u>
TOTAL ASSETS	3,714,236	4,413,237
DEFERRED OUTFLOWS OF RESOURCES	<u>126,201</u>	<u>-</u>
TOTAL	<u>\$ 3,840,437</u>	<u>\$ 4,413,237</u>

See notes to financial statements.

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2018 AND 2017**

	2018	2017
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	\$ 652,371	\$ 1,712,517
Compensated absences - current portion	202,119	230,569
	<u>854,490</u>	<u>1,943,086</u>
NONCURRENT LIABILITIES:		
Compensated absences - noncurrent portion	881	2,294
Other post employment benefits liability	1,553,786	2,988,000
	<u>1,554,667</u>	<u>2,990,294</u>
Total noncurrent liabilities	<u>1,554,667</u>	<u>2,990,294</u>
Total liabilities	<u>2,409,157</u>	<u>4,933,380</u>
DEFERRED INFLOWS OF RESOURCES	<u>288,857</u>	<u>-</u>
TOTAL	<u>2,698,014</u>	<u>4,933,380</u>
NET POSITION:		
Net investment in capital assets	1,811,675	2,071,637
Unrestricted	(669,252)	(2,591,780)
	<u>1,142,423</u>	<u>(520,143)</u>
Total net position	<u>1,142,423</u>	<u>(520,143)</u>
TOTAL	<u>\$ 3,840,437</u>	<u>\$ 4,413,237</u>

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, 2018 AND 2017**

	2018	2017
OPERATING REVENUES:		
Contracts and grants:		
Federal	\$ 8,172,518	\$ 7,240,146
State	1,752,548	2,061,726
Private	<u>273,348</u>	<u>346,713</u>
Total operating revenues	<u>10,198,414</u>	<u>9,648,585</u>
OPERATING EXPENSES:		
Salaries and wages	4,844,598	5,223,301
Supplies and other services	3,538,700	3,658,958
Benefits	1,127,799	1,180,987
Depreciation	421,316	439,818
Utilities	<u>82,618</u>	<u>60,336</u>
Total operating expenses	<u>10,015,031</u>	<u>10,563,400</u>
OPERATING INCOME (LOSS)	<u>183,383</u>	<u>(914,815)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	95	30
Payments on behalf of the Corporation	<u>97,971</u>	<u>-</u>
Net nonoperating revenue (expenses)	<u>98,066</u>	<u>30</u>
INCOME (LOSS) BEFORE CAPITAL GRANTS AND GIFTS	281,449	(914,785)
CAPITAL GRANTS AND GIFTS	<u>4,905,013</u>	<u>3,916,627</u>
INCREASE IN NET POSITION BEFORE TRANSFERS	5,186,462	3,001,842
TRANSFER OF ASSETS TO THE UNIVERSITY	<u>(4,743,659)</u>	<u>(3,078,254)</u>
INCREASE (DECREASE) IN NET POSITION	442,803	(76,412)
NET POSITION — Beginning of year	(520,143)	(443,731)
Restatement for July 1, 2017, OPEB liability	<u>1,219,763</u>	<u>-</u>
NET POSITION — Beginning of year, restated	<u>699,620</u>	<u>(443,731)</u>
NET POSITION — End of year	<u>\$ 1,142,423</u>	<u>\$ (520,143)</u>

See notes to financial statements.

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Contracts and grants	\$ 11,083,428	\$ 8,444,049
Payments to and on behalf of employees	(5,956,084)	(6,344,519)
Payments to suppliers	(4,712,817)	(2,499,729)
Payments to utilities	<u>(82,618)</u>	<u>(60,336)</u>
Net cash provided by (used in) operating activities	<u>331,909</u>	<u>(460,535)</u>
CASH FLOWS PROVIDED BY CAPITAL FINANCING ACTIVITIES:		
Capital grants and gifts received	4,905,013	3,916,627
Purchases of capital assets	<u>(4,905,013)</u>	<u>(3,916,627)</u>
Net cash provided by capital financing activities	<u>-</u>	<u>-</u>
CASH FLOWS PROVIDED BY INVESTING		
ACTIVITIES — Investment income	<u>95</u>	<u>30</u>
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	332,004	(460,505)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>105,089</u>	<u>565,594</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 437,093</u>	<u>\$ 105,089</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating income (loss)	\$ 183,383	\$ (914,815)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:		
Depreciation expense	421,316	439,818
Changes in assets and liabilities:		
Grants/contracts receivable	886,750	(1,257,394)
Other receivable	(1,736)	4,119
Due from West Virginia State University	-	48,739
Prepaid expenses	(113,971)	(87,228)
Accounts payable and due to other	(1,060,146)	1,386,457
Unearned revenue	-	(140,000)
Compensated absences and other post employment benefits liability	<u>16,313</u>	<u>59,769</u>
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>\$ 331,909</u>	<u>\$ (460,535)</u>
NONCASH TRANSACTIONS —		
Capital assets transferred to the University	<u>\$ (4,743,659)</u>	<u>\$ (3,078,254)</u>
Expenses paid on behalf of the Corporation	<u>\$ 97,971</u>	<u>\$ 0</u>

See notes to financial statements

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**NOTES TO FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017**

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.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board (GASB)

The Corporation has implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 75 requires the Corporation to report its share of the defined benefit other postemployment benefits (OPEB) and expense, as well as the related deferred outflows of resources and deferred inflows of resources, allocated to it by the RHBT. The July 1, 2017, balance of the OPEB liability and related deferred outflows of resources is reported in the statement of revenues, expenses, and changes in net position as a restatement to the 2017 net position – beginning of the year. The RHBT was not able to provide sufficient information to restate the June 30, 2017 financial statements.

	2017
Net position - beginning of year, as previously stated	\$ (520,143)
Balance of the OPEB liability and related deferred outflows of resources and deferred inflows of resources	1,219,763
Net position - beginning of year, restated	<u>\$ 699,620</u>

The Corporation has adopted Statement No. 85, *Omnibus 2017*. Statement No. 85 addresses practice issues that have been identified during implementation of certain GASB statements. The adoption of this standard had no effect on the Corporation’s financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board (GASB)

The GASB has also issued Statement No. 83, *Certain Asset Retirement Obligations*, which is effective for fiscal years beginning after June 15, 2018. Statement No. 83 establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for legally enforceable liabilities associated with the retirement of tangible capital assets. Examples of asset retirements covered under this standard are the decommissioning of a nuclear reactor or the dismantling and removal of sewage treatment plants as required by law. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

The GASB has also issued Statement No. 84, *Fiduciary Activities*, which is effective for fiscal years beginning after December 15, 2018. Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments to determine whether an activity should be reported in a fiduciary fund in the financial statements. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The GASB has also issued Statement No. 87, *Leases*, which is effective for fiscal years beginning after December 15, 2019. Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. In other words, most leases currently classified as operating leases will be accounted for and reported in the same manner as capital leases. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, which is effective for fiscal years beginning after June 15, 2018. This Statement improves the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*, which is effective for fiscal years beginning after December 15, 2019. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for certain interest costs. This Statement also establishes accounting requirements for interest cost incurred before the end of a construction period. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 89 may have on its financial statements.

In August 2018, the GASB issued Statement No. 90, *Major Equity Interests*, which is effective for fiscal years beginning after December 15, 2018. This Statement modifies previous guidance for reporting a government's majority equity interest in a legally separate organization. This Statement also provides guidance for reporting component unit if a government acquires a 100% equity interest in that component unit. An equity interest is a financial interest in a legally separate organization evidenced by the ownership of shares of the organization's stock or by otherwise having an explicit, measureable right to the net resources of the organization that is usually based on an investment of financial or capital resources by a government. An equity interest is explicit and measureable if the government has a present or future claim to the net

resources of the entity and the method for measuring the government's share of the entity's net resources is determinable. The Corporation has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

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, 2018 and 2017.

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, 2018 and 2017.

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 collectability 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, 2018 and 2017, 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. (See Note 5).

Deferred Outflows of Resources — Consumption of net position of the Corporation that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position. As of June 30 2018, the Corporation had deferred outflows related to OPEB of \$126,201.

Deferred Inflows of Resources — Acquisition of net position by the Corporation that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position. As of June 30, 2018, the Corporation had deferred inflows related to OPEB of \$288,857.

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.

3. CASH AND CASH EQUIVALENTS

The carrying amount of cash in bank at June 30, 2018 and 2017 was \$437,093 and \$105,089, respectively, compared with the bank balance of \$972,370 and \$258,706, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2018 and 2017, \$469,972 and \$258,706, respectively, were covered by Federal Deposit Insurance Corporation, while \$502,398 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, 2018 and 2017, is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
2018				
Capital assets:				
Equipment	\$ 5,307,184	\$ 161,354	\$ (41,293)	\$ 5,427,245
Motor vehicles	631,212		-	631,212
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	<u>6,484,410</u>	<u>161,354</u>	<u>(41,293)</u>	<u>6,604,471</u>
Less accumulated depreciation for:				
Equipment	3,312,889	394,704	(41,293)	3,666,300
Motor vehicles	553,870	26,612	-	580,482
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	<u>4,412,773</u>	<u>421,316</u>	<u>(41,293)</u>	<u>4,792,796</u>
Capital assets — net	<u>\$ 2,071,637</u>	<u>\$ (259,962)</u>	<u>\$ -</u>	<u>\$ 1,811,675</u>
Capital asset summary:				
Capital assets	\$ 6,484,410	\$ 161,354	\$ (41,293)	\$ 6,604,471
Less accumulated depreciation	<u>4,412,773</u>	<u>421,316</u>	<u>(41,293)</u>	<u>4,792,796</u>
Capital assets — net	<u>\$ 2,071,637</u>	<u>\$ (259,962)</u>	<u>\$ -</u>	<u>\$ 1,811,675</u>
2017				
Capital assets:				
Equipment	\$ 4,747,730	\$ 801,347	\$ (241,893)	\$ 5,307,184
Motor vehicles	594,186	37,026	-	631,212
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	<u>5,887,930</u>	<u>838,373</u>	<u>(241,893)</u>	<u>6,484,410</u>
Less accumulated depreciation for:				
Equipment	3,156,672	398,110	(241,893)	3,312,889
Motor vehicles	512,162	41,708	-	553,870
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	<u>4,214,848</u>	<u>439,818</u>	<u>(241,893)</u>	<u>4,412,773</u>
Capital assets — net	<u>\$ 1,673,082</u>	<u>\$ 398,555</u>	<u>\$ -</u>	<u>\$ 2,071,637</u>
Capital asset summary:				
Capital assets	\$ 5,887,930	\$ 838,373	\$ (241,893)	\$ 6,484,410
Less accumulated depreciation	<u>4,214,848</u>	<u>439,818</u>	<u>(241,893)</u>	<u>4,412,773</u>
Capital assets — net	<u>\$ 1,673,082</u>	<u>\$ 398,555</u>	<u>\$ -</u>	<u>\$ 2,071,637</u>

Title for motor vehicles is with the University.

5. OTHER POST EMPLOYMENT BENEFITS

Employees of the Corporation are enrolled in the West Virginia Other Postemployment Benefit Plan (the “OPEB plan”) which is administered by the West Virginia Public Employees Insurance Agency (“PEIA”) and the West Virginia Retiree Health Benefit Trust Fund (the “RHBT”).

Following is the Corporation’s other postemployment benefits liability, deferred outflows of resources and deferred inflows of resources related to other postemployment benefits, revenues, and other postemployment benefits expense and expenditures for the fiscal year ended June 30, 2018:

Net OPEB Liability	\$ 1,533,786
Deferred Outflows of Resources	126,201
Deferred Inflows of Resources	288,857
Revenues	97,971
OPEB Expense	172,376
Contributions Made by the Corporation	126,201

Plan Description

The OPEB plan is a cost-sharing, multiple employer, defined benefit other post-employment benefit plan that covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in West Virginia Code Section 5-16D-2 (the “Code”). Plan benefits are established and revised by PEIA and the RHBT with approval of the Finance Board. The Finance Board is comprised of nine members. Finance Board members are appointed by the Governor, serve a term of four years and are eligible for reappointment. The State Department of Administration secretary serves as Chairman of the Board. Four members represent labor, education, public employees and public retirees. Four remaining members represent the public-at-large.

Active employees who retire are eligible for PEIA health and life benefits, provided they meet the minimum eligibility requirements of the applicable State retirement system and if their last employer immediately prior to retirement: is a participating employer under the Consolidated Public Retirement Board (“CPRB”) and, as of July 1, 2008 forward, is a participating employer with PEIA. Active employees who, as of July 1, 2008, have ten years or more of credited service in the CPRB and whose employer at the time of their retirement does participate with CPRB, but does not participate with PEIA will be eligible for PEIA retiree coverage provided: they otherwise meet all criteria under this heading and their employer agrees, in writing, upon a form prescribed by PEIA, that the employer will pay to PEIA the non-participating retiree premium on behalf of the retiree or retirees, or that the retiree agrees to pay the entire unsubsidized premium themselves. Employees who participate in non-State retirement systems but that are CPRB system affiliated, contracted, or approved (such as TIAA-CREF and Empower Retirement), or are approved, in writing, by the PEIA Director must, in the case of education employees, meet the minimum eligibility requirements of the State Teachers Retirement System (“STRS”), and in all other cases meet the minimum eligibility requirements of the Public Employees Retirement System to be eligible for PEIA benefits as a retiree.

The financial activities of the OPEB plan are accounted for in the RHBT, a fiduciary fund of the State of West Virginia. The RHBT audited financial statements and actuarial reports can be found on the PEIA website at www.peia.wv.gov.

Benefits Provided

The OPEB plan provides the following benefits: medical and prescription drug insurance and life insurance. The medical and prescription drug insurance is provided through two options: the self-insured preferred provider benefit plan option, which is primarily for non-Medicare-eligible retirees and spouses; and the external managed care organization option, which is primarily for Medicare-eligible retirees and spouses.

Contributions

Pay as you go premiums (“paygo”) are established by the Finance Board annually. All participating employers are required by statute to contribute this premium to the RHBT at the established rate for every active policyholder per month. The active premiums subsidize the retirees’ health care.

Members hired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members hired between July 1, 1997 and June 30, 2010, pay a subsidized rate depending on the member’s years of service. Members hired on or after July 1, 2010, pay retiree healthcare contributions with no sponsor provided implicit or explicit subsidy.

Retiree leave conversion contributions from the employer depend on the retiree’s date of hire and years of service at retirement as described below:

- Members hired before July 1, 1988 may convert accrued sick or vacation leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988 to June 30, 2001 may convert sick or vacation leave days into 50% of the required retiree healthcare contribution.

The conversion rate is two days of unused sick and vacation leave days per month for single healthcare coverage and three days of unused sick and vacation leave days per month for family healthcare coverage.

Employees hired on or after July 1, 2001 no longer receive sick and/or vacation leave credit toward the required retiree healthcare contribution when they retire. All retirees have the option to purchase continued coverage regardless of their eligibility for premium credits.

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 coverage for one year of family coverage. Faculty hired after July 1, 2009 no longer receive years of service credit toward insurance premiums when they retire. Faculty hired on or after July 1, 2010 receive no health insurance premium subsidy when they retire. 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 had an original hire date prior to July 1, 2010 may return to active employment. In those cases, the original hire date may apply.

Assumptions

The net OPEB liability for financial reporting purposes was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost method.
- Amortization method and period: Level percentage of payroll over 21 years; closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, including inflation.

- Projected salary increases: dependent on pension system ranging from 3.00% to 6.50%, including inflation.
- Healthcare cost trend rates: Actual trend used for fiscal year 2017. For fiscal years on and after 2018, trend starts at 8.50% and 9.75% for pre- and post-Medicare, respectively, and gradually decreases to an ultimate trend of 4.50%. Excess trend rate of 0.14% and 0.29% for pre- and post-Medicare, respectively, is added to healthcare trend rates pertaining to per capita claims costs beginning in 2020 to account for the Excise Tax.
- Inflation rate: 2.75%.
- Discount rate: 7.15%
- Mortality rates: based on RP-2000 Mortality Tables.

The long-term investment rate of return of 7.15% on OPEB plan investments was determined by a combination of an expected long-term rate of return of 7.50% for long-term assets invested with the West Virginia Investment Management Board (“IMB”) and an expected short-term rate of return of 3.0% for assets invested with the WV Board of Treasury Investments (“BTI”).

Long-term pre-funding assets are invested with the IMB. The strategic asset allocation consists of 55% equity, 15% fixed income, 10% private equity, 10% hedge fund and 10% real estate invested. Short-term assets used to pay current year benefits and expenses are invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which estimates of expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentages and by adding expected inflation. Best estimates of the long-term geometric rates for each major asset class are summarized below.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period July 1, 2010 through June 30, 2015.

Asset Class	<u>Long-term Expected Real Rate of Return</u>
Large Cap Domestic	17.0%
Non-Large Cap Domestic	22.0%
International Qualified	24.6%
International Non-Qualified	24.3%
International Equity	26.2%
Short-Term Fixed	0.5%
Total Return Fixed Income	6.7%
Core Fixed Income	0.1%
Hedge Fund	5.7%
Private Equity	19.6%
Real Estate	8.3%
Opportunistic Income	4.8%
Cash	0.0%

Discount rate. The discount rate used to measure the OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will be made at rates equal to the actuarially determined contribution rates, in accordance with prefunding and investment policies. Based on those assumptions, the OPEB plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability. Discount rates are subject to change between measurement dates.

Sensitivity of the net pension liability to changes in the discount rate. The following presents the Corporation's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the discount rate of 7.15%, as well as what the Corporation's net OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (6.15%) or one percentage point higher (8.15%) than the current rate (dollars in thousands):

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB Liability	\$1,809,204	\$1,553,786	\$1,341,460

Sensitivity of the net OPEB liability to changes in healthcare cost trend rates. The following presents the Corporation's proportionate share of the net OPEB liability as of June 30, 2016 calculated using the current healthcare cost trend rates, as well as what the Corporation's net OPEB liability would be if it were calculated using healthcare cost trend rates that are one percentage point lower or one percentage point higher than the current rates (dollars in thousands):

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$1,305,201	\$1,553,786	\$1,857,816

OPEB Liability, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

The net OPEB liability at June 30, 2018 was measured as of June 30, 2016 rolled forward to June 30, 2017, which is the measurement date. The total OPEB liability at June 30, 2018 was determined by an actuarial valuation as of June 30, 2016 and rolled forward to the measurement date.

At June 30, 2018, the amount recognized as the Corporation's proportionate share of the net OPEB liability was approximately \$1,533,786. At June 30, 2018, the non-employer contributing entity's (State of West Virginia) portion of the collective net OPEB liability is \$319,149 and the total net OPEB liability attributable to the Corporation is \$1,872,935

The allocation percentage assigned to each contributing employer is based on the employer's proportionate share of employer contributions to the RHBT for the fiscal years ended June 30, 2017 and June 30, 2016. Employer contributions are recognized when due. At June 30, 2017, the Corporation's proportion was 0.063187947%, a decrease of 0.013230309% from its proportion of 0.076418256% calculated as of June 30, 2016.

For the year ended June 30, 2018, the Corporation recognized OPEB expense of \$172,376. Of this amount, \$74,405 was recognized as the Corporation's proportionate share of the OPEB expense, and \$97,971 as the amount of OPEB expense attributed to special funding. The Corporation also recognized revenue of \$97,971 for support provided by the State.

At June 30, 2018, deferred outflows of resources and deferred inflows of resources related to OPEB are as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Changes in proportion and difference between employer contributions and proportionate share of contributions	\$ -	\$ 258,855
Net difference between projected and actual investment earnings		24,799
Differences between expected and actual experience		5,203
Contributions after the measurement date	126,201	
Total	\$ 126,201	\$ 288,857

The Corporation will recognize the \$126,201 reported as deferred outflows of resources resulting from OPEB contributions after the measurement date as a reduction of the net OPEB liability in the year ended June 30, 2018. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Fiscal Year Ended	Amortization
June 30, 2019	\$ 77,233
June 30, 2020	77,233
June 30, 2021	77,233
June 30, 2022	57,158
	\$ 288,857

Prior to implementation of GASB 75, OPEB costs were accrued based upon invoices received from PEIA, which were based upon actuarial determined amounts. At June 30, 2017, the noncurrent liability related to OPEB costs was \$2,988,000. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$54,486 and \$0.

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, 2018, 2017 and 2016, were \$462,381, \$508,872 and \$527,167, respectively, which consisted of equal contributions from the Corporation and covered employees in 2018, 2017 and 2016 of \$231,190, \$254,436 and \$263,583, respectively.

The Corporation's total payroll for the years ended June 30, 2018, 2017 and 2016, was \$4,759,311, \$5,094,278, and \$5,064,850, respectively; total covered employees' salaries for TIAA-CREF were \$3,853,172, \$4,240,598, and \$4,190,540 in 2018, 2017 and 2016, 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 non-recognized subsequent events that need to be recorded or disclosed after June 30, 2018, 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, 2018 are as follows:

2019	\$ 28,759
2020	28,759
2021	28,759
2022	9,600
2023	9,600
Total	<u>\$ 105,477</u>

The total operating lease expense for the years ended June 30, 2018 and 2017, was \$155,517 and \$153,378, respectively. The Corporation does not have any non-cancelable leases.

10. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2018 and 2017, 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, 2018 and 2017, are as follows:

2018	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 2,337,272	\$ 499,984	\$ 1,204,063	\$ 40,277	\$ -	\$ 4,081,596
Public service	1,670,058	407,289	902,070	42,341	-	3,021,758
General institutional support	837,268	220,526	1,432,567	-	-	2,490,361
Auxiliary enterprises	-	-	-	-	-	-
Depreciation	-	-	-	-	421,316	421,316
Total	<u>\$ 4,844,598</u>	<u>\$ 1,127,799</u>	<u>\$ 3,538,700</u>	<u>\$ 82,618</u>	<u>\$ 421,316</u>	<u>\$ 10,015,031</u>

2017	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 2,233,769	\$ 492,323	\$ 1,323,619	\$ 20,686	\$ -	\$ 4,070,397
Public service	1,889,202	441,177	1,085,295	39,650	-	3,455,324
General institutional support	1,100,330	247,487	1,252,646	-	-	2,600,463
Auxiliary enterprises	-	-	(2,602)	-	-	(2,602)
Depreciation	-	-	-	-	439,818	439,818
Total	<u>\$ 5,223,301</u>	<u>\$ 1,180,987</u>	<u>\$ 3,658,958</u>	<u>\$ 60,336</u>	<u>\$ 439,818</u>	<u>\$ 10,563,400</u>

12. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2018 and 2017, is as follows:

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 232,863	\$ 271,284	\$ (301,147)	\$ 203,000	\$ 202,119
Total long-term liabilities	<u>\$ 232,863</u>	<u>\$ 271,284</u>	<u>\$ (301,147)</u>	<u>\$ 203,000</u>	

	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 227,580	\$ 292,875	\$ (287,592)	\$ 232,863	\$ 230,569
Total long-term liabilities	<u>\$ 227,580</u>	<u>\$ 292,875</u>	<u>\$ (287,592)</u>	<u>\$ 232,863</u>	

* * * * *

REQUIRED SUPPLEMENTARY SCHEDULE

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULES OF PROPORTIONATE SHARE OF NET OPEB LIABILITY
AND CONTRIBUTIONS**

Schedule of Proportionate Share of Net OPEB Liability

Measurement Date	Corporation's Proportionate Share as a Percentage of Net OPEB Liability	Corporation's Proportionate Share	State's Proportionate Share	Total Proportionate Share	Corporation's Covered Employee Payroll	Corporation's Proportionate Share as a Percentage of Covered Payroll	Plan Fiduciary Net Position as a Percentage of Total OPEB Liability
June 30, 2017	0.063187947%	\$1,553,786	\$319,149	\$1,872,935	\$1,389,541	111.82%	25.10%

Schedule of Employer Contributions

Measurement Date	Actuarially Determined Contribution	Actual Contribution	Contribution Deficiency (Excess)	Covered Payroll	Actual Contribution as a Percentage of Covered Payroll
June 30, 2017	\$129,787	\$129,787	\$ -	\$1,389,541	9.34%

These schedules are intended to show information for ten years. Additional years will be displayed as they become available.

**Notes to Required Supplementary Information
For the Year Ended June 30, 2018**

There are no factors that affects trends in the amounts reported, such as a change of benefit terms or assumptions. With only one year reported in the required supplementary information, there is no additional information to include in notes. Information, if necessary, can be obtained from the West Virginia Retiree Health Benefit Trust Fund Audited Schedules of Employer Other Post-Employment Benefits Allocations and Other Post-Employments Benefits Amounts by Employer.

SUPPLEMENTAL SCHEDULE

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER: U.S. Department of Agriculture Cooperative State Research Education and Cooperative Research (Evans Allen — Section 1445) 1890	D	10.205			\$ 1,639,825
		10.205 Subtotal			\$ 1,639,825
Capacity Building Grant — ONLINE TEACHING	D	10.216			135,654
Capacity Building Grant — WATERMELON	D	10.216			16,259
Capacity Building Grant — TOMATOES	D	10.216			18,199
Capacity Building Grant — IMPROVING GROWTH	D	10.216			10,272
Capacity Building Grant — PEPPER SEQUENCE 16	D	10.216			20,258
Capacity Building Grant — PLANT BREEDING	D	10.216			3,410
Capacity Building Grant — 4-H PLANTERS	D	10.216			139,929
Capacity Building Grant — CULTIVATING YOUNG	D	10.216			190
Capacity Building Grant — MUSHROOM SUB	I	10.216	Southern University	2013-38821-21386	3,323
Capacity Building Grant — KSU SUBAWARD	I	10.216	KENTUCKY STATE	2014-38821-22413	56,634
Capacity Building Grant — COLD STORAGE	D	10.216			27,194
Capacity Building Grant — MICROBIOMES	D	10.216			86,264
Capacity Building Grant — AG INCUBATOR	D	10.216			146,138
Capacity Building Grant — PHENOMICS FOR CROP IMPROVEMENT	D	10.216			138,698
Capacity Building Grant — WHITEFLY RESISTANCE WATERMELON	D	10.216			176,732
Capacity Building Grant — NUTRACEUTICALS	D	10.216			28,014
		10.216 Subtotal			1,007,168

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
ARS-TOMATO	D	10.001			31,149
		10.001 Subtotal			
Sustainable Agriculture (SARE)16	I	10.215	University of Vermont	2015-38640-23777	134
Sustainable Agriculture (SARE) 17	I	10.215	University of Vermont	SN16-15-13064	1,724
Sustainable Agriculture (SARE) 18	I	10.215	University of Vermont	SNE17-15-31064	4,128
		10.215 Subtotal			5,986
National Institutes of Health (NIH)					
WV INBRE BIOINFORMATICS 2017	I	93.859	MarshallUniversityRC	2P20GM103434-16	24,524
WV INBRE BIOINFORMATICS 2018	I	93.859	MarshallUniversityRC	2P20GM103434-17	64,035
WV INBRE BITTER MELON	I	93.859	MarshallUniversityRC	2P20GM103434-14	19
WV INBRE MOLNAR ANTI CANCER	I	93.859	MarshallUniversityRC	2P20GM103434-16	27,848
		93.859 Subtotal			116,426
National Science Foundation (NSF)					
L-SAMP	I	47.076	University of Kentucky	HRD-1305039	49,406
EPSCOR — 15-20	I	47.079	WVRO HEPC	OIA-1458592	691,464
NSF-RIA-SANJAYA	I	47.076	NSF	HRD-1600988	82,456
		Subtotal			823,326
Total research and development cluster					
					3,623,880

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Agency	Source	CFDA/		Indirect Agency	Indirect Agency Award Number	Federal Expenditures
		Contract Number	Number			
U.S. Department of Agriculture MCINTIRE TENNIS 16 MCINTIRE TENNIS 17	D	10.202	50,356			
	D	10.202	83,291			
		10.202 Subtotal				133,647
DEVELOPING SUGAR-CROP RESIDUE BIOCHAR	D	10.216				
		10.216 Subtotal				1,435
EXTENSION IMPLEMENTATION 3 EXTENSION IMPLEMENTATION 2017	I	10.329	5,223	WVU	2014-70006-22578	
	I	10.329	3,791	WVU	2017-70006-21757	
		10.329 Subtotal				9,014
Cooperative State Research Education and Extension Service Cooperative Extension Service (Smith Lever — Section 1444)	D	10.500	1,165,292			
1890 Facilities Grant Extension Service	D	10.500	268,967			
1890 Facilities Grant Extension Service	D	10.500	2,941,236			
Renewable Resources Extension Act — RREA 15	D	10.500	4,192			
Renewable Resources Extension Act — RREA 16	D	10.500	11,599			
		10.500 Subtotal				4,391,286

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Agency	Source	CFDA/		Indirect Agency	Indirect Agency Award Number	Federal Expenditures
		Contract Number	Number			
Expanded Food and Nutrition Education Program — EFNEP 15	D	10.500				1,075
Program — EFNEP 16	D	10.500				20,953
Program — EFNEP 17	D	10.500				75,644
Children, Youth, and Families at Risk Program — SCRATCH MCDOWELL	D	10.500				26,625
WV AGRABILITY	I	10.500		WVU	2014-41590-22385	29,394
			10.500 Subtotal			153,691
COLD CHAIN INITIATIVE	D	10.890				46,350
			10.890 Subtotal			46,350
FOREST SERVICES	D	15-IV-11242306-095				5,973
			Subtotal			5,973
Capacity Building Grant — 4-H GROWTH	D	10.216				1,110
Capacity Building Grant — HEALTHY GRANDFAMILIES	D	10.216				196,851
			10.216 Subtotal			197,961

(Continued)

WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018

Federal Agency	Source	CFDA/		Indirect Agency	Indirect		Federal Expenditures
		Contract Number	Number		Agency Award Number	Number	
CUCCAP	I	10.309	10.309	MICHIGAN STATE	2015-51181-24285	9,561	9,561
		10.309	Subtotal				
Specialty Hops 2	I	10.170		WV Dept. of Agriculture	2014SC06	3,671	
Specialty High Tunnel	I	10.170		WV Dept. of Agriculture	2015SC05	2,736	
Specialty Pecans	I	10.170		WV Dept. of Agriculture	2015SC07	9,091	
Specialty Creepy Vegetables	I	10.170		WV Dept. of Agriculture	2016SC02	9,813	
			Subtotal				25,311
U.S. Department of Education (D of Ed)							
Title III-B-2014 Strengthening Historically Black Colleges	D	84.031				29	
Title III-B-2015 Strengthening Historically Black Colleges	D	84.031				4,166	
Title III-B-2016 Strengthening Historically Black Colleges	D	84.031				11,970	
Title III-B-2017 Strengthening Historically Black Colleges	D	84.031				881,742	
Title III-B-2018 Strengthening Historically Black Colleges	D	84.031				1,243,903	
Title III Part F 2015	D	84.031 B				12,865	
Title III Part F 2016	D	84.031 B				109,952	
Title III Part F 2017	D	84.031 B				457,620	
Title III Part F 2018	D	84.031 B				284,902	
			Subtotal				3,007,149
Title VII Master's 2018	D	84.382 G				414,401	414,401
		84.382 G	Subtotal				
GEARUP YR3	I	84.334S		WVHEPC	2016-WVGU-15	22,164	
GEARUP YR4	I	84.334S		WVHEPC	2018-NEWGU-COLLEGE PARTNER 2	64,087	
			Subtotal				86,251
21ST Century 4-H	D	84.287				214	214
			Subtotal				

(Continued)

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Agency	Source	CFDA/		Indirect Agency	Indirect		Federal Expenditures
		Contract Number	Agency Award Number		Agency Award Number	Expenditures	
U.S. Department of Justice 4-H Youth Mentoring 17 4-H Youth Mentoring 18	I	ITQ-15	ITQ-16-WVSU-1	WVHEPC	17,109		
	I	ITQ-15	ITQ-17-WVSU-2	WVHEPC	23,169		
	I	ITQ-15	ITQ-16-WVSU-2	WVHEPC	14,060		
		Subtotal					54,338
DISADVANTAGE FARMERS 17	I	16.726	2014-JU-FX-0025	4-H	51,188		
	I	16.726	2017-JU-FX-0016	4-H	2,641		
		16.726 Subtotal					53,829
FSA-INCREASE WV FARMER PROFITABILITY	D	10.443			167,193		167,193
		10.443 Subtotal					
NASA ROCKET GIRLS	D	58-0510-4-069			8,447		8,447
		Subtotal					
U.S. Department of Transportation (DOT) STI 17	I	NNX15A101H	NNX15A101H	WV SPACE CONSORTIUM	1,393		1,393
		Subtotal					
U.S. DEPARTMENT OF ENERGY BIOLOGICAL REMOVAL TECH	I	20.205		WV DOT	10,362		10,362
		20.205 Subtotal					
OFFICE OF SURFACE MINING SOIL TYPE AND FORESTRY	D	81.214			64,829		64,829
		81.214 Subtotal					
TOTAL FEDERAL AWARDS					47,338		47,338
							\$ 12,513,853
							(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, 2018**

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, 2018, 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. The Corporation did not have instances of subrecipient expenditures during FY18.
5. Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), requires submission of a Certificate of Facilities and Administrative (F&A) Costs (the "Certificate") to an institution's cognizant agency. The Certificate is prepared by the Corporation and is used in negotiations with its cognizant agency, the Department of Health and Human Services (DHHS), in determining a rate at which the Corporation will be reimbursed for the F&A costs associated with the completion of sponsored research.

The Corporation receives reimbursement of F&A costs as part of the granting agreement at the rate negotiated either with DHHS or at special rates negotiated with the granting agency. The Corporation has not elected to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance

**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, 2018, 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 October 15, 2018.

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

Hayflich CPAs

Huntington, West Virginia
October 15, 2018

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, 2018. The Corporation's major federal programs are identified in the summary of auditors' 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, 2018.

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 a 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
October 15, 2018

**WEST VIRGINIA STATE UNIVERSITY
RESEARCH AND DEVELOPMENT CORPORATION**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

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	
84.031	Title III	
Dollar threshold used to distinguish between Type A and Type B Programs		<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?		<u> X </u> 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.