

West Virginia State University
Research and Development
Corporation

Financial Statements as of and for the Years Ended
June 30, 2014 and 2013, and Independent Auditors'
Report and Reports Required by OMB Circular A-133
for the Year Ended June 30, 2014

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:

Report on the Financial Statements

We have audited the accompanying financial statements of the West Virginia State University Research and Development Corporation (the "Corporation"), which comprise the statements of net position as of June 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express 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 opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of June 30, 2014 and 2013, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 - 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2014, on our consideration of the Corporation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Corporation's internal control over financial reporting and compliance.

Hayflieh Grigoraci PLLC

Huntington, West Virginia
October 27, 2014

West Virginia State University
Research and Development Corporation
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2014

I. Introduction

A. Historical Background

West Virginia State University Research and Development Corporation (a.k.a. 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 (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 the University via the affiliations and operating agreements with its Board of Governors and the University, respectively. Furthermore, the Corporation and its functions are currently 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. Its re-attainment of Land-Grant status, combined with the implementation of graduate programs, has significantly augmented activities related to research, teaching and public service during the last decade. The successful expansion of its research and outreach programming has been enhanced through the key support of additional external resources. To that end, the University continues encouraging its faculty and research and outreach staff to seek opportunities for enhancing research, teaching, and public service through external sponsored funding. The programming development and expansion has been fueled by an active and sustained pursuit of this external funding by the University's faculty, administrators, and staff. As a result of this collective and dynamic effort, the University has experienced a steady growth which is also reflected in the recorded annual operating revenues and expenses, as well as in its assets and liabilities, since 1991.

As the overall available funding pool from external sources experienced a significant contraction effected by a global economic adjustment experienced since 2008, the upward growth trend was slightly reversed in 2012. Since then a modest growth has been experienced. In fact, based on this year's financial statements, the Corporation modestly increased overall revenues compared to last's year level. This positive growth is expected to continue into the future years. In fact, WVSURDC is committed, through its strategic planning (Vision 2020), to significantly increase its overall funding by the year 2020.

B. Overview of the Financial Statements and the Financial Analysis

The Corporation celebrates this overall success and proudly presents its financial statements to its stakeholders for the year ended June 30, 2014. Included within the financial statements, the Corporation's management also presents discussion and analysis of its financial statements, as required supplemental information and as 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 2013 and 2012 is also included in this analysis to facilitate the reader a comparative framework between immediate past and present financial positions of the Corporation.

II. Statement of Net Position

The “Statement of Net Position” reflects the Corporation’s assets, liabilities, and its net position at the end of the fiscal year. Moreover, this statement provides the stakeholders with fiscal information of the Corporation at a point in time (June 30, 2014). It also offers readers an overview of the net position and the assets which are available to the Corporation for future expenditures and to continue its operations.

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 components of restricted net position are only available for investment purposes; usually the Corporation does not operate the components of restricted net position. 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.

Net Position			
	FY 2014	FY 2013	FY 2012
Assets			
Current assets	\$1,040,820	\$675,222	\$788,188
Cash and cash equivalents	307,060	433,555	490,794
Non-current assets:			
Capital assets, net	<u>1,386,079</u>	<u>1,481,666</u>	<u>1,428,578</u>
Total Assets	<u>\$2,733,959</u>	<u>\$2,590,443</u>	<u>\$2,707,560</u>
Liabilities			
Current liabilities	569,399	454,822	502,948
Non-current liabilities	<u>2,881,598</u>	<u>2,775,750</u>	<u>2,699,714</u>
Total Liabilities	<u>3,450,997</u>	<u>3,230,572</u>	<u>3,202,662</u>
Net Position			
Net investment in capital assets	1,386,079	1,481,666	1,428,578
Restricted – expendable			
Unrestricted	<u>(2,103,117)</u>	<u>(2,121,795)</u>	<u>(1,923,680)</u>
Total Net Position	<u>(717,038)</u>	<u>(640,129)</u>	<u>(495,102)</u>
Total Liabilities and Net Position	<u>\$2,733,959</u>	<u>\$2,590,443</u>	<u>\$2,707,560</u>

Assets: In fiscal year 2014, the Corporation’s total assets slightly increased by \$143,516, which represents a 6% expansion in comparison to the previous year. The overall increase in total assets was derived mainly from a significant corresponding increase in the portion of the current assets, specifically related to grants and contracts receivable (\$323,767), and prepaid expenses (\$80,947). Other components of the current assets such as cash and cash equivalents (-\$126,495) and due from West Virginia State University (-\$39,453) contracted; compared to the previous year. The portion of non-current assets related to capital assets, net was slightly reduced (-\$95,587) in relation to the previous year’s level. Current assets represented 49 percent of the total assets; whereas the non-current portion represented 51 percent; an almost even proportion between the two types of assets. The value of

cash and cash equivalents depends on the level of grant activity and the time at which this report is prepared and is thus affected by receivables and payables in transit as well as by outstanding items, such as checks.

Liabilities: The balance of total liabilities during the current fiscal year increased by seven percent (\$220,425); compared to the previous year's total liabilities change of one percent (\$27,910). The overall increase effect resulted from a slight expansion of the non-current liabilities portion, which increased by four percent (\$105,848); as well as a 25 percent increase in the current liabilities portion (\$114,577). The increase in non-current liabilities this year was a result of a small spike in liabilities related to the portion of compensated absences (\$58,432), and the corresponding annual increase in Other Post-Employment Benefits (OPEB) (\$47,416). The increase in the portion of current liabilities (from \$454,882 to \$569,399) was caused mainly by a small increase in accounts payable (\$112,652); the current portion of the compensated absences and due to other liabilities remained almost unchanged. Accounts payable (and receivable) are variable throughout the year and vary from year to year depending upon the Corporation's level of activity. In relation to the total liabilities' value, current and non-current liabilities this year contributed 16 percent and 84 percent respectively this year, which was a similar ratio compared to the previous two years. The current ratio suggests that the Corporation continues to operate with less current liabilities; as the value of its non-current portion of the liabilities sustains a slightly upward trend.

Net Position: The value of total net position this year suffered a twelve percent contraction (-\$76,909), compared to a 29 percent reduction the previous year. This contraction was caused by a greater deficit in unrestricted net position (-\$2,103,117) in relation to the value of net investments in capital assets (\$1,386,079). The resulting deficit in unrestricted net position was again largely attributed to the booking of OPEB related to this year's corresponding accrued liability entry. The total accumulated depreciation (-\$395,937) this year, combined with equipment reductions or disposals (-\$33,703), in spite of additions in capital assets (\$334,053), resulted in a reduction (-\$95,587) of capital assets net from \$1,481,666 to \$1,386,079. 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 (\$1,386,079) minus expenditures for unrestricted assets (-\$2,103,117) resulted in a total net position this year of (-\$717,038), compared to (-\$640,129) the previous year. Unrestricted components of net position this year continued being negative due to the inclusion of the OPEB liability accumulated up to date allocated to the portion of unrestricted net position as per GASB mandate (since 2011). Other unrestricted components of net position are utilized by the Corporation to support expenses related to reimbursable grants in excess of the grant and to reimburse the institution for facilities and administrative costs incurred in performing research or associated educational activities. These additional components of unrestricted net position 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" discloses the financial activities that contributed to changes in the total net position. The statement presents the operating and non-operating revenues earned, and all of the expenses, gains and losses incurred by the Corporation during the ensued 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 allocation. Any 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, and external sponsored agreements in exchange for goods and services as agreed with the 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 2014	FY 2013	FY 2012
Operating revenues	\$12,157,773	\$11,749,567	\$14,490,871
Operating expenses	<u>12,535,084</u>	<u>12,319,483</u>	<u>15,804,399</u>
Operating Gains/Losses	(377,311)	(569,916)	(1,313,528)
Non-operating revenues and expenses:	(33,651)	64	(8,043)
Capital Grants & Gifts	<u>334,053</u>	<u>424,825</u>	<u>414,619</u>
Increase (Decrease) in Net Assets	(76,909)	(145,027)	(906,952)
Net Position – Beginning of Year	(640,129)	(495,102)	411,850
Net Position – End Year	<u>(\$717,038)</u>	<u>(\$640,129)</u>	<u>(\$495,102)</u>

Operating revenues for the Corporation derive from federal, state, and private funding sources. Operating revenues this year increased by 3 percent compared to a decrease of 19 percent suffered in the previous year. This modest increase in operating revenues was derived to increased efforts in attaining private funding. Private funding increased in the last 2 years by 69 percent and 16 percent, respectively. The Corporation (in concert with the University) continues its efforts to secure more private funding. Federal funding remained almost unchanged this year; compared to a dramatic contraction (\$2,761,713) experienced the previous year. The flat level in federal funding partially reflects a funding normalization at the federal government; compared to last years' sequestration imposed by the federal government which negatively affected the level of revenues. State derived funding continued a downward trend. This year, state revenues significantly decreased by 15 percent, compared to a 2.3 percent reduction a year before. This contraction is a reflection in the ongoing state funding cuts which are forecasted to continue in the coming years. Strategies to compensate for the loss of state funding this year are ongoing for the following fiscal years. Each year, the Corporation's revenue composition varies depending upon the availability of funds from each revenue source, and the overall level of combined efforts exercised by the Corporation and University's faculty, staff, and administrators. The overall positive growth trend in operating revenues experienced by the Corporation this year reflects the persistent effort in pursuing external funding by the University's faculty, staff, and administrators, as well as normalized operations of federal granting agencies.

The Corporation's total operating expenses this year slightly increased by two percent, compared to a 22 percent decrease experienced in the previous year. The operating expenses increased from \$12,319,483 to \$12,535,084. Operating expenses are closely associated with the level of operating revenues. The more revenues the Corporation manages, the higher the level of expenditures it incurs. The resulting overall increase (\$215,601) in the Corporation's total operating expenses was comprised by a reduction in expenses related to payments to salaries (three percent) and employee benefits (one percent), payments to suppliers (seven percent), and utilities (twelve percent). The decrease in expenses related to employee salaries and benefits can be explained by an ongoing reduction in the Corporation's workforce, which was compulsory due to the aforementioned cuts in state revenues. Finally, expenses related to depreciation increased by seven percent compared to a five percent decrease recorded in the previous year.

The Statement of Revenues, Expenses, and Changes in Net Assets reflects an operating loss for the year of \$377,311 compared to last year's loss of \$569,916. Operating losses this year were contributed by the booking of accumulated depreciation, the inclusion of the OPEB as a component of liability, and a substantial decrease in state revenues. The activity-based financial reporting format, to which the Corporation subscribes 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 were minimal (\$52), compared the value of their operating counterparts, as the Corporation does not purposely engage in promoting this activity as part of its financial operations. This year's operating loss (-\$377,311) combined with the disposal of capital assets (-\$33,703), contributed to an additional decrease (-\$76,909) in the Corporation's net position, in spite of capital grants and gifts contributions (\$334,053) received by the institution. Thus, the overall net position in net assets at the end of the year slightly eroded from -\$640,129 to -\$717,038.

IV. Cash Flows

The "Statement of Cash Flows" is the last financial statement presented by the Corporation. This statement provides 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 2014	FY 2013	FY 2012
Cash provided (used) by:			
Operating activities	\$(126,547)	(\$57,303)	\$327,377
Investing activities	52	64	198
Capital and related financing activities	0	0	0
Net Increase (Decrease) in Cash and Cash Equivalents	(126,495)	(57,239)	327,575
Cash, beginning of year	433,555	490,794	163,219
Cash, end of year	\$307,060	\$433,555	\$490,794

The Corporation's cash and cash equivalents value as of June 30, 2014 was \$307,060 compared to the \$433,555 last year's level. This year's slightly lower value compared to last year can be attributed to a negative net cash used by operating activities (\$126,547). Cash flow provided by financing activities is normally inconspicuous and represented only \$52, 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, 2014 and 2013 was \$307,060 and \$433,555, respectively. The difference is primarily 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 three percent which was congruent with the average level of cash required within the last 10 years (five percent).

The total value of cash and cash equivalents this year, in relation to the total value of operating revenues was three percent, which was a comparable ratio compared to the values from the previous year (four percent). This level of overall cash, as a percentage of operating revenues, suggests that the Corporation operated and met its obligations this year with a comparable level of cash used in the previous year.

V. Capital Assets and Debt Administration

The Corporation, through an official operations agreement with the University, is charged with the fiscal management of all grants, contracts, and sponsored agreements for the institution. Certain grants allow purchases of capital assets, including educational and research equipment, land and buildings, new construction and renovation of educational facilities, infrastructure development, and motored vehicles. This year, the additions or new purchase of capital assets totaled \$334,053 compared to the \$424,825 additions from the previous reporting year. The level of total accumulated depreciation this year was \$395,937 compared to \$371,737 last year. Major assets such as real estate and capital improvements are titled to the University 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 2013 or 2014.

VI. Economic Outlook

West Virginia State University, as a historically black and 1890 Land-Grant Institution, receives through the Corporation, federal and state appropriations used to build capacity and strengthen its research, teaching, and public service. These resources are regularly leveraged tri-fold with additional external support attained by the University from competitive grants, contracts, donations and other revenue means. In the last few years, including within this reporting period, government-derived resources have contracted and become more difficult to attain. In spite of this economic environment, the Corporation's revenues this year, derived from federal and private sources, modestly increased. The increase in Federal revenues this year may suggest a gradual normalization (through the Continuing Resolutions) related to federal operations. Conversely, those revenues derived from state sources contracted this year, which is a reflection of the ongoing budget adjustment at the state level. Increased funding in private revenue reflects the University's improved efforts to pursue and expand funding sources derived from non-traditional sources, such as partnerships with private and non-private institutions and foundations, and generating program income through the sale of services. Thus, increased focus on private and federal resources is expected to continue while the state funding normalizes.

The national federal funding climate appears to have stabilized; funding is expected to remain leveled for the following year. In some instances, however, there will be significant reductions in federal funding to institutions of higher education. For example, as a result of a decrease in student enrollment in the past five years, the United States Department of Education (USDE), one of the University's key federal land-grant partners, cut federal Title III and Historically Black Colleges and Universities (HBCUs) Masters funds to colleges and universities up to ten percent for federal fiscal year 2014. To exacerbate the situation, USDE has conveyed to the University that there may be additional cuts in federal fiscal year 2015. West Virginia State University, like many other HBCUs across the country, is proactively preparing for these cuts. These will include, but are not limited to, reduction in operational costs, strategic staffing, freezing vacant positions, and layoffs. The University will continue to aggressively seek funding via competitive grants and contracts in an attempt to both bring in resources to support the University's mission, as well as offset spending cuts.

Incentivized by new administrative leadership and organizational restructuring, the University continues to seek external and internal resources for the conduct of its institutional mission: research, instruction and outreach programming. Furthermore, new academic offerings including additional graduate (e.g. energy management) and

undergraduate programs (pre-engineering and pre-medicine), along with their associated research and public service, have been established. The University is also positioning itself as an active participant in statewide initiatives, along with other state Universities, related to research infrastructural improvements which in turn translate into regional economic development. These efforts provide the basis for greater opportunities for external funding.

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

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

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013**

	2014	2013
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 307,060	\$ 433,555
Grants and contracts receivable	847,203	523,436
Other receivables	337	-
Due from West Virginia State University	1,675	41,128
Prepaid expense	<u>191,605</u>	<u>110,658</u>
Total current assets	1,347,880	1,108,777
NONCURRENT ASSETS - Capital assets - net	<u>1,386,079</u>	<u>1,481,666</u>
TOTAL ASSETS	2,733,959	2,590,443
DEFERRED OUTFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL	<u>\$ 2,733,959</u>	<u>\$ 2,590,443</u>

See notes to financial statements.

(Continued)

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

**STATEMENTS OF NET POSITION
AS OF JUNE 30, 2014 AND 2013**

	2014	2013
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION		
CURRENT LIABILITIES:		
Accounts payable	\$ 351,149	\$ 238,497
Due to other	1,298	1,298
Compensated absences - current portion	<u>216,952</u>	<u>215,027</u>
Total current liabilities	<u>569,399</u>	<u>454,822</u>
NONCURRENT LIABILITIES:		
Compensated absences - noncurrent portion	142,415	83,983
Other post employment benefits liability	<u>2,739,183</u>	<u>2,691,767</u>
Total noncurrent liabilities	<u>2,881,598</u>	<u>2,775,750</u>
Total liabilities	<u>3,450,997</u>	<u>3,230,572</u>
DEFERRED INFLOWS OF RESOURCES	<u>-</u>	<u>-</u>
TOTAL	<u>3,450,997</u>	<u>3,230,572</u>
NET POSITION:		
Net investment in capital assets	1,386,079	1,481,666
Unrestricted	<u>(2,103,117)</u>	<u>(2,121,795)</u>
Total net position	<u>(717,038)</u>	<u>(640,129)</u>
TOTAL	<u>\$ 2,733,959</u>	<u>\$ 2,590,443</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, 2014 AND 2013**

	2014	2013
OPERATING REVENUES — Contracts and grants:		
Federal	\$ 9,030,399	\$ 8,682,337
State	2,058,657	2,434,313
Private	<u>1,068,717</u>	<u>632,917</u>
Total operating revenues	<u>12,157,773</u>	<u>11,749,567</u>
OPERATING EXPENSES:		
Salaries and wages	5,523,326	5,683,271
Supplies and other services	5,307,271	4,931,340
Benefits	1,256,584	1,274,248
Depreciation	395,937	371,737
Utilities	<u>51,966</u>	<u>58,887</u>
Total operating expenses	<u>12,535,084</u>	<u>12,319,483</u>
OPERATING LOSS	<u>(377,311)</u>	<u>(569,916)</u>
NONOPERATING REVENUES (EXPENSES):		
Investment income	52	64
Loss on disposal of capital assets	<u>(33,703)</u>	<u>-</u>
Net nonoperating revenue (expenses)	<u>(33,651)</u>	<u>64</u>
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(410,962)	(569,852)
CAPITAL GRANTS AND GIFTS	<u>334,053</u>	<u>424,825</u>
DECREASE IN NET POSITION	(76,909)	(145,027)
NET POSITION — Beginning of year	<u>(640,129)</u>	<u>(495,102)</u>
NET POSITION — End of year	<u>\$ (717,038)</u>	<u>\$ (640,129)</u>

See notes to financial statements.

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

**STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2014 AND 2013**

	2014	2013
CASH FLOWS PROVIDED BY (USED IN)		
OPERATING ACTIVITIES:		
Contracts and grants	\$ 11,873,122	\$ 11,847,881
Payments to and on behalf of employees	(6,672,137)	(6,896,711)
Payments to suppliers	(5,275,566)	(4,949,586)
Payments to utilities	(51,966)	(58,887)
	<u>(126,547)</u>	<u>(57,303)</u>
Net cash used in operating activities		
CASH FLOWS PROVIDED BY CAPITAL		
FINANCING ACTIVITIES:		
Capital grants and gifts received	334,053	424,825
Purchases of capital assets	(334,053)	(424,825)
	<u>-</u>	<u>-</u>
Net cash provided by capital financing activities		
CASH FLOWS PROVIDED BY INVESTING		
ACTIVITIES — Investment income	<u>52</u>	<u>64</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(126,495)	(57,239)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>433,555</u>	<u>490,794</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 307,060</u>	<u>\$ 433,555</u>
RECONCILIATION OF OPERATING LOSS TO NET CASH		
PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating loss	\$ (377,311)	\$ (569,916)
Adjustments to reconcile net operating loss to		
net cash provided by (used in) operating activities:		
Depreciation expense	395,937	371,737
Changes in assets and liabilities:		
Grants/contracts receivable	(323,767)	131,248
Other receivable	(337)	2,664
Due from West Virginia State University	39,453	(35,598)
Prepaid expenses	(80,947)	14,652
Accounts payable and due to other	112,652	(32,898)
Compensated absences and other post employment		
benefits liability	<u>107,773</u>	<u>60,808</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (126,547)</u>	<u>\$ (57,303)</u>
NONCASH INVESTING AND FINANCING ACTIVITIES —		
Loss on disposal of capital assets	<u>\$ 33,703</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, 2014 AND 2013**

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.

During fiscal year 2008, House Bill 3215 was passed which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independent accredited community and technical colleges. Effective June 1, 2007, the administratively linked community and technical college of the University established its own Board of Governors. As required, the newly established Kanawha Valley Community and Technical College Board of Governors and the Board of Directors of the WVSU Research and Development Corporation agreed on a division of assets to be transferred to the Kanawha Valley Community and Technical College.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

Net Investment in Capital Assets — This represents the Corporation’s total investment in capital assets, net of accumulated depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred, but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets. The Corporation has no capital-related debt.

Restricted, Expendable — This includes resources in which the Corporation is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties. The Corporation did not have any restricted, expendable components of net position at June 30, 2014 and 2013.

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, 2014 and 2013.

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 net position, the Corporation considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Allowance for Doubtful Accounts — It is the Corporation's policy to provide for future losses on uncollectible accounts, contracts, grants, and loans receivable based on an evaluation of the underlying account, contract, grant, and loan balances, the historical collectibility experienced by the Corporation on such balances, and such other factors which, in the Corporation's judgment, require consideration in estimating doubtful accounts. As of June 30, 2014 and 2013, 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 fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements, 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.

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

GASB requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable. The Corporation's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1 1/2 sick leave days for each month of service and are entitled to extend their health or

life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988, or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This liability is now provided for under the multiple-employer, cost-sharing plan sponsored by the State.

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

The estimated expense and expense incurred for the vacation leave or OPEB benefits is recorded as a component of benefits expense in the statements of revenues, expenses, and changes in net position.

Risk Management — The State’s Board of Risk and Insurance Management (BRIM) provides general liability coverage to the Corporation and its employees. Such coverage may be provided to the Corporation by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience-related premiums or adjustments to BRIM.

BRIM engages an independent actuary to assist in the determination of its premiums so as to minimize the likelihood of premium adjustments to the Corporation or other participants in BRIM’s insurance programs. As a result, management does not expect significant differences between the premiums the Corporation is currently charged by BRIM and the ultimate cost of that insurance based on the Corporation’s actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the Corporation and the Corporation’s ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

Classification of Revenues — The Corporation has classified its revenues as either operating or nonoperating revenues according to the following criteria:

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

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

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

Use of Restricted Components of Net Position — The Corporation has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted resources are available. Generally, the Corporation attempts to utilize restricted resources first when practical.

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

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

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

Reclassifications — Certain reclassifications have been made to the 2013 financial statements to conform to the current year's classifications.

3. CASH AND CASH EQUIVALENTS

The carrying amount of cash in bank at June 30, 2014 and 2013 was \$307,060 and \$433,555, respectively, compared with the bank balance of \$374,258 and \$687,075, respectively. The difference is primarily caused by outstanding checks and items in transit. Of the bank balances at June 30, 2014 and 2013, \$374,258 and \$516,079, respectively, were covered by Federal Deposit Insurance Corporation, while \$0 and \$170,996 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, 2014 and 2013, is as follows:

2014	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	\$ 4,294,888	\$ 334,053	\$ (676,650)	\$ 3,952,291
Motor vehicles	566,206	-	(100)	566,106
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	<u>5,407,108</u>	<u>334,053</u>	<u>(676,750)</u>	<u>5,064,411</u>
Less accumulated depreciation for:				
Equipment	2,988,833	319,463	(642,967)	2,665,329
Motor vehicles	390,595	76,474	(80)	466,989
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	<u>3,925,442</u>	<u>395,937</u>	<u>(643,047)</u>	<u>3,678,332</u>
Capital assets — net	<u>\$ 1,481,666</u>	<u>\$ (61,884)</u>	<u>\$ (33,703)</u>	<u>\$ 1,386,079</u>
Capital asset summary:				
Capital assets	\$ 5,407,108	\$ 334,053	\$ (676,750)	\$ 5,064,411
Less accumulated depreciation	3,925,442	395,937	(643,047)	3,678,332
Capital assets — net	<u>\$ 1,481,666</u>	<u>\$ (61,884)</u>	<u>\$ (33,703)</u>	<u>\$ 1,386,079</u>
2013	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets:				
Equipment	\$ 4,100,615	\$ 360,223	\$ (165,950)	\$ 4,294,888
Motor vehicles	501,604	64,602	-	566,206
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total capital assets	<u>5,148,233</u>	<u>424,825</u>	<u>(165,950)</u>	<u>5,407,108</u>
Less accumulated depreciation for:				
Equipment	2,859,540	295,243	(165,950)	2,988,833
Motor vehicles	314,101	76,494	-	390,595
Software	340,069	-	-	340,069
Library books	205,945	-	-	205,945
Total accumulated depreciation	<u>3,719,655</u>	<u>371,737</u>	<u>(165,950)</u>	<u>3,925,442</u>
Capital assets — net	<u>\$ 1,428,578</u>	<u>\$ 53,088</u>	<u>\$ -</u>	<u>\$ 1,481,666</u>
Capital asset summary:				
Capital assets	\$ 5,148,233	\$ 424,825	\$ (165,950)	\$ 5,407,108
Less accumulated depreciation	3,719,655	371,737	(165,950)	3,925,442
Capital assets — net	<u>\$ 1,428,578</u>	<u>\$ 53,088</u>	<u>\$ -</u>	<u>\$ 1,481,666</u>

Title for motor vehicles is with the University.

5. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA, which are based upon actuarial determined amounts. At June 30, 2014, 2013 and 2012, the noncurrent liability related to OPEB costs was \$2,739,183, \$2,691,767 and \$2,643,673, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was \$47,416 and \$0, respectively, during 2014, \$48,094 and \$0, respectively, during 2013, and \$685,034 and \$0, respectively, during 2012. As of the year ended June 30, 2014, there were no retirees receiving these benefits.

6. RETIREMENT PLAN

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

Total contributions to the TIAA-CREF for the years ended June 30, 2014, 2013 and 2012, were \$501,258, \$519,150 and \$554,363, respectively, which consisted of equal contributions from the Corporation and covered employees in 2014, 2013 and 2012 of \$250,629, \$259,575 and \$277,181, respectively.

The Corporation's total payroll for the years ended June 30, 2014, 2013 and 2012, was \$5,303,143, \$5,428,356, and \$5,743,267, respectively; total covered employees' salaries for TIAA-CREF were \$4,177,150, \$4,326,249, and \$4,619,690 in 2014, 2013 and 2012, respectively.

7. CONTINGENCIES

Under the terms of federal grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. The Corporation's management believes disallowances, if any, will not have a significant financial impact on the Corporation's financial position.

The nature of the educational industry is such that, from time-to-time, claims will be presented against the Corporation on account of alleged negligence, acts of discrimination, breach of contract, or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system. In the opinion of management, all known claims are covered by insurance or are such that an award against the Corporation would not seriously affect the financial position of the institution.

8. SUBSEQUENT EVENTS

The Corporation did not have any recognized or nonrecognized subsequent events that need to be recorded or disclosed after June 30, 2014, 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, 2014, are as follows:

2015	\$ 45,587
2016	19,660
2017	19,660

The total operating lease expense for the years ended June 30, 2014 and 2013, was \$50,772 and \$52,666, respectively. The Corporation does not have any noncancelable leases.

10. UNRESTRICTED COMPONENTS OF NET POSITION

At June 30, 2014 and 2013, 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, 2014 and 2013, are as follows:

2014	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 2,433,472	\$ 588,168	\$ 1,197,699	\$ 18,065	\$ -	\$ 4,237,404
Public service	1,698,044	384,223	1,825,817	33,054	-	3,941,138
General institutional support	1,391,810	284,193	2,286,349	847	-	3,963,199
Auxiliary enterprises	-	-	(2,594)	-	-	(2,594)
Depreciation	-	-	-	-	395,937	395,937
Total	<u>\$ 5,523,326</u>	<u>\$ 1,256,584</u>	<u>\$ 5,307,271</u>	<u>\$ 51,966</u>	<u>\$ 395,937</u>	<u>\$ 12,535,084</u>
2013	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Depreciation	Total
Research	\$ 1,990,737	\$ 441,578	\$ 1,346,546	\$ 16,200	\$ -	\$ 3,795,061
Public service	1,456,021	352,151	1,184,599	41,422	-	3,034,193
General institutional support	2,236,513	480,519	2,301,590	1,265	-	5,019,887
Auxiliary enterprises	-	-	98,605	-	-	98,605
Depreciation	-	-	-	-	371,737	371,737
Total	<u>\$ 5,683,271</u>	<u>\$ 1,274,248</u>	<u>\$ 4,931,340</u>	<u>\$ 58,887</u>	<u>\$ 371,737</u>	<u>\$ 12,319,483</u>

12. LONG-TERM LIABILITIES

The summary of long-term obligation transactions for the Corporation for the years ended June 30, 2014 and 2013, is as follows:

	2014				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 299,010	\$ 292,211	\$ (231,854)	\$ 359,367	\$ 216,952
Total long-term liabilities	<u>\$ 299,010</u>	<u>\$ 292,211</u>	<u>\$ (231,854)</u>	<u>\$ 359,367</u>	
	2013				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Compensated absences	\$ 286,296	\$ 297,895	\$ (285,181)	\$ 299,010	\$ 215,027
Total long-term liabilities	<u>\$ 286,296</u>	<u>\$ -</u>	<u>\$ (285,181)</u>	<u>\$ 299,010</u>	

* * * * *

SUPPLEMENTAL SCHEDULE

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
RESEARCH AND DEVELOPMENT CLUSTER:					
Cooperative State Research Education and Extension Service					
Cooperative Research (Evans Allen — Section 1445) 1890					
	D	10.205			\$ 1,756,068
		10.205 Subtotal			\$ 1,756,068
Capacity Building Grant — TROUT	D	10.216			97,303
Capacity Building Grant — ONLINE TEACHING	D	10.216			48,641
Capacity Building Grant — CGIAR	D	10.216			56,294
Capacity Building Grant — ALCORN SUBAWARD	I	10.216	Alcorn State	2012-38821-20038	132,843
Capacity Building Grant — WATERMELON	D	10.216			53,864
Capacity Building Grant — PLANT BREEDING	D	10.216			8,749
Capacity Building Grant — 4-H FAMILY	D	10.216			50,321
Capacity Building Grant — TOMATOES	D	10.216			67,389
Capacity Building Grant — VALUE ADDED PEPPERS	D	10.216			83,934
Capacity Building Grant — MINE SITES	D	10.216			106,912
Capacity Building Grant — BIO TECHNOLOGIES	D	10.216			68,097
Capacity Building Grant — BIO ENERGY COMM	D	10.216			132,182
Capacity Building Grant — 4-H PLANTERS	D	10.216			18,979
Capacity Building Grant — PUMPKIN	D	10.216			125,379
Capacity Building Grant — CROP EVOLUTION	D	10.216			56,080
Capacity Building Grant — HIBISCUS	I	10.216	Southern University	2012-38821-20092	3,836
		10.216 Subtotal			1,110,803
Sustainable Agriculture (SARE)	I	10.215	University of Vermont	2011-47001-30421	3,069
		10.215 Subtotal			3,069

(Continued)

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
National Institutes of Health (NIH)					
WV INBRE NATURAL PRODUCTS	I	93.859	MarshallUniversityRC	8P20GM103434-12	516
WV INBRE NATURAL PRODUCTS-HARRIS	I	93.859	MarshallUniversityRC	5P20GM103434-13	21,026
WV INBRE NATURAL PRODUCTS-FULTZ	I	93.859	MarshallUniversityRC	5P20GM103434-13	20,777
WV INBRE HANKINS SUMMER 12	I	93.859	MarshallUniversityRC	8P20GM103434-12	19,762
WV INBRE HANKINS EQUIPMENT	I	93.859	MarshallUniversityRC	5P20GM103434-13	72,341
WV INBRE HANKINS 13	I	93.859	MarshallUniversityRC	8P20GM103434-12	5,351
WV INBRE HANKINS 14	I	93.859	MarshallUniversityRC	5P20GM103434-13	133,645
		93.859 Subtotal			\$ 273,418
National Science Foundation (NSF)					
EPSCOR — Track 1	I	47.081	WVRO HEPC	EPS-1003907	499,389
		47.081 Subtotal			499,389
Total research and development cluster					
US Department of Agriculture					
MCINTIRE STENNIS 12	D	10.202			11,477
MCINTIRE STENNIS 13	D	10.202			50,009
		10.202 Subtotal			61,486
Solcap 4	I	10.303	Michigan State University	2009-85606-05673	101
		10.303 Subtotal			101
NRCS Drilling Mud	D	10.902			4,884
		10.902 Subtotal			4,884
USFC ARD SYMPOSIUM	D	10.001			(35,000)
		10.001 Subtotal			(35,000)
NIFI ARD SYMPOSIUM	D	10.310			50,000
AFRI Food Security	I	10.310	Pennsylvania State	2011-68004-30057	43,655
		10.310 Subtotal			93,655

(Continued)

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
Cooperative State Research Education and Extension Service					
Cooperative Extension Service (Smith Lever - Section 1444)	D	10.500			1,405.104
1890 Facilities Grant Extension Service	D	10.500			683.124
Renewable Resources Extension Act - RREA 12	D	10.500			5,240
Renewable Resources Extension Act - RREA 13	D	10.500			9,884
Expanded Food and Nutrition Education Program - EFNPEP	D	10.500			33,918
Expanded Food and Nutrition Education Program - EFNPEP	D	10.500			62,622
Expanded Food and Nutrition Education Program - EFNPEP	D	10.500			38,752
Children, Youth, and Families at Risk Program - CYFAR 12	D	10.500			1,946
Children, Youth, and Families at Risk Program - CYFAR 13	D	10.500			33,805
Children, Youth, and Families at Risk Program - CYFAR 14	D	10.500			70,329
Children, Youth, and Families at Risk Program - CYFAR SC	D	10.500			107,722
ACA EDUCATION	I	10.500	University of Georgia	2013-48761-21440	15,540
Cape Health Literacy - Dunn	I	10.500	Michigan State University	2013-48765-21544	5,921
Cape Health Literacy - Wamsley	I	10.500	Michigan State University	2013-48765-21544	13,532
		10.500 Subtotal			\$ 2,487,439
Small Fruit Trees 2	I	10.170	WV Dept. of Agriculture	2013SC08	2,238
Speciality Mushrooms	I	10.170	WV Dept. of Agriculture	2014SC07	78
Speciality Hops	I	10.170	WV Dept. of Agriculture	2014SC06	9,814
Speciality Lettuce	I	10.170	WV Dept. of Agriculture	2011SC07	2,205
		Subtotal			14,335

(Continued)

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
U.S. Department of Education (D of Ed)					
Title III-B-2012 Strengthening Historically Black College	D	84.031			694
Title III-B-2013 Strengthening Historically Black College	D	84.031			465,300
Title III-B-2014 Strengthening Historically Black College	D	84.031			1,185,378
Title III Part F 2012	D	84.031 B			800
Title III Part F 2013	D	84.031 B			339,897
Title III Part F 2014	D	84.031 B			506,770
		Subtotal			\$ 2,498,839
Title VII Master 2014	D	84.382 G			432,395
		84.382 G Subtotal			432,395
Department of Defense					
DOD Photometric Analyzer	D	12.630			85,404
		12.630 Subtotal			85,404
Appalachian Regional Commission					
ARC Renewable Energy	D	23.002			5,636
		23.002 Subtotal			5,636
U.S. Department of the Interior					
4-H Youth Mentoring 12	I	16.726	4-H	2011-MU-MU-0026	29,750
4-H Youth Mentoring 13	I	16.726	4-H	2012-JU-FX-0016	30,124
4-H Youth Mentoring 14	I	16.726	4-H	2013-JU-FX-0022	13,691
		16.726 Subtotal			73,565

(Continued)

WEST VIRGINIA STATE UNIVERSITY RESEARCH AND DEVELOPMENT CORPORATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2014

Federal Agency	Source	CFDA/ Contract Number	Indirect Agency	Indirect Agency Award Number	Federal Expenditures
U.S. Department of Health and Human Services DHHR Demo Garden	I	93.283	WVDHHR	G130129	\$ 3,477
		93.283 Subtotal			3,477
U.S. Department of Transportation (DOT) STI 13 STI 13	I	20.205	WV DOT	N/A	13,625
	I	20.205	WV DOT	N/A	5,320
		20.205 Subtotal			18,945
TOTAL FEDERAL AWARDS					\$ 9,387,908

See notes to schedule of expenditures of federal awards

(Concluded)

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

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014**

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, 2014, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. For purposes of the Schedule, federal awards have been classified into two types: direct federal funds (D) and indirect federal funds (I) received from nonfederal organizations made under federally sponsored programs conducted by those organizations.
2. Catalog of Federal Domestic Assistance (CFDA) Numbers are presented for those programs for which such numbers are available. In instances where no CFDA Number is available, the contract award number is included.
3. The Corporation receives significant financial assistance from the federal government, including the sponsorship of federal research projects. Research grants and contracts normally provide for the recovery of direct and indirect costs. Recovery of the related indirect costs is generally recorded at predetermined rates negotiated with the federal government. Entitlement to these resources for the recovery of the applicable direct and related indirect costs is generally conditioned upon compliance with the terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially, all grants and the Corporation's indirect cost rate are subject to financial and compliance reviews and audits by the grantors. In management's opinion, the likelihood of an adverse material outcome upon the Corporation's financial position from those reviews and audits is unlikely.
4. Subrecipient expenditures in the Schedule of Expenditures of Federal Awards at June 30, 2014, include:

Federal Agency	Subrecipient	CFDA	Subrecipient Expenditures
U.S. Department of Agriculture	Cornell University	10.216	\$ <u>24,255</u>
	Total all Subrecipients		\$ <u><u>24,255</u></u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of West Virginia State University Research and Development Corporation ("the Corporation"), which comprise the statements of net position as of June 30, 2014, 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 27, 2014.

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 organization'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 Grigoraci PLLC

Huntington, West Virginia
October 27, 2014



Certified Public Accountants | Business Advisors

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

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 Circular A-133 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, 2014. The Corporation's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 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, 2014.

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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Corporation's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Hayflieh Grigoraci PLLC

Huntington, West Virginia
October 27, 2014

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

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014**

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 OMB Circular A-133 (Section .510(a))? _____ Yes X No

Identification of Major Programs:

CFDA Number	Name of Federal Program or Cluster
10.500	Cooperative State Research Education and Extension Service
84.382	Strengthening Minority - Serving Institutions

Dollar threshold used to distinguish between Type A and Type B Programs \$ 300,000

Auditee qualified as low-risk auditee? X Yes No

PART II. — FINANCIAL STATEMENT FINDINGS SECTION

No matters are reportable.

PART III. — FEDERAL AWARD FINDING AND QUESTIONED COSTS SECTION

No matters are reportable.