Fairmont State University

Financial Statements
Years Ended June 30, 2018 and 2017

and

Independent Auditor's Reports

Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

FAIRMONT STATE UNIVERSITY

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Suttle & Stalnaker PLLC
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Governors
Fairmont State University
Fairmont, West Virginia

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Fairmont State University (Fairmont State), a component unit of the West Virginia Higher Education Policy Commission, as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise Fairmont State's 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 financial position of the business-type activities of Fairmont State, as of June 30, 2018 and 2017, and the changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008

Wharf District • 68 Clay Street • Suite C • Morgantown, WV 26501
Phone (304) 554-3371 • Fax (304) 554-3410

Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102
Phone (304) 485-6584 • Fax (304) 485-0971

www.suttlecpas.com • E-mail: cpa@suttlecpas.com
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Change in Accounting Principle

As described in note 3 to the financial statements, in 2018, Fairmont State adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. 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 5 through 19, the schedule of proportionate share of the net pension liability, the schedule of pension contributions, the schedule of proportionate share of the net OPEB liability, the schedule of OPEB contributions, and related footnotes on pages 87 through 92, be presented to supplement the financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements. The additional information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the financial statements. This additional 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. Such 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, such 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 15, 2018, on our consideration of Fairmont State'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 the effectiveness of Fairmont State'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 Fairmont State's internal control over financial reporting and compliance.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 15, 2018

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2018

About Fairmont State University

Fairmont State University was founded in 1865 as the West Virginia Normal School at Fairmont, a private institution dedicated to educating teachers. The Normal School at Fairmont was eventually purchased by the State and, in 1917, moved to its hilltop location on Locust Avenue and the building we now call Hardway Hall. The name was changed to Fairmont State Teachers College in 1930 and to Fairmont State College in 1943-44. Fairmont State Community and Technical College was founded in 1974 and was renamed Pierpont Community & Technical College (Pierpont) effective July 1, 2006. Fairmont State College was recognized as a University and renamed Fairmont State University on April 7, 2004.

Fairmont State University (Fairmont State or the Institution) is governed by a 12-member Board of Governors that determines, controls, supervises, and manages the financial, business, and educational policies and affairs of the Institution.

Legislation became effective July, 1, 2008 that provided for a separate governing board for Pierpont. The Board of Governors of Pierpont and the Board of Governors of Fairmont State jointly agreed to a division of assets and liabilities. The agreement was executed on December 15, 2009 and was effective retroactively to July 1, 2009. The legislation requires a separate financial statement audit for Pierpont, which was effective beginning with fiscal year 2010.

Total enrollment of Fairmont State is approximately 3,800 students. The student to faculty ratio is 15:1. Approximately 86% of our students receive some form of scholarship or financial aid. Campus activities include more than 60 clubs, organizations, student publications, honoraries, sororities and fraternities, and intramural sports. Fairmont State is a member of the NCAA Division II and the Mountain East Conference.

Overview

This section of the annual financial report focuses on an overview of Fairmont State's financial performance during the fiscal year ended June 30, 2018, with comparisons to the previous year.

As the financial statements are reviewed, it is important to understand how the reporting structure changed beginning in fiscal year 2010 with the Separation of Assets and Liabilities Agreement. As the separate entities were created by the Legislature, it was realized that due to the bond debt responsibilities, shared campus facilities and infrastructure, and shared administrative and technical support, a Separation of Assets and Liabilities Agreement would be required. The agreement was effective as of July 1, 2009, and fiscal year 2018 is the ninth year of operating and reporting based on the agreement. The agreement establishes general principles to apply to the division of assets and liabilities and allocation of revenues and expenses between Pierpont and Fairmont State. The Agreement also provides specific language in relation to outstanding bond indebtedness, including the responsibilities of both Pierpont and Fairmont State. Financial statement note 18, Separation of Assets and Liabilities Agreement, provides additional information about this Agreement and the defining legislation. The fiscal year 2018 audited financial statements are presented in comparative format and reflect the reporting structure defined in the agreement.

Fairmont State's audited financial report includes additional information for Unrestricted, Restricted and Other Funds, University-owned Auxiliary Funds, and Fairmont State's ownership in Board of Governors Support (BOG Support). The BOG Support component reports capital funds that support both academic institutions as a separate reporting component. BOG Support consists primarily of Educational and General (E&G) Capital, Infrastructure, and Bond funds for the repair and replacement of shared buildings and capital assets. This component accounts for capital assets, depreciation and debt obligations of the shared campus. These funds are allocated based on the average of the past ten (10) years of credit hour enrollments. The supplemental schedules were developed to show the component parts of Fairmont State and may be found in the additional information section of this report.

The Fairmont State Foundation (the Foundation) financial information will not be presented. This presentation is not required to comply with GASB Statement No. 39 due to the fact that the Foundation supports both Fairmont State and Pierpont for fiscal years 2018 and 2017.

Fairmont State's annual report consists of three financial statements: the Statement of Net Position; the Statement of Revenues, Expenses and Changes in Net Position; and the Statement of Cash Flows. These statements focus on Fairmont State's financial condition, results of operations, and cash flows as a whole. Each of these statements is discussed below.

Financial Highlights

Financial highlights of fiscal year 2018 included a decrease in enrollment, a decrease in net other postemployment benefits (OPEB) liability due to the implementation of GASB Statement No. 75, and changes in net position.

- In fiscal year 2018, Fairmont State experienced slight enrollment declines. The undergraduate full-time equivalent (FTE) decreased from 3,453 for Fall 2017 to 3,254 for Fall 2018. Graduate FTE increased from Fall 2017 to Fall 2018 from 165 to 186.

- Fairmont State has adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.* The adoption of GASB Statement No. 75 resulted in the recognition of the net other postemployment benefits liability and related deferred outflows and inflows of resources. The net OPEB liability decreased by $1,162,254 during fiscal year 2018.

- Total net position increased by $1,914,157 or 2.68%. The increase can be attributed to the following:
    - Unrestricted primary operating funds of Fairmont State increased by $706,323 after a decrease in the net OPEB liability of $1,057,684.
    - Unrestricted fund manager funds of Fairmont State increased by $322,057.
    - Unrestricted net position balances for Auxiliary funds increased by $463,086 after a decrease in the net OPEB liability of $104,570.
    - Restricted for Capital Projects increased by $14,379.
    - Restricted for Scholarships decreased by $30,121.
    - Net Investment in Capital Assets increased by $422,286.

Statement of Net Position

The Statement of Net Position presents the assets (current and noncurrent), deferred outflows of resources, liabilities (current and noncurrent), deferred inflows of resources, and net position (assets and deferred outflows of resources minus liabilities and deferred inflows of resources) of Fairmont State as of the fiscal year end. Assets denote the resources available to continue the operations of Fairmont State. Deferred outflows of resources represent the consumption of net position that is applicable to a future fiscal year. Liabilities indicate how much Fairmont State owes its vendors, employees, and lenders. Deferred inflows of resources represent an acquisition of net position that is applicable to a future fiscal year. Net position provides a way to measure the financial position of Fairmont State.

Net position is divided into three major categories:

1. ***Net investment in capital assets***. This category represents Fairmont State's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of this category.

2. ***Restricted net position***. This category includes net position whose use is restricted either due to externally imposed constraints or restrictions imposed by law. It is further divided into two additional components -- expendable and nonexpendable. **Expendable restricted net position** includes resources for which Fairmont State is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. **Nonexpendable restricted net position** includes endowment and similar type funds for which donors or other outside sources have stipulated, as a condition of the gift instruments, 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. Fairmont State has no nonexpendable net position.

3. ***Unrestricted net position***. This category includes resources that are not subject to externally imposed stipulations. Such resources are derived from tuition and fees (not restricted as to use), state appropriations, sales and services of educational activities, and auxiliary enterprises. Unrestricted net position is used for transactions related to the educational and general operations of Fairmont State and may be designated for specific purposes by action of management or the Board of Governors.

Condensed Schedules of Net Position	JUNE 30		
	2018	2017	2016
Assets			
Current Assets	$ 30,142,334	$ 30,940,571	$ 37,257,470
Noncurrent Assets	136,519,489	139,151,202	144,544,288
Total Assets	166,661,823	170,091,773	181,801,758
Deferred Outflows of Resources	1,929,881	1,270,751	1,215,023
Total	$ 168,591,704	$ 171,362,524	$ 183,016,781
Liabilities			
Current Liabilities	$ 10,483,507	$ 11,563,863	$ 16,601,168
Noncurrent Liabilities	82,706,903	87,798,226	91,696,872
Total Liabilities	93,190,410	99,362,089	108,298,040
Deferred Inflows of Resources	1,985,995	499,293	357,582
Net Position			
Net Investment in Capital Assets	61,341,638	60,919,352	62,083,700
Restricted for:			
Expendable:			
Loans	8,991	-	131,548
Scholarships	37,326	67,447	6,625
Capital Projects	3,854,474	3,840,095	3,712,363
Debt Service	8,821	1,665	3,812
Total Restricted	3,909,612	3,909,207	3,854,348
Unrestricted (After OPEB)	8,164,049	6,672,583	8,423,111
Total Net Position	73,415,299	71,501,142	74,361,159
Total	$ 168,591,704	$ 171,362,524	$ 183,016,781

- Total current assets decreased by $798,237 or 2.58%, resulting primarily from a decrease in cash and cash equivalents of $1,055,165. The decrease in cash was due to a decrease in Auxiliary fund cash of $1,213,517 relating to final construction payments made on University Terrace. The BOG support funds cash increased by $55,096, and E&G Operating fund cash increased by $103,256.

- Total noncurrent assets, comprised primarily of capital assets including buildings and equipment, decreased by $2,631,713 or 1.89%. Capital assets, net of depreciation, decreased by $2,182,133, primarily related to depreciation expense.

- Total deferred outflows of resources increased by $659,130 or 51.87%, primarily due to the implementation of GASB Statement No. 75.

- Total current liabilities decreased by $1,080,356 or 9.34%, due primarily to a decrease in accounts payable of $1,668,281. The decrease in accounts payable is offset by increases in accrued payroll liabilities of $250,045, unearned revenues and deposits of $140,151, and current bonds payable of $113,400. The decrease in accounts payable is primarily related to the status of construction projects at June 30, 2018 as compared to prior year.

- Total noncurrent liabilities decreased by $5,091,323 or 5.80%. The decrease is due primarily to principal payments of $3,433,986 made on existing bond debt. Advances from federal sponsors decreased by $548,471 as funds were returned to the U.S. Department of Education from the Federal Perkins Loan Program, which is being liquidated. The net OPEB liability decreased $1,162,254 with the implementation of GASB Statement No. 75.

- Total deferred inflows of resources increased by $1,486,702 or 297.76%, primarily related to the implementation of GASB Statement No. 75.

- The total assets and deferred outflows of resources of Fairmont State exceeded its liabilities and deferred inflows of resources at the close of the most recent fiscal year by $73,415,299 (net position). Of this amount, $8,164,049 (unrestricted net position) may be used to meet the educational and general operations of Fairmont State. Unrestricted net position by component part was as follows at June 30, 2018:

▪ Auxiliary funds	$ 6,911,355	
▪ Unrestricted and Other funds	1,252,694	(After the net OPEB liability)
	$ 8,164,049	

The unrestricted, restricted, and other funds net position of $1,252,694 includes fund manager funds of $2,298,634. Also, Fairmont State's unrestricted President's control net position amount increased by $706,323 to $(1,045,940) at June 30, 2018. The change in net position is after the decrease in the net OPEB liability for fiscal year 2018 in the amount of $1,162,254.

Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Revenues, Expenses, and Changes in Net Position presents the operating results of Fairmont State for the fiscal year. The purpose of the statement is to present Fairmont State's revenues (operating and nonoperating), expenses (operating and nonoperating), and any other revenues, expenses, gains, losses, and transfers. State appropriations, while budgeted for operations, are considered and reported as nonoperating revenues. This is because State appropriations are provided by the Legislature to Fairmont State without providing specific services in exchange. Likewise, Pell grants are reported as nonoperating because of specific guidance in the AICPA industry audit guide. Student tuition and fees are reported net of scholarship discounts and allowances. Financial aid to students is reported using the alternative method. Under this method, certain aid, such as loans and Federal Direct Lending, is accounted for as third party payment, while all other aid is reflected either as operating expenses or scholarship allowances, which reduce revenues. The utilization of capital assets is reflected in the financial statements as depreciation, which amortizes the cost of an asset over its expected useful life.

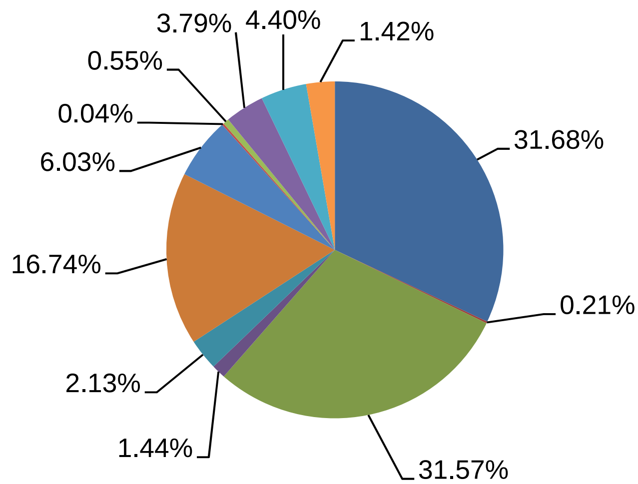
Condensed Schedule of Revenues, Expenses, and Changes in Net Position

Year Ended June 30:	**2018**	**2017**	**2016**
Operating Revenues	$ 40,535,915	$ 43,167,526	$ 40,747,685
Operating Expenses	59,130,718	62,888,859	61,007,731
Operating Loss	(18,594,803)	(19,721,333)	(20,260,046)
Total Net Nonoperating Revenues	19,095,953	16,281,439	19,779,077
Increase (Decrease) in Net Position before Other Revenues, Expenses, Gains or Losses, and Transfer	501,150	(3,439,894)	(480,969)
Payments Made and Expenses Incurred by the Commission on Behalf of Fairmont State	153,582	-	-
Payments Made and Expenses Incurred by the State on Behalf of Fairmont State	733,674	167,233	183,361
Capital Bond Proceeds from the State	-	83,181	-
Increase (Decrease) in Net Position before Transfer	1,388,406	(3,189,480)	(297,608)
Transfer of Net Position from Pierpont	381,828	329,463	119,867
Increase (Decrease) in Net Position	1,770,234	(2,860,017)	(177,741)
Net Position – Beginning of Year	71,501,142	74,361,159	74,538,900
Net Effect of Change in Accounting Policy	143,923	-	-
Net Position – Beginning of Year (Restated)	71,645,065	74,361,159	74,538,900
Net Position – End of Year	$ 73,415,299	$ 71,501,142	$ 74,361,159

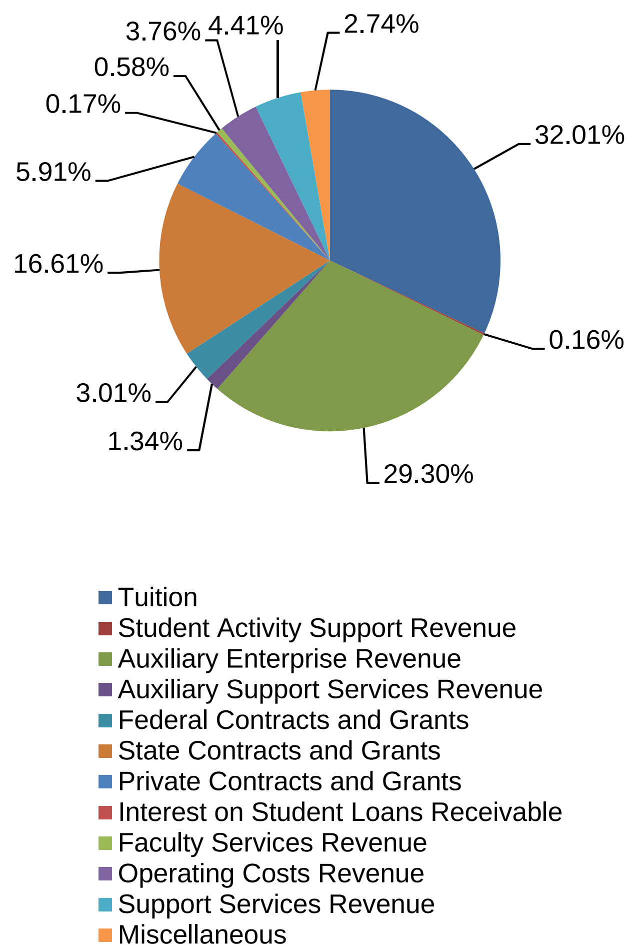
Operating Revenues:

The following are graphic illustrations of Fairmont State's operating revenues by source.

2018



2017



Highlights of the information presented on the Statements of Revenues, Expenses, and Changes in Net Position are as follows:

- Tuition and fees revenue, after adjustment for scholarship allowance of $14,163,053, decreased by $978,052 or 7.08%. Scholarship allowance increased by $1,555,974. The Board of Governors increased Tuition and Required E&G fees for fiscal year 2018 by 5% for both resident and non-resident students at both the graduate and undergraduate levels. The resident fee increased by $155 to $2,615 for undergraduate and by $169 to $2,906 for graduate. The non-resident fee increased by $348 to $5,965 for undergraduate and by $383 to $6,697 for graduate.

- Federal financial aid and federal grants revenues decreased by $438,234 or 33.68%. Federal grants active during fiscal year 2018 included the Department of Justice (WVICASV) and NASA Educator Resource Center (ERC) grant. The Title III Strengthening Institutions grant from the U.S. Department of Education ended in fiscal year 2018 with revenues decreasing by $467,223.

- State contracts and grants decreased by $386,310 or 5.39%. State contracts and grants include institutional grants from other State agencies and state-funded student financial aid. The primary reason for the decrease was because the Governor's Honors Academy Grant with Fairmont State ended in fiscal year 2017. The West Virginia Higher Education Grant decreased by $131,855 to $2,812,647, and the State PROMISE Scholarship increased by $24,509 to $2,982,599.

- Private contracts and grants decreased by $110,042 or 4.31%. The decrease was primarily in Alternative Student Loans and Neighborhood Investment Program Scholarships, which decreased by $52,500 and $47,899, respectively.

- Auxiliary enterprise revenue increased by $155,941 or 1.23%. The Board of Governors approved housing rate increases of 4% and meal plan increases of 3%.

- Miscellaneous revenues decreased by $605,048 or 51.11%.

- State appropriations decreased by $392,797 or 2.62%.

- Pell grant revenues decreased by $198,374 or 2.86%.

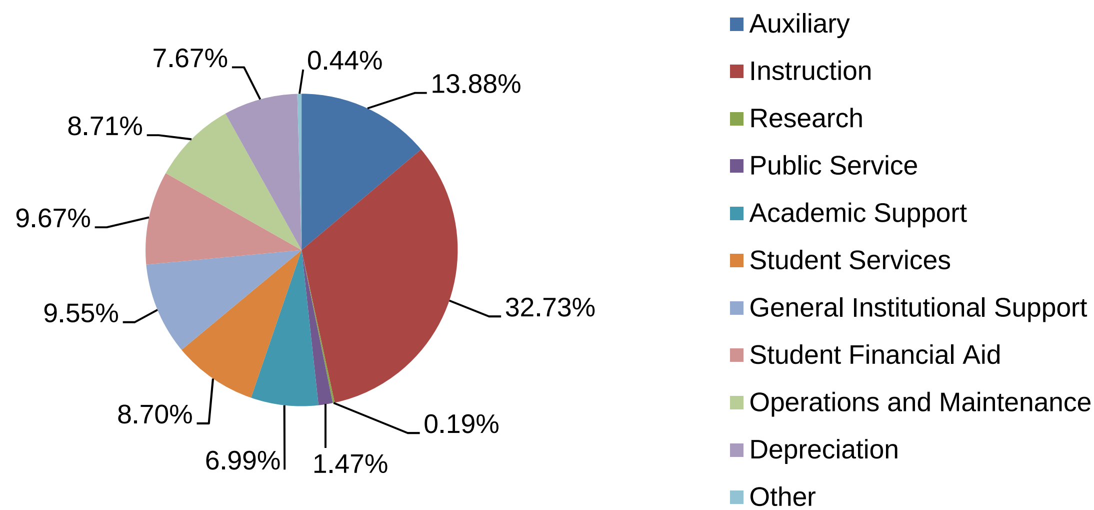
- Loss on disposal of capital assets decreased by $3,374,857 or 97.14%.

FUNCTIONAL CLASSIFICATION CHART

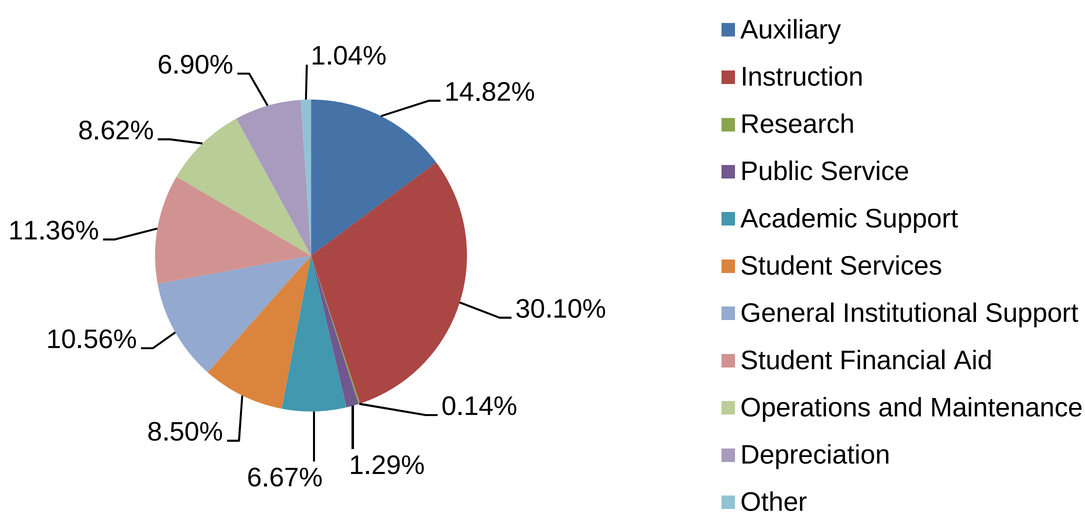
Operating Expenses:

The following is a graphic illustration of operating expenses by function.

2018



2017



Breakdown of Expense by Functional Classification:

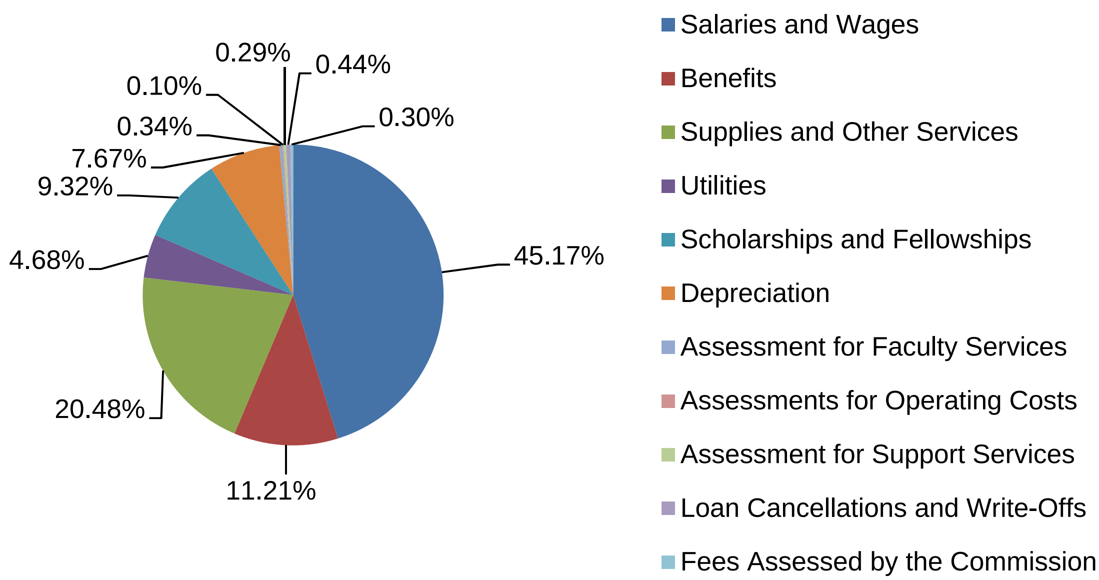
For fiscal year 2018, Fairmont State's total operating expenses were $59,130,718. Instruction expenses totaled $19,355,446 or 32.73% of the total operating budget. The following reflects the amounts and percentages for these expenses:

	2018	%	2017	%	2016	%
Auxiliary	$ 8,208,076	13.88%	$ 9,322,191	14.82%	$ 8,272,170	13.56%
Instruction	19,355,446	32.73%	18,926,943	30.10%	18,523,756	30.36%
Research	113,336	0.19%	89,001	0.14%	104,619	0.17%
Public service	866,723	1.47%	808,210	1.29%	578,090	0.95%
Academic support	4,131,270	6.99%	4,197,551	6.67%	4,305,131	7.06%
Student services	5,144,166	8.70%	5,343,603	8.50%	5,509,520	9.03%
General institutional support	5,648,949	9.55%	6,639,340	10.56%	7,223,121	11.84%
Student financial aid	5,716,828	9.67%	7,142,431	11.36%	7,225,833	11.84%
Operation and maintenance	5,152,166	8.71%	5,419,345	8.62%	4,987,834	8.18%
Depreciation	4,534,488	7.67%	4,339,911	6.90%	3,892,198	6.38%
Other	259,270	0.44%	660,333	1.04%	385,459	0.63%
Total	$ 59,130,718	100.00%	$ 62,888,859	100.00%	$ 61,007,731	100.00%

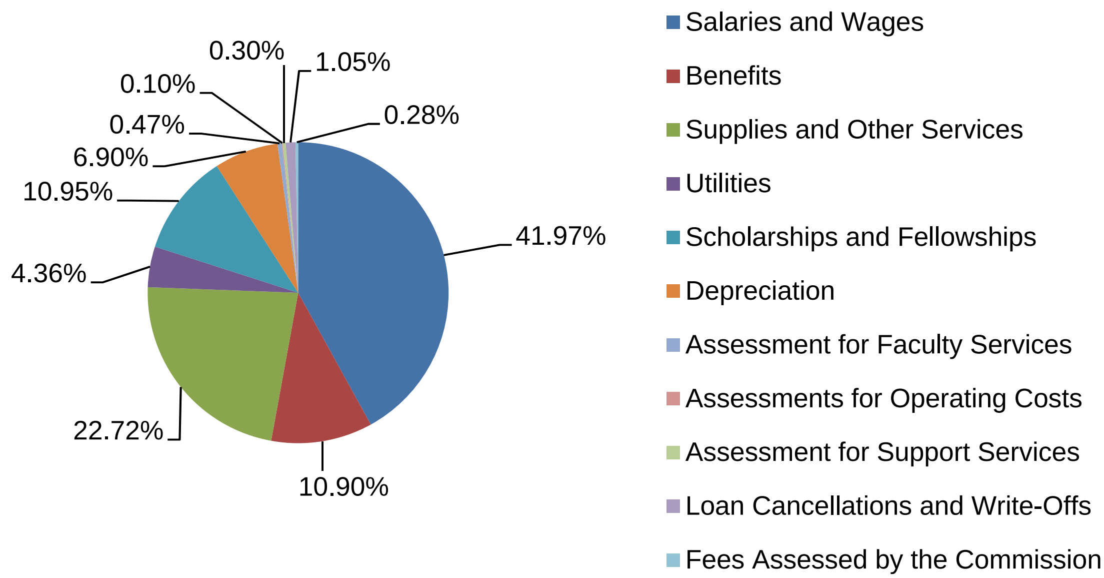
NATURAL CLASSIFICATION CHARTS

The following is a graphic illustration of operating expenses by natural classification:

2018



2017



Breakdown of Expenses by Natural Classification:

For fiscal year 2018, Fairmont State's total operating expenses were $59,130,718. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $33,343,388 or 56.38%. The following reflects the amounts and percentages for the expenses:

	2018	%	2017	%	2016	%
Salaries and wages	$ 26,715,443	45.17%	$ 26,396,420	41.97%	$ 26,566,446	43.55%
Benefits	6,627,945	11.21%	6,857,344	10.90%	6,666,900	10.93%
Supplies and other services	12,108,491	20.48%	14,287,172	22.72%	12,975,608	21.27%
Utilities	2,765,164	4.68%	2,744,724	4.36%	2,561,676	4.20%
Scholarships and fellowships	5,508,804	9.32%	6,883,987	10.95%	6,973,921	11.43%
Depreciation	4,534,488	7.67%	4,339,911	6.90%	3,892,198	6.38%
Assessment for faculty services	199,231	0.34%	293,445	0.47%	520,245	0.85%
Assessment for operating costs	58,548	0.10%	64,291	0.10%	83,636	0.14%
Assessment for support services	173,619	0.29%	185,530	0.30%	209,769	0.34%
Loan cancellations and write offs	259,270	0.44%	660,333	1.05%	385,459	0.63%
Fees assessed by the commission	179,715	0.30%	175,702	0.28%	171,873	0.28%
Total	$ 59,130,718	100.00%	$ 62,888,859	100.00%	$ 61,007,731	100.00%

- Salaries and wages increased by $319,023 or 1.21%.
  - In fiscal year 2018, the only salary increases were for adjustments to move employees to the minimum salary on the new West Virginia Higher Education Classified Salary Schedule (New Mercer Plan). Also, reclassifications and faculty promotions were provided.
- Benefits decreased by $229,399 or 3.35%.
- Supplies and other services expense decreased by $2,178,681 or 15.25%.
- Student financial aid expense decreased by $1,375,183 or 19.98%. Gross scholarships and fellowships increased by $180,791.
- Depreciation expense increased by $194,577 or 4.48% and was 7.67% of total operating expenses.
- Loan cancellations and write-offs decreased by $401,063 or 60.74%.

Statements of Cash Flows

The Statement of Cash Flows provides information about the cash receipts, cash payments, and net change in cash resulting from the operating, investing, and financing activities during the year. This statement helps users assess Fairmont State's ability to generate net cash flows, its ability to meet obligations as they come due, and its need for external financing.

The Statement of Cash Flows is divided into five parts:

1. ***Cash flows from operating activities***. This section shows the net cash used by the operating activities.
2. ***Cash flows from noncapital financing activities***. This section reflects the cash received and paid for nonoperating, noninvesting, and noncapital financing purposes.
3. ***Cash flows from capital and related financing activities***. This section includes cash used for the acquisition and construction of capital and related items.
4. ***Cash flows from investing activities***. This section shows the purchases, proceeds, and interest received from investing activities.
5. ***Reconciliation of net cash provided by (used) in operating activities.*** This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

Condensed Schedules of Cash Flows
For the Fiscal Year Ended June 30:

	2018	2017	2016
Cash Provided By (Used In)			
Operating Activities	$ (14,318,787)	$ (16,007,735)	$ (16,597,877)
Noncapital Financing Activities	21,507,907	22,176,612	21,948,154
Capital and Financing Related Activities	(8,694,958)	(16,234,432)	(28,079,817)
Investing Activities	385,678	214,846	97,534
Net Change in Cash and Cash Equivalents	(1,120,160)	(9,850,709)	(22,632,006)
Cash - Beginning of Year	29,114,592	38,965,301	61,597,307
Cash - End of Year	$ 27,994,432	$ 29,114,592	$ 38,965,301

Major sources of funds included in operating activities consist of tuition and fees of $15,424,039, contracts and grants of $9,775,163, and auxiliary enterprise charges of $12,637,766. Major uses of funds under this category were payments made to and on behalf of employees for salaries and benefits amounting to $32,865,023, payments to suppliers amounting to $16,545,126, and payments for scholarships and fellowships of $3,897,532.

Major sources of cash flow provided from noncapital financing activities consist of State appropriations amounting to $14,579,417 and Federal Pell grant revenues of $6,743,168.

The major source of cash flow provided from capital financing activity was related to the proceeds from E&G capital and debt service support revenue in the amount of $1,940,337. The major use of funds under this category was for the purchase of capital assets in the amount of $2,573,606. Other uses of cash flow were for payment of principal and interest on bonds of $3,180,626 and $2,676,509, respectively.

Capital Asset and Long-Term Debt Activity

Fairmont State has significant outstanding debt from bond issuances. Four bond series were issued in fiscal year 2003. The bonds were issued to acquire an apartment complex and for the construction of a parking garage, 400-suite dormitory, student activity center, and infrastructure improvements. The four bond issues were refinanced in fiscal year 2012 into one bond issuance with two Series. During fiscal year 2015, Fairmont State issued Series 2015A revenue bonds for the construction of a new apartment complex.

The 2012 bond issues are supported by auxiliary and infrastructure fund student and user fees. The 2015 bond issue is supported by housing fund user fees only. The auxiliary fund budgets that support the bonds (which include interest and principal debt service payments) transferred excess revenues to plant reserves of approximately $550,000 in fiscal year 2018. Infrastructure excess revenues transferred to reserves were approximately $360,000.

The refinanced bonds are payable over twenty years, and the 2006 bonds are payable over twenty years from the time of issuance. The total principal repayments made during fiscal year 2018 amounted to $3,180,626. The current portion of bonds payable due in fiscal year 2018 is $3,433,988, and the long-term portion of bonds payable is $70,638,779.

The 2012A, 2012B, and 2015A bond series do not require a separate audit on the modified cash basis of accounting as previously required. The audited financial statements of Fairmont State include bond segment reporting, which is used to calculate the debt service coverage ratio. Fairmont State complied with the debt service coverage ratio requirements of the Series 2012 Bonds, Series 2015 Bonds, and the 2006 Bonds.

During 2018, the Commission was paid for debt incurred from bonds sold in previous years for the State's colleges and universities. The remaining debt obligation assigned to Fairmont State as of June 30, 2018 was $1,324,258. As of June 30, 2018, the current portion due to Commission was $121,643, and the long-term portion was $1,202,615.

Economic Outlook

For fiscal year 2019, the West Virginia Legislature budget bill provided an increase in state appropriations to Fairmont State of $532,360, or 3.65%. The majority of the increase was given to provide raises to employees. Fairmont State's increase in appropriations allowed for an across the board raise of 2% to all employees, which was effective September 1, 2018. Fairmont State approved a balanced 2019 budget with only a 3% increase in in-state undergraduate tuition. Auxiliary room and board fees were also increased by 3%. In response to changing student needs, Fairmont State introduced three new meal plans that provide for additional flexibility for our students. Through our new dining service contract, Fairmont State will add highly sought-after food service options in 2019, with a Chick-fil-A, Chilaca, and Starbucks, which seek to aid in recruiting and retention efforts.

Fairmont State bonded auxiliary facilities continue to operate in a surplus condition, exceeding needed debt coverage ratios and providing excess dollars from operations for continued maintenance and repair needs. The debt service coverage ratio for the 2012 bonds and 2015 bonds combined is required to be 100%. The debt service coverage ratio at the end of 2017 and 2018 and ending net position balances are listed below:

	Debt Coverage Ratios	Ending Balance
June 30, 2017	225%	$17,481,397
June 30, 2018	221%	$18,568,467

The projected debt coverage ratio for fiscal year 2019 is 232%.

Fairmont State's unofficial enrollment reflects an increase for 2019, projecting to have enrolled the largest incoming freshman class since becoming a University in 2004. This is attributed to a revamped marketing and enrollment plan that focuses on developing a personal connection with the student before ever arriving on campus. Fairmont State has also revised its scholarship offerings for fiscal year 2020 in an effort to provide more accurate information at the onset of our relationship with the prospective student and to utilize our resources more effectively. Fairmont State continues to respond to the needs of today's job market, by investing in needed programs, such as our aviation flight program, the only FAA Part 141 program in the state of West Virginia.

Fairmont State will continue to monitor its 2019 budget to maintain a healthy E&G unrestricted net position reserve. The net position values before and after the OPEB liability can be found on pages 52 - 53 of this report. It is important to again recognize that the OPEB liability, while recorded on Fairmont State's financial statements, is expected to be fully funded by the State and will not be a future payout of real dollars from the University funds. Therefore, the true Unrestricted Fund net position is before OPEB liability of $9,090,538. This places Fairmont State with unrestricted reserves of $17,254,587 at the end of fiscal year 2018. The net position amount is broken down as follows:

Unrestricted Designated for Auxiliaries	$ 7,888,779
Unrestricted for Fund Managers	2,298,634
Unrestricted Undesignated	7,067,174
Total Unrestricted	$ 17,254,587

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

	2018	2017
ASSETS AND DEFERRED OUTFLOWS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 27,993,575	$ 29,048,740
Accounts receivable — net	1,695,719	1,018,122
Due from Pierpont for debt service — current portion	244,881	243,957
Loans to students — current portion — net of allowance of $0 and $25,000, respectively	-	421,120
Inventories	155,893	155,034
Other current assets	52,266	53,598
Total current assets	30,142,334	30,940,571
NONCURRENT ASSETS:		
Cash and cash equivalents	857	65,852
Due from Pierpont for debt service	2,605,652	2,908,733
Other noncurrent assets	371,939	453,443
Capital assets — net	133,541,041	135,723,174
Total noncurrent assets	136,519,489	139,151,202
DEFERRED OUTFLOWS OF RESOURCES:		
Deferred outflows relating to net pension liability	120,626	219,262
Deferred outflows relating to net OPEB liability	827,995	-
Deferred loss on refunding	981,260	1,051,489
Total deferred outflows of resources	1,929,881	1,270,751
TOTAL	$ 168,591,704	$ 171,362,524

(Continued)

STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	**2018**	**2017**
CURRENT LIABILITIES:		
Accounts payable	$ 676,700	$ 2,344,981
Due to Pierpont	26,222	217
Due to the Commission	3,036	9,947
Accrued liabilities — payroll	3,514,396	3,264,351
Accrued interest payable	227,199	237,092
Retainages payable	15,685	-
Unearned revenue and deposits	1,527,556	1,387,405
Compensated absences — current portion	850,387	852,822
Capital leases — current portion	86,695	13,571
Debt obligation to the Commission — current portion	121,643	132,889
Bonds payable — current portion	3,433,988	3,320,588
Total current liabilities	10,483,507	11,563,863
NONCURRENT LIABILITIES:		
Net other postemployment benefits liability	9,090,538	10,252,792
Compensated absences	417,169	386,452
Advances from federal sponsors	73,265	621,736
Capital leases	531,791	-
Debt obligation due to the Commission	1,202,615	1,468,191
Bonds payable	70,638,779	74,072,765
Net pension liability	748,485	989,102
Other noncurrent liabilities	4,261	7,188
Total noncurrent liabilities	82,706,903	87,798,226
DEFERRED INFLOWS OF RESOURCES:		
Deferred inflows relating to net pension liability	482,218	499,293
Deferred inflows relating to net OPEB liability	1,503,777	-
Total deferred inflows of resources	1,985,995	499,293
NET POSITION:		
Net investment in capital assets	61,341,638	60,919,352
Restricted for — expendable:		
Loans	8,991	-
Scholarships	37,326	67,447
Capital projects	3,854,474	3,840,095
Debt service	8,821	1,665
Total restricted	3,909,612	3,909,207
Unrestricted	8,164,049	6,672,583
Total net position	73,415,299	71,501,142
TOTAL	$ 168,591,704	$ 171,362,524

(Concluded)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $14,163,053 and $12,607,079 in 2018 and 2017, respectively	$ 12,840,396	$ 13,818,448
Student activity support revenue	85,660	68,676
Auxiliary enterprise revenue	12,802,197	12,646,256
Auxiliary support services revenue	582,855	576,862
Contracts and grants:		
Federal	862,952	1,301,186
State	6,783,796	7,170,106
Private	2,442,616	2,552,658
Interest on student loans receivable	15,255	71,435
Faculty services revenue	224,387	248,234
Operating costs revenue	1,534,349	1,624,082
Support services revenue	1,782,681	1,905,764
Miscellaneous — net	578,771	1,183,819
Total operating revenues	40,535,915	43,167,526
OPERATING EXPENSES:		
Salaries and wages	26,715,443	26,396,420
Benefits	6,627,945	6,857,344
Supplies and other services	12,108,491	14,287,172
Utilities	2,765,164	2,744,724
Student financial aid — scholarships and fellowships	5,508,804	6,883,987
Depreciation	4,534,488	4,339,911
Assessment for faculty services	199,231	293,445
Assessment for operating costs	58,548	64,291
Assessment for support services	173,619	185,530
Loan cancellations and write-offs	259,270	660,333
Fees assessed by the Commission for operations	179,715	175,702
Total operating expenses	59,130,718	62,888,859
OPERATING LOSS	(18,594,803)	(19,721,333)

(Continued)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	2017
NONOPERATING REVENUES (EXPENSES):		
State appropriations	14,579,417	14,972,214
Pell grant revenues	6,743,168	6,941,542
E&G capital and debt service support revenue	577,903	608,427
Fees assessed to Pierpont for debt service	75,470	71,937
Investment income	413,937	236,520
Gifts	187,209	240,641
Interest on indebtedness	(2,665,553)	(2,521,581)
Loss on disposal of capital assets	(99,513)	(3,474,370)
Assessment for E&G capital and debt service costs	(645,871)	(703,356)
Fees assessed by the Commission for debt service	(70,214)	(90,535)
Net nonoperating revenues	19,095,953	16,281,439
INCREASE (DECREASE) IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFER	501,150	(3,439,894)
PAYMENTS MADE AND EXPENSES INCURRED BY THE COMMISSION ON BEHALF OF FAIRMONT STATE	153,582	-
PAYMENTS MADE AND EXPENSES INCURRED BY THE STATE ON BEHALF OF FAIRMONT STATE	733,674	167,233
CAPITAL BOND PROCEEDS FROM THE STATE	-	83,181
INCREASE (DECREASE) IN NET POSITION BEFORE TRANSFER	1,388,406	(3,189,480)
TRANSFER OF NET POSITION FROM PIERPONT	381,828	329,463
INCREASE (DECREASE) IN NET POSITION	1,770,234	(2,860,017)
NET POSITION — Beginning of year	71,501,142	74,361,159
NET EFFECT OF CHANGE IN ACCOUNTING POLICY	143,923	-
NET POSITION — Beginning of year (Restated)	71,645,065	74,361,159
NET POSITION — End of year	$ 73,415,299	$ 71,501,142

(Concluded)

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

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 15,424,039	$ 15,744,413
Contracts and grants	9,775,163	10,450,893
Payments to and on behalf of employees	(32,865,023)	(33,425,848)
Payments to suppliers	(16,545,126)	(18,812,731)
Payments to utilities	(2,765,521)	(2,705,945)
Payments for scholarships and fellowships	(3,897,532)	(5,311,935)
Loans issued to students — net of repayments	(11,091)	132,440
Interest on student loans receivable	9,598	10,632
Federal government advances	-	(441,012)
Auxiliary enterprise charges	12,637,766	12,415,763
Fees assessed by the Commission	(179,715)	(175,702)
Other receipts — net	479,150	2,087,846
Student activity support revenue	85,660	68,676
Auxiliary fees and debt service support revenue	582,855	576,862
Assessment for support services	(164,506)	(197,840)
Support services revenue	1,656,000	2,038,206
Faculty services revenue	213,127	248,234
Assessment for faculty services	(197,001)	(293,445)
Operating support services revenue	1,501,470	1,648,349
Assessment for operating cost	(58,100)	(65,591)
Net cash used in operating activities	(14,318,787)	(16,007,735)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	14,579,417	14,972,214
Pell grant revenues	6,743,168	6,941,542
Gift receipts	188,209	240,641
William D. Ford direct lending receipts	17,934,560	18,418,574
William D. Ford direct lending payments	(17,931,470)	(18,426,195)
Transfers from Pierpont	39,146	33,802
Transfers to Pierpont	(45,123)	(3,966)
Net cash provided by noncapital financing activities	21,507,907	22,176,612
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital bond proceeds from State	-	83,181
E&G capital and debt service support revenue	1,940,337	2,046,837
Payments from Pierpont on debt obligation	232,687	325,283
Fees assessed by the Commission	(70,214)	(90,535)
Purchases of capital assets	(2,573,606)	(9,801,977)
Purchases of equipment	(835,779)	(557,364)
Principal paid on leases	606,515	(40,417)
Interest paid on leases	(4,387)	(389)
Assessment for E&G capital and debt service costs	(2,008,305)	(2,141,766)
Payments to the Commission on debt obligation	(139,452)	(128,087)
Principal paid on bonds	(3,180,626)	(3,072,371)
Interest paid on bonds	(2,676,509)	(2,868,737)
Bond interest income	14,381	11,910
Net cash used in capital financing activities	(8,694,958)	(16,234,432)

(Continued)

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

	2018	2017
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	385,678	214,846
DECREASE IN CASH AND CASH EQUIVALENTS	(1,120,160)	(9,850,709)
CASH AND CASH EQUIVALENTS — Beginning of year	29,114,592	38,965,301
CASH AND CASH EQUIVALENTS — End of year	$ 27,994,432	$ 29,114,592
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (18,594,803)	$ (19,721,333)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	4,534,488	4,339,911
Pension expense — special funding situation	160,486	167,233
OPEB expense — special funding situation	573,188	-
Net effect of change in accounting policy	143,923	-
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
Receivables — net	(505,197)	401,853
Loans to students — net	421,120	392,165
Inventories	(859)	7,861
Deferred outflows of resources	(729,359)	(125,959)
Other assets	53,598	(133,676)
Advances from federal sponsors	(548,471)	(441,012)
Accounts payable	(232,470)	(118,401)
Accrued liabilities — payroll	250,045	(346,198)
Other liabilities	(2,927)	(182,123)
Compensated absences	28,282	(51,721)
Net other postemployment benefits liability	(1,162,254)	286,736
Net pension liability	(240,617)	(143,343)
Deferred inflows of resources	1,486,702	141,711
Unearned revenue	(78,062)	(479,732)
Undistributed receipts (disbursements) — deposits	124,400	(1,707)
NET CASH USED IN OPERATING ACTIVITIES	$ (14,318,787)	$ (16,007,735)
NONCASH TRANSACTIONS:		
Construction in progress additions in accounts payable	$ 219,879	$ 1,662,926
Construction in progress additions in retainages payable	$ 15,685	$ -
Transfer from Pierpont (exclusive of $5,977 and $13,816 of cash in 2018 and 2017, respectively)	$ 381,828	$ 319,613
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents classified as current	$ 27,993,575	$ 29,048,740
Cash and cash equivalents classified as noncurrent	857	65,852
	$ 27,994,432	$ 29,114,592

(Concluded)

1. ORGANIZATION

Fairmont State University (Fairmont State) is governed by the Fairmont State University Board of Governors (the Board). The Board was established by Senate Bill (S.B.) 653, which was enacted by the West Virginia State Legislature (the Legislature) on March 19, 2000 and restructured higher education in West Virginia.

The Board's powers and duties include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of Fairmont State under its jurisdiction; the duty to develop a master plan for Fairmont State; the power to prescribe the specific functions and Fairmont State's budget request; the duty to review, at least every five years, all academic programs offered at Fairmont State; and the power to fix tuition and other fees for the different classes or categories of students enrolled at Fairmont State.

S.B. 653 also created the West Virginia Higher Education Policy Commission (the Commission), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fairmont State 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 Fairmont State's assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, expenses, changes in net position, and cash flows.

Reporting Entity - Fairmont State is a blended component unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the State) that are not included in the State's general fund. Fairmont State is a separate entity that, along with all State institutions of higher education and the Commission (which includes the West Virginia Network for Educational Telecomputing), forms the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of Fairmont State. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from Fairmont State's ability to significantly influence operations and accountability for fiscal matters of related entities. Fairmont State Foundation, Inc. (the Foundation) and the Fairmont State Alumni Association (the Association) are not part of Fairmont State's reporting entity and are not included in the accompanying financial statements since Fairmont State has no ability to designate management, cannot significantly influence operations, and is not accountable for the fiscal matters of the Foundation or the Association under GASB.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Net investment in capital assets **-** This represents Fairmont State's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent that debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of net investment in capital assets.

Restricted net position - expendable **-** This includes assets for which Fairmont State is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education of the West Virginia State Code.* House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature.

Restricted net position - 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. Fairmont State does not have any restricted nonexpendable net position at June 30, 2018 and 2017.

Unrestricted net position **-** Unrestricted net position represents resources derived from student tuition and fees, state appropriations, and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of Fairmont State and may be used at the discretion of the Board to meet current expenses for any purpose.

Basis of Accounting - For financial reporting purposes, Fairmont State is considered a special-purpose government engaged in only business-type activities. Accordingly, Fairmont State's financial statements have been prepared on the accrual basis of accounting, with a focus on the flow of economic resources measurement. Revenues are reported when earned and expenses are incurred when goods or services are received. All intercompany accounts and transactions have been eliminated.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer's Office (the State Treasurer) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Board of Treasury Investments (BTI). These funds were transferred to the BTI, and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia State Code, policies set by the BTI, provisions of bond indentures, and provisions of trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortized cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources in accordance with GASB. The BTI was established by the West Virginia State Legislature and is subject to oversight by the West Virginia State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool and accordingly are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of eight investment pools and participant-directed accounts, three of which Fairmont State may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual audited financial report. A copy of that annual report can be obtained from the following address: 1900 Kanawha Blvd., E. Room E-122, Charleston, West Virginia 25305 or http://www.wvbti.com.

Permissible investments for all agencies include those guaranteed by the United States of America, its agencies, and its instrumentalities (U.S. government obligations); corporate debt obligations, including commercial paper, which meet certain ratings; certain money market funds; repurchase agreements; reverse repurchase agreements; asset-backed securities; certificates of deposit; state and local government securities; and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the Legislature, and any other program investments authorized by the Legislature.

Appropriations Due from Primary Government - For financial reporting purposes, appropriations due from the State are presented separate from cash and cash equivalents, as amounts are not specific deposits with the State Treasurer but are obligations of the State.

Allowance for Doubtful Accounts - It is Fairmont State'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 Fairmont State on such balances; and such other factors that, in Fairmont State's judgment, require consideration in estimating doubtful accounts.

Inventories - Inventories are stated at the lower of cost or market, cost being determined on the first-in, first-out method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Noncurrent Cash, Cash Equivalents, and Investments - Cash and cash equivalents that are (1) externally restricted to make debt service payments and long-term loans to students or to maintain sinking or reserve funds; (2) to purchase capital or other noncurrent assets or settle long-term liabilities; and (3) permanently restricted net position are classified as noncurrent assets in the accompanying statements of net position.

Capital Assets - Capital assets include property, plant, and equipment; books and materials that are part of a catalogued library; and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or at fair value at the date of donation in the case of gifts. Interest on related borrowings, net of interest earnings on invested proceeds, is capitalized during the period of construction and was $14,762 and $262,268 for the years ended June 30, 2018 and 2017, respectively. 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, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment.

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

Compensated Absences and Other Postemployment Benefits - GASB provides standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2007, Fairmont State was required to participate in this multiple-employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State. Details regarding this plan and its stand-alone financial statements can be obtained by contacting West Virginia Public Employees Insurance Agency (PEIA), 601 57th Street SE, Charleston, West Virginia 25304 or https://peia.wv.gov.

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. Fairmont State'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.

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the State OPEB Plan and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis as they are reported by West Virginia Retiree Health Benefit Trust Fund (RHBT). For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See note 10 for further discussion.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Pension Liability - For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the West Virginia Teachers' Retirement System (STRS), administered by the West Virginia Consolidated Public Retirement Board (CPRB), and additions to/reductions from the STRS fiduciary net position have been determined on the same basis as they are reported in the STRS financial statements, which can be found at https://www.wvretirement.com/Publications.html#CAFR. The plan schedules of STRS are prepared using the accrual basis of accounting and economic resources measurement focus in accordance with U.S. GAAP as prescribed by GASB. Employer contributions are recognized when due and when the employer has a legal requirement to provide the contributions. Investments are reported at fair value. Detailed information on investment valuation can be found in the STRS financial statements. Management of STRS has made certain estimates and assumptions relating to employer allocation schedules, and actual results could differ. See note 13 for further discussion.

Deferred Outflows of Resources - Consumption of net position by Fairmont State that is applicable to a future fiscal year is reported as a deferred outflow of resources on the statement of net position.

Deferred Inflows of Resources - An acquisition of net position by Fairmont State that is applicable to a future fiscal year is reported as a deferred inflow of resources on the statement of net position.

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

In addition, through its participation in PEIA and a third-party insurer, Fairmont State has obtained health insurance, life insurance, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, Fairmont State has transferred its risks related to health insurance, life insurance, prescription drug coverage, and job-related injuries coverage.

Classification of Revenues - Fairmont State has classified its 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 Net Position - Fairmont State 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 net position are available. Generally, Fairmont State attempts to utilize restricted net position first when practicable.

Federal Financial Assistance Programs - Fairmont State makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest-subsidized and nonsubsidized loans directly to students through universities such as Fairmont State. Direct student loan receivables are not included in Fairmont State's statements of net position as the loans are repayable directly to the U.S. Department of Education. In 2018 and 2017, Fairmont State received and disbursed approximately $17.9 million and $18.4 million, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net position.

Fairmont State also distributes other student financial assistance funds on behalf of the federal government to students under the Federal Pell Grant, Supplemental Educational Opportunity Grant, and College Work-Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2018 and 2017, Fairmont State received and disbursed $7.0 million and $7.2 million, respectively, under these federal student aid programs.

Scholarship Allowances - Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net position. Scholarship allowances are the difference between the stated charge for goods and services provided by Fairmont State and the amount that is paid by students and/or third parties making payments on the student's behalf.

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and University Business Officers. Certain aid, such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending, is accounted for as a third-party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a college basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third-party aid.

Government Grants and Contracts - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. Fairmont State 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes - Fairmont State is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.

Cash Flows - Any cash and cash equivalents, including those escrowed, restricted for noncurrent assets, or in funded reserves, are included as cash and cash equivalents for the purpose of the statements of cash flows.

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

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

Newly Adopted Statements Issued by the Governmental Accounting Standards Board - The Governmental Accounting Standards Board has issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. The adoption of GASB Statement No. 75 reclassified some items previously reported as expenses as deferred outflows of resources and deferred inflows of resources. This statement also changed the valuation methodology used to record the net other postemployment benefits liability. See note 3 for a discussion of the effect and additional disclosures at note 10.

The Governmental Accounting Standards Board has also issued Statement No. 85, *Omnibus 2017*, effective for fiscal years beginning after June 15, 2017. The requirements of this Statement will enhance consistency in the application of accounting and financial reporting requirements. Consistent reporting will improve the usefulness of information for users of state and local government financial statements. The adoption of GASB Statement No. 85 had no impact on the June 30, 2018 financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board - The Governmental Accounting Standards Board has issued Statement No. 83, *Certain Asset Retirement Obligations*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations (AROs), including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 83 may have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Governmental Accounting Standards Board has also issued Statement No. 84, *Fiduciary Activities*, effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 84 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will increase the usefulness of governments' financial statements by requiring reporting of certain lease liabilities that currently are not reported. It will enhance comparability of financial statements among governments by requiring lessees and lessors to report leases under a single model. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring notes to financial statements related to the timing, significance, and purpose of a government's leasing arrangements. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 87 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*, effective for fiscal years beginning after June 15, 2018. The requirements of this Statement will improve financial reporting by providing users of financial statements with essential information that currently is not consistently provided. In addition, information about resources to liquidate debt and the risks associated with changes in terms associated with debt will be disclosed. As a result, users will have better information to understand the effects of debt on a government's future resource flows. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 88 may have on its financial statements.

The Governmental Accounting Standards Board has also issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, effective for fiscal years beginning after December 15, 2019. The requirements of this Statement will improve financial reporting by providing users of financial statements with more relevant information about capital assets and the cost of borrowing for a reporting period. The resulting information also will enhance the comparability of information about capital assets and the cost of borrowing for a reporting period for both governmental activities and business-type activities. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 89 may have on its financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Governmental Accounting Standards Board has also issued Statement No. 90, *Major Equity Interests,* which is effective for fiscal years beginning after December 15, 2018. The requirements of this Statement will improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and will improve the relevance of financial statement information for certain component units. This Statement also provides guidance for reporting a 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, measurable 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 measurable 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. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 90 may have on its financial statements.

3. CHANGE IN ACCOUNTING POLICY AND RESTATEMENT OF BEGINNING NET POSITION

Fairmont State changed its method of accounting for the following items in order to comply with accounting principles generally accepted in the United States of America:

GASB 75 – As of July 1, 2017, Fairmont State implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*. This Statement reclassified some items previously reported as expenses as deferred outflows of resources and deferred inflows of resources. This Statement also changed the valuation methodology used to record the net other postemployment benefits (OPEB) liability.

Employer contributions to the West Virginia Retiree Health Benefit Trust Fund (RHBT) made subsequent to the measurement date are now recorded as deferred outflows of resources. As of June 30, 2018, Fairmont State reported $827,995 as deferred outflows of resources relating to these payments. Additionally, the net difference between the projected and actual investment earnings is required to be recorded as deferred inflows of resources or deferred outflows of resources and is amortized over 5 years. All other deferred outflows of resources and deferred inflows of resources relating to the net OPEB liability are amortized over 4.71 years, the average expected remaining service life. For the fiscal year ended June 30, 2018, Fairmont State reported deferred inflows of resources relating to OPEB of $1,503,777.

Net effect of the change in accounting policy on beginning net position is as follows:

Net position - beginning of year, as previously stated	$ 71,501,142
Net effect of change in accounting policy	143,923
Net position - beginning of year, restated	$ 71,645,065

4. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2018 and 2017, was held as follows:

	2018		
	Current	Noncurrent	Total
State Treasurer/BTI	$ 26,735,866	$ -	$ 26,735,866
Trustee	7,964	857	8,821
In bank	1,247,129	-	1,247,129
On hand	2,616	-	2,616
	$ 27,993,575	$ 857	$ 27,994,432

	2017		
	Current	Noncurrent	Total
State Treasurer/BTI	$ 28,566,109	$ -	$ 28,566,109
Trustee	303,815	1,665	305,480
In bank	175,700	64,187	239,887
On hand	3,116	-	3,116
	$ 29,048,740	$ 65,852	$ 29,114,592

Cash held by the Treasurer includes no restricted cash at June 30, 2018 and 2017.

The combined carrying amount of cash in the bank at June 30, 2018 and 2017 was $1,247,129 and $239,887, respectively, as compared with the combined bank balance of $1,407,368 and $410,884, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance as noted below or were collateralized by securities held by the State's agent. Regarding federal depository insurance, interest-bearing accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000.

Amounts with the State Treasurer were $26,735,866 and $28,566,109 as of June 30, 2018 and 2017, respectively. Of these amounts, $24,473,473 and $27,093,790 were invested in the WV Money Market Pool and the WV Short Term Bond Pool as of June 30, 2018 and 2017, respectively. The remainder of the cash held with the State Treasurer was not invested as of June 30, 2018 and 2017.

Credit Risk - Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The following table provides information on the Standard & Poor's rating of the investment pools as of June 30:

	2018		2017	
External Pool	Carrying Value	S & P Rating	Carrying Value	S & P Rating
WV Money Market Pool	$ 23,918,559	AAAm	$ 26,484,178	AAAm
WV Short Term Bond Pool	$ 554,914	Not Rated	$ 609,612	Not Rated

4. CASH AND CASH EQUIVALENTS

A Fund rated "AAAm" has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. "AAAm" is the highest principal stability fund rating assigned by Standard & Poor's.

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the amounts with the State Treasurer are subject to interest rate risk. The following table provides information on the weighted-average maturities for the WV Money Market Pool:

	2018		2017	
External Pool	Carrying Value	WAM (Days)	Carrying Value	WAM (Days)
WV Money Market Pool	$ 23,918,559	34	$ 26,484,178	36

The following table provides information on the effective duration for the WV Short Term Bond Pool:

	2018		2017	
External Pool	Carrying Value	Effective Duration (Days)	Carrying Value	Effective Duration (Days)
WV Short Term Bond Pool	$ 554,914	372	$ 609,612	426

Other Investment Risks - Other investment risks include concentration of credit risk, custodial credit risk, and foreign currency risk. None of the BTI's Consolidated Fund's investment pools or accounts is exposed to these risks as described below.

Custodial Credit Risk - Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, Fairmont State will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – Concentration of credit risk is the risk of loss attributed to the magnitude of a Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

Foreign Currency Risk - Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. Fairmont State has no securities with foreign currency risk.

5. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2018 and 2017, are as follows:

	2018	2017
Student tuition and fees — net of allowance for doubtful accounts of $3,350,373 and $2,981,971, respectively	$ 755,893	$ 533,715
Grants and contracts receivable	544,186	146,636
Due from the Commission	65,378	26,509
Due from other State agencies	34,868	121,583
Due from Pierpont	227,713	56,560
Other accounts receivable	67,681	133,119
	$ 1,695,719	$ 1,018,122

6. CAPITAL ASSETS

Capital asset activities for the years ended June 30, 2018 and 2017 are as follows:

	2018				
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,932,173	$ -	$ -	$ -	$ 7,932,173
Construction in progress	37,031	375	1,127,465	(806,067)	358,804
Total capital assets not being depreciated	$ 7,969,204	$ 375	$ 1,127,465	$ (806,067)	$ 8,290,977
Other capital assets:					
Land improvements	$ 5,332,590	$ 18,268	$ 237,701	$ -	$ 5,588,559
Infrastructure	10,730,333	106,365	-	(133,371)	10,703,327
Buildings	161,575,895	640,490	568,365	(88,584)	162,696,166
Equipment	6,598,349	7,368	838,507	(17,467)	7,426,757
Computer software	457,796	-	12,000	-	469,796
Library books	2,481,893	25,129	4,349	(24,470)	2,486,901
Total other capital assets	187,176,856	797,620	1,660,922	(263,892)	189,371,506
Less accumulated depreciation for:					
Land improvements	3,486,971	7,831	267,800	-	3,762,602
Infrastructure	8,205,600	81,376	608,461	(109,073)	8,786,364
Buildings	40,046,490	209,870	3,150,318	(13,369)	43,393,309
Equipment	4,793,339	4,739	489,561	(17,467)	5,270,172
Computer software	457,796	-	333	-	458,129
Library books	2,432,690	24,631	18,015	(24,470)	2,450,866
Total accumulated depreciation	59,422,886	328,447	4,534,488	(164,379)	64,121,442
Other capital assets — net	$127,753,970	$ 469,173	$ (2,873,566)	$ (99,513)	$125,250,064
Capital asset summary:					
Capital assets not being depreciated	$ 7,969,204	$ 375	$ 1,127,465	$ (806,067)	$ 8,290,977
Other capital assets	187,176,856	797,620	1,660,922	(263,892)	189,371,506
Total cost of capital assets	195,146,060	797,995	2,788,387	(1,069,959)	197,662,483
Less accumulated depreciation	59,422,886	328,447	4,534,488	(164,379)	64,121,442
Capital assets — net	$135,723,174	$ 469,548	$ (1,746,101)	$ (905,580)	$133,541,041

6. CAPITAL ASSETS (CONTINUED)

	2017				
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,682,173	$ -	$ 250,000	$ -	$ 7,932,173
Construction in progress	29,259,294	4,569	5,756,215	(34,983,047)	37,031
Total capital assets not being depreciated	$ 36,941,467	$ 4,569	$ 6,006,215	$(34,983,047)	$ 7,969,204
Other capital assets:					
Land improvements	$ 5,181,512	$ 13,149	$ 137,929	$ -	$ 5,332,590
Infrastructure	10,647,432	82,901	-	-	10,730,333
Buildings	131,331,142	487,373	34,906,843	(5,149,463)	161,575,895
Equipment	6,659,426	5,466	617,697	(684,240)	6,598,349
Computer software	463,296	-	-	(5,500)	457,796
Library books	3,424,726	27,242	8,110	(978,185)	2,481,893
Total other capital assets	157,707,534	616,131	35,670,579	(6,817,388)	187,176,856
Less accumulated depreciation for:					
Land improvements	3,229,225	5,197	252,549	-	3,486,971
Infrastructure	7,535,030	58,715	611,855	-	8,205,600
Buildings	38,311,822	154,134	3,001,904	(1,421,370)	40,046,490
Equipment	4,924,431	3,318	452,072	(586,482)	4,793,339
Computer software	463,296	-	-	(5,500)	457,796
Library books	3,362,597	26,747	21,531	(978,185)	2,432,690
Total accumulated depreciation	57,826,401	248,111	4,339,911	(2,991,537)	59,422,886
Other capital assets — net	$ 99,881,133	$ 368,020	$31,330,668	$ (3,825,851)	$127,753,970
Capital asset summary:					
Capital assets not being depreciated	$ 36,941,467	$ 4,569	$ 6,006,215	$(34,983,047)	$ 7,969,204
Other capital assets	157,707,534	616,131	35,670,579	(6,817,388)	187,176,856
Total cost of capital assets	194,649,001	620,700	41,676,794	(41,800,435)	195,146,060
Less accumulated depreciation	57,826,401	248,111	4,339,911	(2,991,537)	59,422,886
Capital assets — net	$136,822,600	$ 372,589	$37,336,883	$(38,808,898)	$135,723,174

Fairmont State maintains certain collections of inexhaustible assets to which no value can be practically determined. Accordingly, such collections are not capitalized or recognized for financial statement purposes. Such collections include contributed works of art, historical treasures, and literature that are held for exhibition, education, research, and public service. These collections are neither disposed of for financial gain nor encumbered in any means.

Fairmont State has construction commitments of $732,611 as of June 30, 2018.

7. LONG-TERM LIABILITIES

Long-term obligation activities for the years ended June 30, 2018, and 2017 are as follows:

	2018					
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 75,135,665	$ -	$ -	$ (3,180,625)	$ 71,955,040	$ 3,294,025
Add (less) deferred amounts:						
Premium on issuance	2,257,688	-	-	(139,961)	2,117,727	139,963
Total bonds payable — net	77,393,353	-	-	(3,320,586)	74,072,767	3,433,988
Capital leases payable	13,571	-	647,250	(42,335)	618,486	86,695
Other long-term liabilities:						
Net other postemployment benefits liability	10,252,792	-	1,099,039	(2,261,293)	9,090,538	-
Accrued compensated absences	1,239,274	-	708,064	(679,782)	1,267,556	850,387
Advances from federal sponsors	621,736	-	-	(548,471)	73,265	-
Payable to the Commission	1,601,080	13,274	-	(290,096)	1,324,258	121,643
Net pension liability	989,102	-	48,159	(288,776)	748,485	-
Other long-term liabilities	7,188	-	-	(2,927)	4,261	-
Total long-term liabilities	$ 92,118,096	$ 13,274	$ 2,502,512	$ (7,434,266)	$ 87,199,616	$ 4,492,713

*Transfers represent the ownership change from FY17 to FY18

7. LONG-TERM LIABILITIES (CONTINUED)

	2017					
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 78,208,036	$ -	$ -	$ (3,072,371)	$ 75,135,665	$ 3,180,627
Add (less) deferred amounts:						
Premium on issuance	2,397,649	-	-	(139,961)	2,257,688	139,961
Total bonds payable — net	80,605,685	-	-	(3,212,332)	77,393,353	3,320,588
Capital leases payable	53,988	-	-	(40,417)	13,571	13,571
Other long-term liabilities:						
Net other postemployment benefits liability	9,966,056	-	1,088,765	(802,029)	10,252,792	-
Accrued compensated absences	1,290,995	-	1,005,956	(1,057,677)	1,239,274	852,822
Advances from federal sponsors	1,062,748	-	-	(441,012)	621,736	-
Payable to the Commission	1,715,521	12,635	-	(127,076)	1,601,080	132,889
Net pension liability	1,132,445	-	181,402	(324,745)	989,102	-
Other long-term liabilities	191,779	-	-	(184,591)	7,188	-
Total long-term liabilities	$ 96,019,217	$ 12,635	$ 2,276,123	$ (6,189,879)	$ 92,118,096	$ 4,319,870

*Transfers represent the ownership change from FY16 to FY17

8. BONDS PAYABLE

Bonds payable at June 30, 2018 and 2017, are summarized as follows (in thousands):

	Interest Rates	Annual Principal Installments	2018 Principal Outstanding	2017 Principal Outstanding
Facilities Improvement Revenue Bonds				
2006 Series, due through 2026	1.74% (10-year reset)	$343 - $611	$ 4,160	$ 4,641
Revenue Refunding Bonds				
2012, Series A, due through 2032	2.00 - 5.00	730 - 1,155	15,545	16,380
Revenue Refunding Bonds				
2012, Series B, due through 2032	2.00 - 5.00	1,080 - 1,720	23,230	24,495
Revenue Refunding Bonds				
2015, Series A, due through 2045	1.75 - 5.00	580 - 1,665	29,020	29,620
Total outstanding principal			71,955	75,136
Add unamortized bond premium			2,118	2,257
Total			$ 74,073	$ 77,393
Current			$ 3,434	$ 3,320
Noncurrent			70,639	74,073
Total			$ 74,073	$ 77,393

Fairmont State has issued the following revenue bonds:

a. *Facilities Improvement Revenue Bonds, 2006 Series* — On May 9, 2006, Fairmont State issued Facilities Improvement Bonds, 2006 Series (the 2006 Bonds) amounting to $8,500,000. The 2006 Bonds were issued to (1) finance the costs of the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus shared by Fairmont State and Pierpont, including, but not limited to, a technology wing addition/renovation and elevator/heating, ventilation, and air-conditioning (HVAC) improvements to infrastructure improvements, all of which will be owned by the Board, and (2) pay the costs of issuance of the 2006 Bonds and related costs.

b. *Revenue Refunding Bonds, 2012 Series A* — On June 12, 2012, Fairmont State University, in conjunction with Pierpont, issued Revenue Refunding Bonds Series A (the 2012A Bonds) amounting to $20,165,000. The 2012A Bonds were issued to (1) currently refund in full the outstanding 2002A and 2002B Bonds and (2) pay the costs of issuance of the Series 2012A Bonds and related costs. The issuance of the 2012A Bonds resulted in a loss of $561,866 and an economic gain of $3,866,063.

c. *Revenue Refunding Bonds, 2012 Series B* — On June 12, 2012, Fairmont State, in conjunction with Pierpont, issued Revenue Refunding Bonds Series B (the 2012B Bonds) amounting to $30,160,000. The 2012B Bonds were issued to (1) advance refund in full the outstanding 2003A and 2003B Bonds and (2) pay the costs of issuance of the Series 2012B Bonds and related costs. The issuance of the 2012B Bonds resulted in a loss of $1,713,791 and an economic gain of $3,503,626.

8. BONDS PAYABLE (CONTINUED)

d. *Facilities Construction Revenue Bonds, 2015 Series A* — On April 7, 2015, Fairmont State issued Revenue Bonds Series A (the 2015A Bonds) amounting to $30,200,000. The 2015A Bonds were issued to (1) finance the costs of planning, designing, constructing, acquiring, and equipping new student housing facilities; (2) provide payment of capitalized interest on the Series 2015 Bonds; (3) reimburse certain previously incurred expenditures related to the 2015 Project; and (4) pay the costs of issuance of the Series 2015 Bonds and related costs.

The bond issues are special obligations of Fairmont State and are secured by and payable from certain pledge revenues held under the Bond Indenture (the Indenture). The bonds shall not be deemed to be general obligations or debts of the State within the meaning of the Constitution of the State; neither the credit nor the taxing power of the State is pledged for the payment of the bonds. The 2012 Series A and 2012 Series B Bonds are fully insured as to principal and interest by Financial Guaranty Insurance Company.

The 2012 Series A and B and 2015 Series A Bonds' covenants require that the schedules of rent, charges, and fees shall at all times be adequate to produce revenues from the auxiliary facilities sufficient to pay operating expenses and, when combined with infrastructure fees (as defined in the Indenture), to make the prescribed payments into the funds and accounts created hereunder, and that such schedule or schedules of rents, charges, and fees, that shall be revised from time to time to provide for all reasonable operating expenses and leave gross revenues, when combined with other monies legally available to be used for such purposes, each year equal at least 100% of the maximum annual debt service of the 2012 Series A and B Bonds and the 2015 Series A Bonds of $5,389,074.

For the years ended June 30, 2018 and 2017, Fairmont State and Pierpont had gross revenues that approximated 221% and 225%, respectively, of the maximum annual debt service of the 2012 Series A and B and 2015 Series A Bonds.

Future debt service requirements to maturity for the revenue bonds at June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 3,294,025	$ 2,651,883	$ 5,945,908
2020	3,402,571	2,545,087	5,947,658
2021	3,481,267	2,459,391	5,940,658
2022	3,595,114	2,350,752	5,945,866
2023	3,754,116	2,187,750	5,941,866
2024-2028	19,807,947	8,783,090	28,591,037
2029-2033	18,170,000	5,090,156	23,260,156
2034-2038	5,990,000	2,646,781	8,636,781
2039-2043	7,190,000	1,441,688	8,631,688
2044-2045	3,270,000	185,063	3,455,063
Total	$ 71,955,040	$ 30,341,641	$ 102,296,681

9. LEASES

Operating Leases - Fairmont State leases office and storage spaces and various equipment. These obligations are accounted for as operating leases.

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2018, are as follows:

Years Ending June 30,	
2019	$ 195,321
2020	194,696
2021	193,066
2022	192,096
2023	96,048
Total	$ 871,227

Total lease expense for the years ended June 30, 2018 and 2017, was $122,048 and $37,241, respectively. Fairmont State does not have any noncancelable leases.

Capital Leases - Fairmont State leases equipment accounted for as capital leases.

Fairmont State entered into a lease agreement with Bank of America in September 2012 to cover the acquisition and installation costs for an alarm system for Pence and Pritchard residence halls. The lease is accounted for as a capital lease, with a total cost of $198,522 and a net book value of $175,692 and $179,662 as of June 30, 2018 and 2017, respectively. The final lease payment was made in October 2017.

Fairmont State entered into three lease agreements with Bank of America in February, April, and May of 2018 to cover the acquisition of three Cessna airplanes (172RG, 172M, and 172S, respectively) to enhance the Flight Program and meet the needs of the growing student population within the program. The leases are accounted for as capital leases, with a total cost of $647,250 and a net book value of $615,410 as of June 30, 2018. Future annual minimum lease payments on capital leases for years subsequent to June 30, 2018, are as follows:

Years Ending June 30,	Principal	Interest	Total
2019	$ 86,695	$ 12,189	$ 98,884
2020	88,535	10,349	98,884
2021	90,415	8,469	98,884
2022	92,336	6,548	98,884
2023	94,297	4,587	98,884
2024-2025	166,208	3,183	169,391
Total	$ 618,486	$ 45,325	$ 663,811

10. OTHER POSTEMPLOYMENT BENEFITS

As related to the implementation of GASB 75, following are Fairmont State's net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, revenues, and the OPEB expense and expenditures for the fiscal year ended June 30, 2018:

	2018
Net OPEB liability	$ 9,090,538
Deferred outflows of resources	827,995
Deferred inflows of resources	1,503,777
Revenues	573,188
OPEB expense	1,058,635
Contributions made by Fairmont State	827,995

Plan Description

The West Virginia Other Postemployment Benefit (OPEB) Plan (the Plan) is a cost-sharing, multiple employer, defined benefit other postemployment benefit plan and covers the retirees of State agencies, colleges and universities, county boards of education, and other government entities as set forth in the West Virginia Code. Financial activities of the Plan are accounted for in the West Virginia Retiree Health Benefit Trust Fund (RHBT), a fiduciary fund of the State established July 1, 2006 as an irrevocable trust. The Plan is administered by a combination of the West Virginia Public Employees Insurance Agency (PEIA) and the RHBT staff. Plan benefits are established and revised by PEIA and the RHBT management with the approval of the PEIA Finance Board. The plan provides medical and prescription drug insurance, as well as life insurance, benefits to certain retirees of State agencies, colleges and universities, county boards of education, and other government entities who receive pension benefits under the PERS, STRS, TDCRS, TIAA-CREF, Plan G, Troopers Plan A, or Troopers Plan B pension systems, as administered by the West Virginia Consolidated Public Retirement Board (CPRB). The plan is closed to new entrants.

The Plan's fiduciary net position has been determined on the same basis used by the Plan. The RHBT is accounted for as a fiduciary fund, and its financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting in conformity with GAAP for fiduciary funds as prescribed or permitted by the GASB. The primary sources of revenue are plan member and employer contributions. Members' contributions are recognized in the period in which the contributions are due. Employer contributions and related receivables to the trust are recognized pursuant to a formal commitment from the employer or statutory or contractual requirement, when there is a reasonable expectation of collection. Benefits and refunds are recognized when due and payable.

RHBT is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. RHBT issues publicly available financial statements and required supplementary information for the OPEB plan. Details regarding this plan and a copy of the RHBT financial report may be obtained by contacting PEIA.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

The Plan provides the following benefits:

- Medical and prescription drug insurance
- Life insurance

The medical and prescription drug insurance is provided through two options:

- Self-Insured Preferred Provider Benefit Plan – primarily for non-Medicare-eligible retirees and spouses
- External Managed Care Organizations – primarily for Medicare-eligible retirees and spouses

Contributions

Employer contributions from the RHBT billing system represent what the employer was billed during the respective year for its portion of the pay-as-you-go (paygo) premiums, retiree leave conversion billings, and other matters, including billing adjustments.

Paygo premiums are established by the PEIA 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 paygo rates related to the measurement date of June 30, 2017 were:

	July 2016-December 2016 2017	January 2017-June 2017 2017
Paygo premium	$ 196	$ 135

Members retired before July 1, 1997 pay retiree healthcare contributions at the highest sponsor subsidized rate, regardless of their actual years of service. Members retired after July 1, 1997 or hired before 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 annual leave days into 100% of the required retiree healthcare contribution.
- Members hired from July 1, 1988 to June 30, 2001 may convert accrued sick or annual leave days into 50% of the required retiree healthcare contribution.

11. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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. The same hire date mentioned above applies to coverage for faculty employees also. 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 Fairmont State. 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 conversion rate is two days of unused sick and annual leave days per month for single healthcare coverage and three days of unused sick and annual leave days per month for family healthcare coverage.

Fairmont State's contributions to the OPEB plan for the years ended June 30, 2018, 2017, and 2016, were $827,995, $759,329, and $748,542, respectively.

Assumptions

The total OPEB liability for financial reporting purposes was determined by an actuarial valuation as of July 1, 2016 and rolled forward to June 30, 2017. The following actuarial assumptions were used and applied to all periods included in the measurement, unless otherwise specified:

- Actuarial cost method: Entry age normal cost method.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method: Level percentage of payroll over a 21 year closed period
- Remaining amortization period: 21 years closed as of June 30, 2016.
- Investment rate of return: 7.15%, net of OPEB plan investment expense, 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 cost beginning in 2020 to account for the Excise Tax.
- Projected salary increases: Dependent upon pension system ranging from 3.0-6.5%, including inflation.
- Inflation rate: 2.75%.
- Mortality rates based on RP-2000 Mortality Tables.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2010 to June 30, 2015. These assumptions will remain in effect for valuation purposes until such time as the RHBT adopts revised assumptions.

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

The projections of the net OPEB liability are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The projection of the net OPEB liability does not explicitly incorporate the potential effects of legal or contractual funding limitations on the pattern of cost-sharing between the employer and plan members in the future. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial estimated liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations. However, the preparation and any estimate of future postemployment costs requires consideration of a broad array of complex social and economic events. Future changes in the healthcare reform, changes in reimbursement methodology, the emergence of new and expensive medical procedures and prescription drugs options, changes in the investment rate of return, and other matters increase the level of uncertainty in such estimates. As such, the estimate of postemployment program costs contains considerable uncertainty and variability, and actual experience may vary significantly from the current estimated net OPEB liability.

The long-term expected 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 WV Investment Management Board and an expected short-term rate of return of 3.00% for assets invested with the BTI.

The long-term expected rate of return on OPEB plan investments was determined using a building-block method in which best-estimate ranges 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 percentage and by adding expected inflation. Best estimates of the long-term geometric rates of return for each major asset class included in RHBT’s target asset allocation as of June 30, 2017, are summarized below.

Asset Class	Target Allocation
Domestic equity	27.5%
International equity	27.5%
Fixed income	15.0%
Real estate	10.0%
Private equity	10.0%
Hedge funds	10.0%

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Asset Class	Long-term Expected Real Rate of Return
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 total OPEB liability was 7.15%. The projection of cash flows used to determine the discount rate assumed that RHBT contributions will continue to follow the current funding policies. Based on those assumptions and that the OPEB plan is expected to be fully funded by the fiscal year ended June 30, 2036, 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.

Sensitivity of the net OPEB liability to changes in the discount rate. The following presents Fairmont State's proportionate share of the net OPEB liability as of June 30, 2018 calculated using the discount rate of 7.15%, as well as what Fairmont State'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.

	1% Decrease (6.15%)	Current Discount Rate (7.15%)	1% Increase (8.15%)
Net OPEB liability	$ 10,584,888	$ 9,090,538	$ 7,848,316

Sensitivity of the net OPEB liability to changes in the healthcare cost trend rate. The following presents Fairmont State's proportionate share of the net OPEB liability as of June 30, 2018 calculated using the healthcare cost trend rate, as well as what Fairmont State's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is one percentage point lower or one percentage point higher than the current rate.

	1% Decrease	Current Healthcare Cost Trend Rate	1% Increase
Net OPEB liability	$ 7,636,181	$ 9,090,538	$ 10,869,297

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

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

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

At June 30, 2018, Fairmont State's proportionate share of the net OPEB liability was $10,957,745. Of this amount, Fairmont State recognized $9,090,538 as its proportionate share on the statement of net position. The remainder of $1,867,207 denotes Fairmont State's proportionate share of net OPEB liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on its proportionate share of employer and non-employer contributions to OPEB for each of the fiscal years ended June 30, 2017 and 2016. Employer contributions are recognized when due. At the June 30, 2017 measurement date, Fairmont State's proportion was 0.369685982%, a decrease of 0.067887949% from its proportion of 0.437573931% calculated as of June 30, 2016.

For the year ended June 30, 2018, Fairmont State recognized OPEB expense of $1,058,635. Of this amount, $485,447 was recognized as Fairmont State's proportionate share of OPEB expense and $573,188 as the amount of OPEB expense attributable to special funding from a non-employer contributing entity. Fairmont State also recognized revenue of $573,188 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.

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 30,440
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	1,328,246
Net difference between projected and actual investment earnings	-	145,091
Contributions after the measurement date	827,995	-
Total	$ 827,995	$ 1,503,777

10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Fairmont State will recognize the $827,995 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, 2019. 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 June 30,	Amortization
2019	$ 375,945
2020	375,945
2021	375,945
2022	375,942
	$ 1,503,777

Payables to the OPEB Plan

Fairmont State did not report any amounts payable for normal contributions to the OPEB plan as of June 30, 2018.

11. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

Fairmont State is a State institution of higher education and receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government. Those mandates affect all aspects of Fairmont State’s operations, its tuition and fee structure, its personnel policies, and its administrative practices.

The State has chartered the Commission with the responsibility to construct or renovate, finance, and maintain various academic and other facilities of the State’s universities and colleges, including certain facilities of Fairmont State. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of University and College Systems (the Boards). These obligations administered by the Municipal Bond Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Municipal Bond Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission’s bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance including payment of institution debt. Although the bonds remain as a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2018 and 2017, Fairmont State reduced its debt to the Commission against the debt obligation by $276,822 and $114,441, respectively. The amount due to Commission at June 30, 2018 and 2017 is $1,324,258 and $1,601,080, respectively.

12. NET POSITION

Fairmont State's net position at June 30, 2018 and 2017 includes certain designated net position, as follows:

	2018		
	Net Position Before OPEB Liability	**OPEB Liability**	**Total Net Position**
Net investment in capital assets	$ 61,341,638	$ -	$ 61,341,638
Restricted for — expendable:			
Loans	8,991	-	8,991
Scholarships	37,326	-	37,326
Capital projects	3,854,474	-	3,854,474
Debt service	8,821	-	8,821
Total restricted	3,909,612	-	3,909,612
Unrestricted:			
Designated for auxiliaries	7,888,779	977,424	6,911,355
Designated for fund managers	2,298,634	-	2,298,634
Undesignated	7,067,174	8,113,114	(1,045,940)
Total unrestricted	17,254,587	9,090,538	8,164,049
Total net position	$ 82,505,837	$ 9,090,538	$ 73,415,299

12. NET POSITION (CONTINUED)

	2017		
	Net Position Before OPEB Liability	OPEB Liability	Total Net Position
Net investment in capital assets	$ 60,919,352	$ -	$ 60,919,352
Restricted for — expendable:			
Loans	-	-	-
Scholarships	67,447	-	67,447
Capital projects	3,840,095	-	3,840,095
Debt service	1,665	-	1,665
Total restricted	3,909,207	-	3,909,207
Unrestricted:			
Designated for auxiliaries	7,530,263	1,081,994	6,448,269
Designated for fund managers	1,976,577	-	1,976,577
Undesignated	7,418,535	9,170,798	(1,752,263)
Total unrestricted	16,925,375	10,252,792	6,672,583
Total net position	$ 81,753,934	$ 10,252,792	$ 71,501,142

13. RETIREMENT PLANS

Substantially all full-time employees of Fairmont State participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by Fairmont State employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

DEFINED BENEFIT PENSION PLAN

Some employees of Fairmont State are enrolled in a defined benefit pension plan, the STRS plan, which is administered by the CPRB.

13. RETIREMENT PLANS (CONTINUED)

As related to the implementation of GASB 68, following are Fairmont State's net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, revenues, and the pension expense and expenditures for the fiscal years ended June 30, 2018 and 2017:

STRS	2018	2017
Net pension liability	$ 748,485	$ 989,102
Deferred outflows of resources	120,626	219,262
Deferred inflows of resources	482,218	499,293
Revenues	160,486	167,233
Pension expense	95,537	138,720
Contributions made by Fairmont State	86,001	89,684

Plan Description

STRS is a multiple employer defined benefit cost-sharing public employee retirement system providing retirement benefits as well as death and disability benefits. It covers all full-time employees of the 55 county public school systems in the State of West Virginia (the State) and certain personnel of the 13 State-supported institutions of higher education, State Department of Education, and the Higher Education Policy Commission hired prior to July 1, 1991. Employees of the State-supported institutions of higher education and the Higher Education Policy Commission hired after June 30, 1991 are required to participate in the Higher Education Retirement System. STRS closed membership to new hires effective July 1, 1991.

STRS is considered a component unit of the State of West Virginia for financial reporting purposes, and, as such, its financial report is also included in the State of West Virginia's Comprehensive Annual Financial Report. STRS issues a publicly available comprehensive annual financial report that includes financial statements and required supplementary information for the plan. A copy of the report may be obtained from the STRS website at https://www.wvretirement.com/Publications.html#CAFR.

Benefits Provided

STRS provides retirement, death, and disability benefits. A member is eligible for normal retirement at age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. A member may retire with 30 years of credited service at any age with the pension reduced actuarially if the member retires before age 55. Terminated members with at least five but less than 20 years of credited service who do not withdraw their accumulated contributions are entitled to a deferred retirement commencing at age 62. Retirement benefits are equivalent to 2% of average annual salary multiplied by years of service. Average salary is the average of the five highest fiscal years of earnings during the last 15 fiscal years of earnings. Chapter 18, Article 7A of the West Virginia State Code assigns the authority to establish and amend the provisions of the plan, including contribution rates, to the State Legislature.

13. RETIREMENT PLANS (CONTINUED)

Contributions

The funding objective of the CPRB pension trust funds is to meet long-term benefit requirements through contributions, which remain relatively level as a percent of member payroll over time, and through investment earnings. Contribution requirements are set by the CPRB. A member who withdraws from service for any cause other than death or retirement may request that the accumulated employee contributions plus interest be refunded.

Member Contributions: STRS funding policy provides for member contributions based on 6% of members' gross salary. Contributions as a percentage of payroll for members and employers are established by State law and are not actuarially-determined.

Employer Contributions: Employers make the following contributions:

The State (including institutions of higher education) contributes:

- 15% of gross salary of their State-employed members hired prior to July 1, 1991;
- 15% of School Aid Formula (SAF) covered payroll of county-employed members;
- 7.5% of SAF covered payroll of members of the TDCRS;
- a certain percentage of fire insurance premiums paid by State residents; and
- under WV State code section 18-9-A-6a, beginning in fiscal year 1996, an amount determined by the State Actuary as being needed to eliminate the STRS unfunded liability within 40 years of June 30, 1994. As of June 30, 2018 and 2017, Fairmont State's proportionate share attributable to this special funding subsidy was $160,486 and $167,233, respectively.

Fairmont State's contributions to STRS for the years ended June 30, 2018, 2017, and 2016, were $86,001, $89,684, and $93,303, respectively.

Assumptions

The total pension liabilities for financial reporting purposes were determined by actuarial valuations as of July 1, 2016 and 2015 and rolled forward to June 30, 2017 and 2016, respectively. The following actuarial assumptions were used and applied to all periods included in the measurement:

- Actuarial cost method: Entry age normal cost with level percentage of payroll.
- Asset valuation method: Investments are reported at fair (market) value.
- Amortization method and period: Level dollar, fixed period over 40 years, from July 1, 1994 through fiscal year 2034.
- Investment rate of return: 7.50%, net of pension plan administrative and investment expenses.
- Projected salary increases: Teachers 3.00-6.00% and non-teachers 3.00-6.50%, based on age.
- Inflation rate: 3.0%.
- Discount rate: 7.5%.
- Mortality rates based on RP-2000 Mortality Tables.
- Withdrawal rates: Teachers 0.8-35% and non-teachers 1.316-24.75%.
- Disability rates: 0.008-0.704%.

13. RETIREMENT PLANS (CONTINUED)

- Retirement age: An age-related assumption is used for participants not yet receiving payments.
- Retirement rates: 15-100%.
- Ad hoc cost-of-living increases in pensions are periodically granted by the Legislature. However, the retirement system makes no automatic provision for such increases.

Experience studies are performed at least once in every five-year period. The most recent experience study covered the period from July 1, 2010 to June 30, 2015. These assumptions will remain in effect for valuation purposes until such time as the CPRB adopts revised assumptions.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension 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 percentage and by adding expected inflation. Best estimates of the long-term arithmetic real rates of return for each major asset class included in STRS' target asset allocation as of June 30, 2017 and 2016, are summarized below.

Asset Class	Long-term Expected Real Rate of Return	Target Allocation
Domestic equity	7.0%	27.5%
International equity	7.7%	27.5%
Core fixed income	2.7%	7.5%
High-yield fixed income	5.5%	7.5%
Real estate	7.0%	10.0%
Private equity	9.4%	10.0%
Hedge funds	4.7%	10.0%

Discount rate. The discount rate used to measure the total STRS pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that State contributions will continue to follow the current funding policy. Based on those assumptions, STRS' 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 STRS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the net pension liability to changes in the discount rate. The following presents Fairmont State's proportionate share of the STRS net pension liability as of June 30, 2018 and 2017 calculated using the discount rate of 7.50%, as well as what Fairmont State's STRS net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.50%) or one percentage point higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Current Discount Rate (7.50%)	1% Increase (8.50%)
Net pension liability 2018	$ 985,413	$ 748,485	$ 546,046
Net pension liability 2017	1,251,312	989,102	764,997

13. RETIREMENT PLANS (CONTINUED)

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

The June 30, 2018 STRS net pension liability was measured as of June 30, 2017, and the total pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to the measurement date of June 30, 2017. The June 30, 2017 STRS net pension liability was measured as of June 30, 2016, and the total pension liability was determined by an actuarial valuation as of June 30, 2015, rolled forward to the measurement date of June 30, 2016.

At June 30, 2018, Fairmont State's proportionate share of the STRS net pension liability was $2,403,703. Of this amount, Fairmont State recognized $748,485 as its proportionate share on the statement of net position. The remainder of $1,655,218 denotes Fairmont State's proportionate share of net pension liability attributable to the special funding.

At June 30, 2017, Fairmont State's proportionate share of the STRS net pension liability was $2,873,077. Of this amount, Fairmont State recognized $989,102 as its proportionate share on the statement of net position. The remainder $1,883,975 denotes Fairmont State's proportionate share of net pension liability attributable to the special funding.

The allocation percentage assigned to each participating employer and non-employer contributing entity is based on its proportionate share of employer and non-employer contributions to STRS for each of the fiscal years ended June 30, 2017 and 2016. Employer contributions are recognized when due. At the June 30, 2017 measurement date, Fairmont State's proportion was 0.021664%, a decrease of 0.002403% from its proportion of 0.024067% calculated as of June 30, 2016. At the June 30, 2016 measurement date, Fairmont State's proportion was 0.024067%, a decrease of 0.008613% from its proportion of 0.032680% calculated as of June 30, 2015.

For the year ended June 30, 2018, Fairmont State recognized STRS pension expense of $95,537. Of this amount, $(64,949) was recognized as Fairmont State's proportionate share of the STRS expense and $160,486 as the amount of pension expense attributable to special funding from a non-employer contributing entity. Fairmont State also recognized revenue of $160,486 for support provided by the State.

For the year ended June 30, 2017, Fairmont State recognized STRS pension expense of $138,720. Of this amount, $(28,513) was recognized as Fairmont State's proportionate share of the STRS expense and $167,233 as the amount of pension expense attributable to special funding from a non-employer contributing entity. Fairmont State also recognized revenue of $167,233 for support provided by the State.

13. RETIREMENT PLANS (CONTINUED)

At June 30, 2018 and 2017, deferred outflows of resources and deferred inflows of resources related to the STRS pension are as follows.

June 30, 2018	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 6,507	$ 13,334
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	445,357
Net difference between projected and actual investment earnings	-	23,527
Changes in assumptions	28,118	-
Contributions after the measurement date	86,001	-
Total	$ 120,626	$ 482,218

June 30, 2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ 9,055	$ 5,777
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	493,516
Net difference between projected and actual investment earnings	81,398	-
Changes in assumptions	39,125	-
Contributions after the measurement date	89,684	-
Total	$ 219,262	$ 499,293

Fairmont State will recognize the $86,001 reported as deferred outflows of resources resulting from pension contributions after the measurement date as a reduction of the STRS net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in STRS pension expense as follows:

Fiscal Year Ended June 30,	Amortization
2019	$ (148,789)
2020	(105,726)
2021	(92,351)
2022	(83,991)
2023	(16,736)
	$ (447,593)

13. RETIREMENT PLANS (CONTINUED)

Payables to the Pension Plan

Fairmont State did not report any amounts payable for normal contributions to the STRS as of June 30, 2018 and 2017.

DEFINED CONTRIBUTION BENEFIT PLANS

The TIAA-CREF and Educators Money are defined contribution benefit plans in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in these plans are required to make a contribution equal to 6% of total annual compensation for the years ended June 30, 2018, 2017, and 2016. Fairmont State matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF and Educators Money, which are not matched by Fairmont State.

Total contributions to the TIAA-CREF for the years ended June 30, 2018, 2017, and 2016, were $2,587,194, $2,599,184, and $2,533,362, respectively, which consisted of equal contributions from Fairmont State and covered employees of $1,293,597, $1,299,592, and $1,266,681, respectively.

Total contributions to Educators Money for the years ended June 30, 2018, 2017, and 2016, were $151,264, $138,924, and $131,098, respectively, which consisted of equal contributions from Fairmont State and covered employees of $75,632, $69,462, and $65,549, respectively.

Fairmont State's total payroll for the year ended June 30, 2018, was $26,678,140, and total covered employees' salaries in the Educators Money, STRS, and TIAA-CREF were $1,260,541, $576,374, and $21,559,945, respectively.

Fairmont State's total payroll for the year ended June 30, 2017, was $26,299,624, and total covered employees' salaries in the Educators Money, STRS, and TIAA-CREF were $1,157,700, $597,892, and $21,659,865, respectively.

Fairmont State's total payroll for the year ended June 30, 2016, was $26,431,773, and total covered employees' salaries in the Educators Money, STRS, and TIAA-CREF were $1,092,481, $622,017, and $21,114,075, respectively.

14. EARLY RETIREMENT INCENTIVE PLAN

Fairmont State's BOG approved an Early Retirement Incentive Plan, made effective in August 2014 for those employees who elected to participate. Eligible faculty and staff members elected to participate in the plan during a specified period of time. In total, 22 Fairmont State faculty and staff members elected to participate and began the severance period on August 17, 2014. The severance dates extend to July 1, 2017 for a limited number of employees. Employees with 25 years of benefit-eligible service and any combination of age, for a total of 85 years or greater, qualified for 100% of their current base salary to be paid over a two-year period. Qualifying faculty and staff members with 15 to 24 years of benefit-eligible service qualify for a pro-rated amount of their current base salary to be paid over a two-year period. During fiscal years 2018 and 2017, Fairmont State paid benefits of the plan in the amounts of $123,218 and $439,877, respectively. Fairmont State's liability to employees who elected to participate in the plan is $0 and $123,218 at June 30, 2018 and 2017, respectively. Fairmont State intends to use estimated budget savings to offset the cost of the plan and estimates that realized savings to cover the cost of the plan will be achieved by June 30, 2019.

15. FAIRMONT STATE FOUNDATION, INC.

The Fairmont State Foundation, Inc. (the Foundation) is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of Fairmont State and Pierpont and their affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 26 members, including the President of Fairmont State as a nonvoting ex-officio member. In carrying out its responsibilities, the board of directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. The economic resources of the Foundation do not entirely benefit Fairmont State. Since Pierpont was part of Fairmont State for many years, the Foundation has obtained resources designated for Pierpont's programs and/or students. The Foundation currently supports both Fairmont State and Pierpont, and there is no specific allocation plan at this time. Fairmont State's endowments are under the control and management of the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements because it is not entirely or almost entirely for the benefit of Fairmont State.

The Foundation's assets totaled $30,585,984 and $29,098,678 at June 30, 2018 and 2017, with net assets of $30,558,811 and $29,061,200, respectively. Gifts, grants, and bequests to the Foundation totaled $2,206,785 and $4,565,734 in fiscal years 2018 and 2017, respectively.

Total funds expended by the Foundation in support of Fairmont State activities totaled $2,419,960 and $1,869,434 during 2018 and 2017, respectively.

16. AFFILIATED ORGANIZATIONS AND OTHER STATE AGENCIES

Fairmont State has a separately incorporated affiliated organization, the Fairmont State Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with Fairmont State. Accordingly, the financial statements of this organization are not included in Fairmont State's accompanying financial statements under the blended component unit requirements. It is not included in Fairmont State's accompanying financial statements under the discretely presented component unit requirements as (1) it is not material, and (2) it has dual-purposes (i.e. not entirely or almost entirely for the benefit of Fairmont State).

In addition to the relationships and transactions previously described, Fairmont State receives funding or grants from and provides services to other state agencies, and utilizes services, supplies, and equipment provided by other state agencies. Amounts due from and due to other state agencies at June 30, are as follows:

	2018	2017
Due from:		
WVNET	$ 34,868	$ -
Department of Education	-	121,583
	$ 34,868	$ 121,583
Due to:		
WVNET	$ 3,709	$ 3,709
State Tax Department	-	667
Attorney General	-	80
State Treasurer's Office	2,682	4,044
PEIA	-	30,037
Department of Administration	-	211
	$ 6,391	$ 38,748

17. RELATED-PARTY TRANSACTIONS

Fairmont State and Pierpont enter into an annual contractual agreement to establish the contractual services that will be provided by both institutions. These contract services are referred to as chargeback services and occur from each institution to the other. The definition of a chargeback service is a service provided from teaching, administrative, academic support, student services, and physical plant support areas of Fairmont State to Pierpont or vice versa. Chargeback services costs range from teaching services to everyday upkeep of the facilities. The chargeback agreement also provides for the transfer of auxiliary, capital, and student activity fee revenues from the institution in which the student is enrolled to the fund from which the operating, capital, and debt service expenditures will be paid. These transfers are primarily pledged revenues to bond funds and are required by bond covenants. A contractual agreement may be negotiated for services to be provided until the governing boards of both institutions mutually agree to end the contract agreement. Currently, a chargeback agreement for fiscal year 2019 has been negotiated and approved by the Boards of Governors of both Fairmont State and Pierpont. Additional information regarding these transactions may be found in the Component Parts Financial Data section of the Note to Schedules.

17. RELATED-PARTY TRANSACTIONS (CONTINUED)

As Pierpont begins to independently provide previously shared services, the services charged back to each institution will continue to decrease. Currently, a chargeback agreement for fiscal year 2019 has been negotiated and approved by the Boards of Governors of both Fairmont State and Pierpont. The fiscal year 2019 agreement reduces all operating and support service expenses to Fairmont State University and also reduces the level of these same expenses to Pierpont. Pierpont is planning to establish an independent instance of Banner, the enterprise resource planning (ERP) software commonly used by higher education institutions for financial reporting, human resources, financial aid, and other tracking and reporting, which has historically been shared with Fairmont State. Related to the launch of its own instance of Banner, Pierpont will be establishing independent student services, financial aid, and business office operations. Pierpont's target date for independent operations is the beginning of fiscal year 2020. Most of the contract services referred to as "chargeback" services for teaching, administration, academic support, and student services will cease to exist during fiscal year 2020, as Pierpont employees will provide these services directly. As long as Fairmont State and Pierpont continue to share a campus, physical plant, library, and network support will continue to be provided to Pierpont through a chargeback agreement or through a new service agreement. These changes will require some level of modification to the current Separation of Assets and Liabilities Agreement, which references the chargeback, or the replacement of this agreement with a similar document that addresses these services and continued auxiliary and capital fee support as required by the bond indentures. Additional information regarding these transactions may be found in the Component Parts Financial Data section of the Note to Schedules.

Fiscal year 2018 and 2017 transactions associated with the chargeback agreement are as follows:

	2018	2017
Revenues:		
Student activity support revenue	$ 85,660	$ 68,676
Auxiliary support service revenue	582,855	576,862
Faculty services revenue	224,387	248,234
Operating costs revenue	1,534,349	1,624,082
Support services revenue	1,782,681	1,905,764
E&G capital and debt service support revenue	577,903	608,427
Expenses:		
Assessment for faculty services	199,231	293,445
Assessment for operating costs	58,548	64,291
Assessment for support services	173,619	185,530
Assessment for E&G capital and debt service costs	645,871	703,356

Fairmont State does not show any expense for auxiliary support services due to its ownership of the auxiliaries.

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT

House Bill 3215, effective July 1, 2008, provided for a separate governing board for Pierpont. This legislation defines a statewide network of independently-accredited community and technical colleges and required the newly established Pierpont Board of Governors and Fairmont State Board of Governors to jointly agree on a division of assets and liabilities. This agreement was executed on December 15, 2009, and was effective retroactively to July 1, 2009. The legislation requires a separate financial statement audit for Pierpont effective for fiscal year 2010 and all years thereafter.

The Board of Governors of Fairmont State University and the Board of Governors of Pierpont Community & Technical College recognize the historical association between the two institutions and the benefit of collaboration to the students. The preamble to the Separation of Assets and Liabilities Agreement that supports these statements reads as follows:

"The Board of Governors of Fairmont State University (BOG-FSU) and the Board of Governors of Pierpont Community and Technical College (BOG-PCTC) jointly endeavor to separate assets and liabilities in accordance with the provisions of HB3215, 2008. Despite the legal separation of the two institutions, the BOG-FSU and the BOG-PCTC wish to maintain the collaborative and cooperative spirit that has characterized the historical relationship between the University and the College.

The BOG-FSU and the BOG-PCTC recognize the historical association between the two institutions. The institution that is today Pierpont Community and Technical College grew from and was sponsored by Fairmont State University. Both institutions have been and, for the foreseeable future, will be co-located on a single campus in Fairmont, West Virginia. Both institutions have proportionally coordinated, shared, and paid for instructional services, course schedules, facilities, information systems, admissions processes, auxiliary functions, housing, debt service, development and advancement services, student activities and programs, and all the other resources necessary to deliver a high-quality postsecondary education experience.

Students have benefited and will continue to benefit from the relationship between Fairmont State University (FSU) and Pierpont Community and Technical College (PCTC). Those benefits include a wider range of instructional programs than would be available through an individual institution's offerings; a lower cost of attendance realized from shared institutional infrastructure and reduced duplication of facilities, personnel, and services; and a more diverse mix of student backgrounds, interests, experiences, abilities, and ambitions.

Although the BOG-FSU and the BOG-PCTC recognize the necessity of separation of assets and liabilities, both pledge themselves to continuing, fostering, and promoting collaborative and cooperative relationships between the two institutions. Such relations respect the historical association that has existed between FSU and PCTC. Such relations are to the benefit and best interest of the students at both institutions. Such relations recognize the proportional participation in institutional operations. Such relations recognize that the two institutions have been, are, and will be co-located on one site. Such relations demonstrate responsible stewardship of public resources by achieving efficiencies and synergies that would otherwise not be possible. Therefore, the Board of Governors of Fairmont State University and the Board of Governors of Pierpont Community and Technical College incorporate into their agreement to separate assets and liabilities this pledge of perpetual cooperation and collaboration."

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

With both Fairmont State and Pierpont Boards of Governors promoting collaboration, the Separation of Assets and Liabilities Agreement was executed to comply with the guidelines established through West Virginia Legislation as stated in the agreement as follows:

*"**WHEREAS**, West Virginia Code - §18B-2A-7a(e)(2008 supp.) states "For purposes of generating audited financial statements for inclusion in the higher education fund and state single audits, the division of all assets and liabilities shall be effective retroactively to the first day of July, two thousand nine."*

and

***WHEREAS**, West Virginia Code — §18B-2A-7a(2008 supp.) states as follows:*

"(g) Each former sponsoring institution and community and technical college shall enter into a comprehensive agreement to address the division of assets and liabilities and the allocation of revenues and expenditures between former sponsoring institutions and newly independent community and technical colleges.

(h) Absent manifest injustice as determined jointly by the Council and Commission, the following general principles apply to the division of assets and liabilities and allocation of revenues and expenditures between former sponsoring institutions and the newly independent community and technical colleges:

(1) For accounting purposes, the institution that assumes responsibility for any asset also shall assume responsibility for any associated liabilities.

(2) Although one institution may assume responsibility for an asset and associated liabilities for accounting purposes, both institutions shall agree on their respective responsibilities for reducing and ultimately eliminating the liability over time if the asset was originally acquired and/or is being used for the benefit of both institutions.

(A) Any agreement to allocate system and institutional educational and general and auxiliary debt service payments shall be consistent with the provisions of all applicable bond covenants.

(B) Absent a controlling bond covenant or other agreement, debt service payments associated with bond indebtedness presumptively shall be allocated based on the relative full-time equivalent student enrollment of the two institutions either as a whole or on the campus where the asset is located and may be adjusted annually to reflect enrollment changes at the two institutions.

(3) The institutions shall agree to allocate educational and auxiliary capital fees in excess of those needed to cover bonded indebtedness to ensure that assets of both institutions are maintained in proper repair and that the institutions assume responsibility for a reasonable share of the total costs of maintaining the facilities.

(4) The institutions shall develop a plan that ensures the financial stability of auxiliary enterprises, including but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year two thousand twelve.

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

(A) If community and technical college students pay a mandatory athletics fee for the benefit of a sponsoring institution, but receive no direct benefit from that fee, the community and technical college may phase out that fee over a five-year period.

(B) *If certain community and technical college students were required to live in institution housing consistent with rules or policies in effect on the effective date of this section, the former sponsoring institution may continue to require these students to live in institution housing for at least one year."*

The Agreement also provides specific language in relation to outstanding bond indebtedness.

On June 12, 2012, Fairmont State, in conjunction with Pierpont, issued Revenue Refunding Bonds, Series 2012A in the principal amount of $20,165,000 and Revenue Refunding Bonds, Series 2012B in the principal amount of $30,160,000. Pierpont Board of Governors signed the Bond Indenture to evidence its agreement to certain covenants contained in the Indenture, which are applicable to Pierpont and to the pledge of fees imposed by it. The Official Statement for the bonds states "*Pierpont is obligated to pay a portion of the debt service on the Series 2012 Bonds pursuant to a Separation of Assets and Liabilities Agreement, dated December 15, 2009, by and between the Issuer and Pierpont.*"

The Official Statement provides information to further explain the Separation of Assets Agreement and the application of it to all existing and future bond covenants.

Therefore, the Agreement pertains to the following current outstanding bond indebtedness:

(A) *Revenue Refunding Bonds 2012, Series A and Revenue Refunding Bonds 2012, Series B* - On June 12, 2012, Fairmont State, in conjunction with Pierpont, issued Revenue Refunding Bonds Series A and Revenue Refunding Bonds Series B (the 2012 Bonds) amounting to $20,165,000 and $30,160,000, respectively. The 2012A Bonds were issued to (1) currently refund in full the outstanding 2002A and 2002B Bonds, and (2) pay the costs of issuance of the Series 2012A Bonds and related costs. The 2012 Bonds were issued to (1) advance refund in full the outstanding 2003A and 2003B Bonds, and (2) pay the costs of issuance of the Series 2012B Bonds and related costs.

(B) Fairmont State Board of Governors Subordinate Facilities Improvement Revenue Bonds, Series 2006 (the Series 2006 Bonds; the Series 2002A Bonds, the Series 2002B Bonds, the Series 2003A Bonds, the Series 2003B Bonds, and the Series 2006 Bonds are hereinafter referred to together as the Bonds), issued in the principal amount of $8,500,000 pursuant to a bond authorizing resolution adopted on May 3, 2006 (as supplemented and amended, the 2006 Resolution; the 2002A Indenture, the 2002B Indenture, the 2003A Indenture, the 2003B Indenture, and the 2006 Resolution, together with the other documents authorizing, securing or otherwise relating to the Bonds, are hereinafter referred to together as the Bond Documents), and outstanding in the principal amount of $4,160,041 and $4,640,667 as of June 30, 2018 and 2017, respectively.

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

The agreement further states the following with regard to bond indebtedness:

"WHEREAS*, in addition to the statutory requirements described above, the Bond Documents define the College or University to include any successor thereto and, as such, bind both FSU and PCTC, and both FSU and PCTC have copies of the Bond Documents.*

and

WHEREAS*, the Bond Documents set forth controlling bond covenants and require pledged revenues, and the intent of this document is to adhere to all existing and future bond covenants."*

The Boards of Governors of Fairmont State and Pierpont agreed to the following terms for Separation of Assets and Liabilities to comply with the above stated West Virginia State Code and bond covenants:

"Education and General Equipment Assets:

1. *Equipment assets regardless of whether they are charged back, whether they be presently owned or purchased in the future by either the FSU or the PCTC will be owned by the institution that the equipment was intended for and reflected on the appropriate institution's equipment schedule.*

Education and General Buildings and Infrastructure:

2. *All capital and infrastructure fees assessed to both FSU and PCTC students for the purpose of paying E&G building and infrastructure bonds, and provide for repair and renovation of same, continue to be collected under the terms outlined in the bond covenants.*

3. *All E&G Capital Fee Revenue and Infrastructure Capital Fee Revenue in excess of bond payments will be used for repair and renovation projects. When sufficient E&G and Infrastructure Capital excess revenues are available to bond for additional new capital project improvements, the E&G, and Infrastructure Capital Fees will be utilized and/or retained for that specific purpose. Both the FSU and the PCTC assume a shared responsibility proportionate to the full-time equivalent (FTE) enrollment of each institution for the total cost of maintaining the facilities.*

4. *Joint ownership of the E&G and Infrastructure Capital Assets and Liabilities shall be reflected on each Institution's Financial Statements at the end of each year. The percentage of ownership of assets and liabilities will be assigned and based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years.*

5. *All land assets will be owned by FSU and land deeds will stay in the name of FSU Board of Governors.*

6. *Should either institution, after paying off all E&G and Auxiliary bond debt, upon proper acknowledgement of its ongoing obligations under existing bond covenants, decide to build and move its own campus, that institution agrees to sell its ownership rights to the E&G building assets to the other institution at an agreed upon price.*

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

7. *All new capital projects that are provided to FSU and PCTC through state appropriations, bonding and/or student capital fee initiatives, that add to the joint ownership of assets and liabilities on a shared campus, will be assigned proportionately based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years. Any capital project designated to only FSU or only to PCTC and not located on a shared campus will be added to the assets and liabilities of the institution to which the capital project is specified.*

Auxiliary Enterprises:

1. *Assets and related liabilities of the Auxiliary Enterprises (Athletics, Bookstore, Conference Center, Convenience Store, Copy Center, Facilities [Parking & Security], Housing, and Recreation Center) are owned by FSU and all students of both FSU and PCTC who attend class on the main campus and/or pay user fees will have access to these facilities and activities.*

2. *All auxiliary-related student fees approved by the FSU BOG and the PCTC BOG and the Higher Education Policy Commission and the Community and Technical College Council, for the operation, debt service, and repair and maintenance of auxiliary enterprise facilities will be dedicated and provided to those specific Auxiliary Funds for appropriate indicated purposes. All Auxiliary net revenues annually are designated to support future costs of the auxiliary enterprise fund(s) and are managed by FSU for the benefit of each auxiliary enterprise.*

3. *Auxiliary Enterprise Bond Covenant obligations of FSU and PCTC will be met by continuing to honor the requirements stipulated in those covenants, and both FSU and PCTC students will be required to pay the fees stipulated in all Bond Document covenants.*

4. *FSU is responsible for managing the operation of the Auxiliary Enterprises, and maintaining the Auxiliary facilities in good repair.*

5. *All capital projects for the Auxiliary Enterprises will be approved by the FSU BOG.*

6. *Scholarship dollars provided from the non-athletic auxiliary enterprise funds will be allocated proportionately to FSU and PCTC students based on the percentage (%) of student fee contributions made to these funds from the respective FSU and PCTC students.*

The agreement further specifies the methodology for the assignment of bond debt as follows:

"The Bond Debt assigned to each institution's balance sheet for E&G facilities is allocated based on the average of the past ten (10) years of credit hour enrollments. This average allocated 65.66% of the debt to FSU and 34.34% to the PCTC as of July 1, 2009. The assignment of debt for the Auxiliary facilities will be with the FSU since the FSU will own the assets. However, the PCTC students will continue to pay all Auxiliary fees based on the requirements of those bonds. The allocation of Bond Debt by this Agreement does not affect the obligation of both FSU and PCTC to the bondholders to pay the principal of and interest on the Bonds as the same come due."

As of June 30, 2018, the average allocated 67.84% of the debt to Fairmont State and 32.16% of the debt to Pierpont. As of June 30, 2017, the average allocated 67.16% of the debt to Fairmont State and 32.84% of the debt to Pierpont.

18. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

The Series 2012A and Series 2012B continuing disclosure agreement provides for disclosure of annual financial information to the Trustee and bond-rating agencies. This information includes the audited financial statements of Fairmont State and the audited financial statements of Pierpont. The Series 2015A Bonds also require continuing disclosure; however, they were issued by Fairmont State, and fees imposed by Pierpont do not secure the 2015A Bonds.

The financial statements have been prepared to comply with the Separation of Assets and Liabilities Agreement.

19. CONTINGENCIES

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

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2018 and 2017, respectively.

Fairmont State owns various buildings that are known to contain asbestos. Fairmont State is not required by federal, state, or local laws to remove the asbestos from its buildings. Fairmont State is required by federal environmental, health, and safety regulations to manage the presence of asbestos in its buildings in a safe condition. Fairmont State addresses its responsibility to manage the presence of asbestos in its buildings on a case-by-case basis. Significant problems of dangerous asbestos conditions are abated as the conditions become known. Fairmont State also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing, or operating with the asbestos in a safe condition.

20. SERVICE CONCESSION AGREEMENTS

Fairmont State has adopted GASB Statement No. 60. Fairmont State has identified two contracts for services that meet the four criteria of a Service Concession Agreement (SCA). An SCA is defined as a contract between a government and an operator, another government, or a private entity, in which the operator provides services, the operator collects and is compensated by fees from third parties, the government still has control over the services provided, and the government retains ownership of the assets at the end of the contract. The contracts are with Aladdin Food Management Services, LLC (Aladdin) and Follett Higher Education Group (Follett). The management of Fairmont State entered into these agreements to improve the quality of the services to students while increasing the revenues from these operations to support the Falcon Center operating budget.

20. SERVICE CONCESSION AGREEMENTS (CONTINUED)

In the agreement with Aladdin that was effective on July 1, 2008, Fairmont State granted to Aladdin the exclusive right to provide food products and nonalcoholic beverages at its food service facilities. Aladdin provides food service in the Falcon Center, Nickel Snack Bar, Conference Center, Coffee Shop, Cafeteria, concessions, soda, snack, and food vending at mutually agreed-upon locations for Fairmont State. Aladdin operates the food service operation under a contract fee agreement. Aladdin is paid a fixed administrative fee that increases 5% per year. Aladdin provides vendor contract revenues to Fairmont State based on contractual agreement. The vendor contract revenue from Aladdin in fiscal years 2018 and 2017 were $964,449 and $1,060,907, respectively. Aladdin also provides $75,000 annually to Fairmont State and Pierpont during the term of the agreement for student scholarships. The scholarships are split between Fairmont and Pierpont based on FTE.

The bookstore operating agreement was entered into on April 14, 2011 between Fairmont State and Follett. The agreement is for Follett to operate a bookstore for Fairmont State. The contract is for a period of 10 years and may be renewed if both parties agree. Fairmont State will cover the cost of store remodeling as required by Follett in order to properly operate and prepare store premises for business up to $50,000 over the term of the agreement. Follett pays commission to Fairmont State based on the contractual agreement. Follett provided vendor contract revenues to Fairmont State in fiscal year 2018 and 2017 in the amount of $212,893 and $258,942, respectively. In addition to the commission, Follett pays rent of $60,000 per year in monthly installments for rental of the space in the Falcon Center. Follett also provides $15,000 annually to Fairmont State and Pierpont during the term of the agreement for student scholarships. The scholarships are split between Fairmont and Pierpont based on FTE.

21. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors of Fairmont State (formerly Fairmont State College), Fairmont State issued revenue bonds to finance certain of their auxiliary enterprise and facilities improvement activities. Investors in the auxiliary bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment. The Board of Governors of Fairmont State recognizes that it is bound by all bond covenants and is legally obligated for the bond debt payments. The facilities improvement bonds are special obligations of Fairmont State and payable from system fees held under the Indenture.

The Separation of Assets and Liabilities Agreement between the Boards of Governors of Fairmont State and Pierpont binds both Fairmont State and Pierpont to the debt obligation and is stated as:

"WHEREAS, in addition to the statutory requirements described above, the Bond Documents define the College or University to include any successor thereto and, as such, bind both FSU & PCTC, and both FSU & PCTC have copies of the Bond Documents."

Descriptive information for each of Fairmont State's segments is shown below:

a. *Revenue Refunding Bonds 2012, Series A and Revenue Refunding Bonds 2012, Series B*

On June 12, 2012, Fairmont State, in conjunction with Pierpont, issued Revenue Refunding Bonds Series A and Revenue Refunding Bonds Series B (the 2012 Bonds) amounting to $20,165,000 and $30,160,000, respectively. The 2012A Bonds were issued to (1) currently refund in full the outstanding 2002A and 2002B Bonds and (2) pay the costs of issuance of the Series 2012A Bonds and related costs. The 2012B Bonds were issued to (1) advance refund in full the outstanding 2003A and 2003B Bonds and (2) pay the costs of issuance of the Series 2012B Bonds and related costs.

21. SEGMENT INFORMATION (CONTINUED)

The 2012A Bonds outstanding consist of $9,080,000 serial bonds with varying interest rates from 2% to 5%, which mature serially through June 1, 2027, and term bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 2,430,000	June 1, 2029	3.600%
$ 4,035,000	June 1, 2032	3.450%

The 2012B Bonds outstanding consist of $13,580,000 serial bonds with varying interest rates from 2% to 5%, which mature serially through June 1, 2027, and term bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 1,000,000	June 1, 2032	3.450%
$ 8,650,000	June 1, 2032	4.080%

Fairmont State and Pierpont have fixed, and will maintain, just and equitable rules, regulations, rents, charges, and fees for the use and occupancy of apartments, housing and parking facilities, and the student activities center. Fairmont State and Pierpont must fix rents, charges, and fees to produce revenues from these sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created under the Indenture, and such schedule of rents, charges, and fees shall be revised from time to time to provide for all reasonable operating expenses and provide gross operating revenues equal to at least 100% of maximum annual debt service for the 2012 Bonds and the 2015 Bonds combined. For the years ended June 30, 2018 and 2017, Fairmont State and Pierpont had gross revenues, as defined by the Indenture, that approximated 221% and 225% of the maximum annual debt service, respectively.

b. *Board of Governors of Fairmont State, Facilities Improvement Revenue Bonds, 2006 Series*

On May 9, 2006, Fairmont State issued Facilities Improvement Revenue Bonds (the 2006 Bonds) amounting to $8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus, including, but not limited to, a technology wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Boards, and (2) pay the costs of issuance of the 2006 Bonds and related costs.

The 2006 Bonds outstanding are $4,160,041 at June 30, 2018. The 2006 Bonds incurred interest at the rate of 4.18% until (but not including) May 1, 2016. On May 1, 2016, the interest rate on the 2006 Bonds automatically adjusted to the reset rate of 1.74% and shall bear the reset rate from May 1, 2016 to maturity.

21. SEGMENT INFORMATION (CONTINUED)

c. *Board of Governors of Fairmont State, Facilities Construction Revenue Bonds, 2015A Series*

On April 7, 2015, Fairmont State issued Facilities Construction Revenue Bonds Series A (the 2015A Bonds) amounting to $30,200,000. The 2015A Bonds were issued to (1) finance the costs of planning, designing, constructing, acquiring, and equipping new student housing facilities; (2) provide payment of capitalized interest on the Series 2015 Bonds; (3) reimburse certain previously incurred expenditures related to the 2017 Project; and (4) pay the costs of issuance of the Series 2015 Bonds and related costs.

The 2015A Bonds outstanding consist of $9,450,000 serial bonds with varying interest rates from 1.75% to 5.00%, which mature serially from June 1, 2017 to June 1, 2030, and term bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 2,045,000	June 1, 2032	3.500%
$ 3,345,000	June 1, 2035	3.625%
$ 14,180,000	June 1, 2045	3.750%

Fairmont State has pledged all university fees as defined in the Indenture. University fees are the amounts remaining from the system fees after Fairmont State and Pierpont have (1) fulfilled their obligations with respect to the Commission bonds during each six-month period and (2) fulfilled their debt obligations of the Series 2006 bonds. All remaining university fees are allocated for the repair and replacement of the facilities financed with the system bonds.

Condensed financial information for each of Fairmont State’s segments as of and for the years ended June 30, 2018 and 2017 follows:

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

	2018	
	Facilities Improvement Bonds 2006, As of/Year Ended June 30, 2018	**Revenue Refunding Bonds 2012 and Housing Construction Bonds 2015 As of/Year Ended June 30, 2018**
CONDENSED SCHEDULE OF NET POSITION		
Assets:		
Current assets	$ -	$ 11,353,785
Noncurrent and capital assets	6,264,657	76,604,006
Total assets	6,264,657	87,957,791
Deferred outflows of resources	-	981,260
Liabilities:		
Current liabilities	(501,089)	(3,402,820)
Noncurrent liabilities	(3,671,016)	(66,967,764)
Total liabilities	(4,172,105)	(70,370,584)
Net position:		
Net investment in capital assets	2,092,552	9,330,468
Restricted/expendable	-	9,237,999
Total net position	$ 2,092,552	$ 18,568,467
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ -	$ 11,926,119
Operating expenses	-	(6,372,111)
Operating income	-	5,554,008
Net nonoperating revenues (expenses)	482,020	(2,524,958)
Depreciation	(262,480)	(1,941,979)
Increase (decrease) in net position	219,540	1,087,071
Net position — beginning of year	1,873,012	17,481,397
Net position — end of year	$ 2,092,552	$ 18,568,468
CONDENSED SCHEDULE OF CASH FLOWS		
Net cash provided by operating activities	$ 559,292	$ 3,102,562
Net cash used in capital and related financing activities	(559,292)	(5,245,413)
Net cash provided by investing activities	-	133,979
Increase (decrease) in cash and cash equivalents	-	(2,008,872)
Cash and cash equivalents — beginning of year	-	10,526,702
Cash and cash equivalents — end of year	$ -	$ 8,517,830

Note 1: Segment information may include assets, liabilities, revenue, and expenses that are also contained in Pierpont's financial statements.
Note 2: Pursuant to debt service requirements, the activities of the 2012 Series and 2015 Series Bonds have been combined for segment reporting.

	2017	
	Facilities Improvement Bonds 2006, As of/Year Ended June 30, 2017	Revenue Refunding Bonds 2012 and Housing Construction Bonds 2015 As of/Year Ended June 30, 2017
CONDENSED SCHEDULE OF NET POSITION		
Assets:		
Current assets	$ -	$ 12,103,934
Noncurrent and capital assets	6,527,137	79,130,186
Total assets	6,527,137	91,234,120
Deferred outflows of resources	-	1,051,489
Liabilities:		
Current liabilities	(494,084)	(4,877,916)
Noncurrent liabilities	(4,160,041)	(69,926,296)
Total liabilities	(4,654,125)	(74,804,212)
Net position:		
Net investment in capital assets	1,873,012	8,675,749
Restricted/expendable	-	8,805,648
Total net position	$ 1,873,012	$ 17,481,397
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 559,292	$ 12,112,919
Operating expenses	-	(6,959,917)
Operating income	559,292	5,153,002
Net nonoperating revenues (expenses)	(85,551)	(6,030,897)
Depreciation	(262,480)	(2,418,313)
Increase (decrease) in net position	211,261	(3,296,208)
Net position — beginning of year	1,661,751	20,777,605
Net position — end of year	$ 1,873,012	$ 17,481,397
CONDENSED SCHEDULE OF CASH FLOWS		
Net cash provided by operating activities	$ 559,292	$ 2,759,294
Net cash used in capital and related financing activities	(559,292)	(11,673,338)
Net cash provided by investing activities	-	89,752
Increase (decrease) in cash and cash equivalents	-	(8,824,292)
Cash and cash equivalents — beginning of year	-	19,350,994
Cash and cash equivalents — end of year	$ -	$ 10,526,702

Note 1: Segment information may include assets, liabilities, revenue, and expenses that are also contained in Pierpont’s financial statements.
Note 2: Pursuant to debt service requirements, the activities of the 2012 Series and 2015 Series Bonds have been combined for segment reporting.

FAIRMONT STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

22. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2018 and 2017, are represented as follows:

2018

	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Assessment for Faculty Services	Assessment for Operating Costs	Assessment for Support Services	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 3,088,207	$ 733,750	$ 3,139,094	$ 1,247,025	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 8,208,076
Instruction	13,657,726	3,112,666	2,201,234	2,437	7,269	-	199,231	49,718	125,165	-	-	19,355,446
Research	67,633	6,100	39,603	-	-	-	-	-	-	-	-	113,336
Public service	405,455	69,252	384,326	-	7,690	-	-	-	-	-	-	866,723
Academic support	2,356,661	616,863	1,100,462	-	-	-	-	8,830	48,454	-	-	4,131,270
Student services	3,069,294	803,884	1,269,343	-	1,645	-	-	-	-	-	-	5,144,166
General institutional support	2,668,157	844,609	1,955,100	1,368	-	-	-	-	-	-	179,715	5,648,949
Student financial aid	185,275	38,235	1,118	-	5,492,200	-	-	-	-	-	-	5,716,828
Operation and maintenance	1,217,035	402,586	2,018,211	1,514,334	-	-	-	-	-	-	-	5,152,166
Depreciation	-	-	-	-	-	4,534,488	-	-	-	-	-	4,534,488
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	259,270	-	259,270
TOTAL	$ 26,715,443	$ 6,627,945	$ 12,108,491	$ 2,765,164	$ 5,508,804	$ 4,534,488	$ 199,231	$ 58,548	$ 173,619	$ 259,270	$ 179,715	$ 59,130,718

2017

	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Assessment for Faculty Services	Assessment for Operating Costs	Assessment for Support Services	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 3,068,114	$ 668,537	$ 4,366,107	$ 1,214,732	$ 4,701	$ -	$ -	$ -	$ -	$ -	$ -	$ 9,322,191
Instruction	12,974,037	3,172,791	2,325,699	3,851	4,407	-	293,445	55,651	97,062	-	-	18,926,943
Research	47,804	2,850	38,347	-	-	-	-	-	-	-	-	89,001
Public service	384,838	87,911	321,061	-	14,400	-	-	-	-	-	-	808,210
Academic support	2,132,994	533,731	1,432,718	-	1,000	-	-	8,640	88,468	-	-	4,197,551
Student services	3,021,570	826,811	1,478,692	-	16,530	-	-	-	-	-	-	5,343,603
General institutional support	3,275,132	1,116,886	2,070,371	1,249	-	-	-	-	-	-	175,702	6,639,340
Student financial aid	224,486	35,960	39,036	-	6,842,949	-	-	-	-	-	-	7,142,431
Operation and maintenance	1,267,445	411,867	2,215,141	1,524,892	-	-	-	-	-	-	-	5,419,345
Depreciation	-	-	-	-	-	4,339,911	-	-	-	-	-	4,339,911
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	660,333	-	660,333
TOTAL	$ 26,396,420	$ 6,857,344	$ 14,287,172	$ 2,744,724	$ 6,883,987	$ 4,339,911	$ 293,445	$ 64,291	$ 185,530	$ 660,333	$ 175,702	$ 62,888,859

ADDITIONAL INFORMATION

SCHEDULE OF NET POSITION INFORMATION
JUNE 30, 2018

ALL FUNDS	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Internal Fund Eliminations	Total Institution
ASSETS AND DEFERRED OUTFLOWS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 3,921,161	$ 9,851,382	14,221,032	$ -	$ 27,993,575
Accounts receivable — net	22,048	317,486	2,136,894	(780,709)	1,695,719
Due from Pierpont for debt service — current portion	244,881	-	-	-	244,881
Loans to students — current portion	-	-	-	-	-
Inventories	-	-	155,893	-	155,893
Other current assets	-	-	52,266	-	52,266
Total current assets	4,188,090	10,168,868	16,566,085	(780,709)	30,142,334
NONCURRENT ASSETS:					
Cash and cash equivalents	857	-	-	-	857
Due from Pierpont for debt service	2,605,652	-	-	-	2,605,652
Other noncurrent assets	-	22,799	349,140	-	371,939
Capital assets — net	45,815,606	80,467,583	7,257,852	-	133,541,041
Total noncurrent assets	48,422,115	80,490,382	7,606,992	-	136,519,489
DEFERRED OUTFLOWS OF RESOURCES:					
Deferred outflows relating to net pension liability	-	-	120,626	-	120,626
Deferred outflows relating to net OPEB liability	-	83,155	744,840	-	827,995
Deferred loss on refunding	88,209	879,776	13,275	-	981,260
Total deferred outflows of resources	88,209	962,931	878,741	-	1,929,881
TOTAL	$ 52,698,414	$ 91,622,181	$ 25,051,818	$ (780,709)	$ 168,591,704
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION					
CURRENT LIABILITIES:					
Accounts payable	$ 58,464	$ 706,524	692,421	$ (780,709)	$ 676,700
Due to Pierpont	-	-	26,222	-	26,222
Due to the Commission	-	-	3,036	-	3,036
Accrued liabilities — payroll	-	251,835	3,262,561	-	3,514,396
Accrued interest payable	26,925	198,037	2,237	-	227,199
Retainages payable	-	-	15,685	-	15,685
Unearned revenue and deposits	449	841,679	685,428	-	1,527,556
Compensated absences — current portion	-	133,870	716,517	-	850,387
Capital leases — current portion	-	-	86,695	-	86,695
Debt obligation due to the Commission — current portion	121,643	-	-	-	121,643
Bonds payable — current portion	761,447	2,631,537	41,004	-	3,433,988
Total current liabilities	968,928	4,763,482	5,531,806	(780,709)	10,483,507
NONCURRENT LIABILITIES:					
Net other postemployment benefits liability	-	977,424	8,113,114	-	9,090,538
Compensated absences	-	84,683	332,486	-	417,169
Advances from federal sponsors	-	-	73,265	-	73,265
Capital leases	-	-	531,791	-	531,791
Debt obligation to the Commission	1,202,615	-	-	-	1,202,615
Bonds payable	8,190,362	61,768,194	680,223	-	70,638,779
Net pension liability	-	-	748,485	-	748,485
Other noncurrent liabilities	-	-	4,261	-	4,261
Total noncurrent liabilities	9,392,977	62,830,301	10,483,625	-	82,706,903
DEFERRED INFLOWS OF RESOURCES:					
Deferred inflows relating to net pension liability	-	-	482,218	-	482,218
Deferred inflows relating to net OPEB liability	-	161,687	1,342,090	-	1,503,777
Total deferred inflows of resources	-	161,687	1,824,308	-	1,985,995
NET POSITION:					
Net investment in capital assets	38,478,281	16,947,628	5,915,729	-	61,341,638
Restricted for — expendable:					
Loans	-	-	8,991	-	8,991
Scholarships	2,897	-	34,429	-	37,326
Capital projects	3,854,474	-	-	-	3,854,474
Debt service	857	7,728	236	-	8,821
Total restricted	3,858,228	7,728	43,656	-	3,909,612
Unrestricted E&G Plant and President's Control	-	-	(1,045,940)	-	(1,045,940)
Unrestricted Auxiliary and Fund Manager Funds	-	6,911,355	2,298,634	-	9,209,989
Total unrestricted	-	6,911,355	1,252,694	-	8,164,049
Total net position	42,336,509	23,866,711	7,212,079	-	73,415,299
TOTAL	$ 52,698,414	$ 91,622,181	$ 25,051,818	$ (780,709)	$ 168,591,704

See note to schedules.

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION INFORMATION
YEAR ENDED JUNE 30, 2018

ALL FUNDS	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Internal Fund Eliminations	Total Institution
OPERATING REVENUES:					
Student tuition and fees — net	$ -	$ -	$ 12,840,396	$ -	$ 12,840,396
Student activity support revenue	-	-	425,800	(340,140)	85,660
Auxiliary enterprise revenue	-	8,429,598	4,372,599	-	12,802,197
Auxiliary support services revenue	-	4,916,234	-	(4,333,379)	582,855
Contracts and grants:					
Federal	-	-	862,952	-	862,952
State	-	-	6,783,796	-	6,783,796
Private	-	-	2,442,616	-	2,442,616
Interest on student loans receivable	-	-	15,255	-	15,255
Faculty services revenue	-	-	224,387	-	224,387
Operating costs revenue	-	-	1,534,349	-	1,534,349
Support services revenue	-	-	1,782,681	-	1,782,681
Miscellaneous — net	1,413	229,158	348,200	-	578,771
Total operating revenues	1,413	13,574,990	31,633,031	(4,673,519)	40,535,915
OPERATING EXPENSES:					
Salaries and wages	-	2,605,794	24,109,649	-	26,715,443
Benefits	-	595,796	6,032,149	-	6,627,945
Supplies and other services	252,631	3,465,051	8,390,809	-	12,108,491
Utilities	-	984,515	1,780,649	-	2,765,164
Student financial aid — scholarships and fellowships	678	834,552	4,673,574	-	5,508,804
Depreciation	2,024,188	2,148,493	361,807	-	4,534,488
Assessment for student activity costs	-	-	340,140	(340,140)	-
Assessment for auxiliary fees and debt service	-	-	4,333,379	(4,333,379)	-
Assessment for faculty services	-	-	199,231	-	199,231
Assessment for operating costs	-	-	58,548	-	58,548
Assessment for support services	-	-	173,619	-	173,619
Loan cancellations and write-offs	-	75,161	184,109	-	259,270
Fees assessed by the Commission for operations	-	-	179,715	-	179,715
Total operating expenses	2,277,497	10,709,362	50,817,378	(4,673,519)	59,130,718
OPERATING (LOSS) INCOME	(2,276,084)	2,865,628	(19,184,347)	-	(18,594,803)
NONOPERATING REVENUES (EXPENSES):					
State appropriations	-	-	14,579,417	-	14,579,417
Pell grant revenues	-	-	6,743,168	-	6,743,168
E&G capital and debt service support revenue	1,940,337	-	-	(1,362,434)	577,903
Fees assessed to Pierpont for debt service	75,470	-	-	-	75,470
Investment income	58,208	166,888	188,841	-	413,937
Gifts	-	158,035	29,174	-	187,209
Interest on indebtedness	(234,669)	(2,404,988)	(25,896)	-	(2,665,553)
Loss on disposal of fixed assets	-	(99,513)	-	-	(99,513)
Assessment for E&G capital and debt service costs	-	-	(2,008,305)	1,362,434	(645,871)
Fees assessed by the Commission for debt service	(70,214)	-	-	-	(70,214)
Total net nonoperating revenues (expenses)	1,769,132	(2,179,578)	19,506,399	-	19,095,953
(DECREASE) INCREASE IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFER	(506,952)	686,050	322,052	-	501,150
PAYMENTS MADE AND EXPENSES INCURRED BY THE COMMISSION ON BEHALF OF FAIRMONT STATE	153,582	-	-	-	153,582
PAYMENTS MADE AND EXPENSES INCURRED BY THE STATE ON BEHALF OF FAIRMONT STATE	-	61,630	672,044	-	733,674
CAPITAL BOND PROCEEDS FROM THE STATE	-	-	-	-	-
(DECREASE) INCREASE IN NET POSITION BEFORE TRANSFER	(353,370)	747,680	994,096	-	1,388,406
TRANSFER OF NET POSITION FROM (TO) PIERPONT	522,135	(8,788)	(131,519)	-	381,828
INCREASE IN NET POSITION	168,765	738,892	862,577	-	1,770,234
NET POSITION — Beginning of year	42,167,744	23,132,741	6,200,657	-	71,501,142
NET EFFECT OF CHANGE IN ACCOUNTING POLICY	-	(4,922)	148,845	-	143,923
NET POSITION — Beginning of year (Restated)	42,167,744	23,127,819	6,349,502	-	71,645,065
NET POSITION — End of year	$ 42,336,509	$ 23,866,711	$ 7,212,079	$ -	$ 73,415,299

See note to schedules.

SCHEDULE OF CASH FLOW INFORMATION
YEAR ENDED JUNE 30, 2018

	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Internal Fund Eliminations	Total Institution
CASH FLOWS FROM OPERATING ACTIVITIES:					
Student tuition and fees	$ 449	$ 4,460,613	$ 10,962,977	$ -	$ 15,424,039
Contracts and grants	-	-	9,775,163	-	9,775,163
Payments to and on behalf of employees	-	(3,089,079)	(29,775,944)	-	(32,865,023)
Payments to suppliers	(241,136)	(7,820,085)	(8,483,905)	-	(16,545,126)
Payments to utilities		(971,245)	(1,794,276)	-	(2,765,521)
Payments for scholarships and fellowships	(678)	(834,552)	(3,062,302)	-	(3,897,532)
Loans issued to students — net of repayments	-	-	(11,091)	-	(11,091)
Interest on student loans receivable	-	-	9,598	-	9,598
Federal government advances	-	-	-	-	-
Auxiliary enterprise charges	-	8,305,363	4,332,403	-	12,637,766
Fees assessed by the Commission	-	-	(179,715)	-	(179,715)
Other receipts — net	35	238,259	240,856	-	479,150
Student activity support revenue	-	-	425,800	(340,140)	85,660
Auxiliary fees and debt service support revenues	-	4,916,234	-	(4,333,379)	582,855
Assessment for support services	-	-	(164,506)	-	(164,506)
Support services revenue	-	-	1,656,000	-	1,656,000
Assessment for student activity costs	-	-	(340,140)	340,140	-
Assessment for auxiliary fees and debt service	-	-	(4,333,379)	4,333,379	-
Faculty services revenue	-	-	213,127	-	213,127
Assessment for faculty services	-	-	(197,001)	-	(197,001)
Operating support services revenue	-	-	1,501,470	-	1,501,470
Assessment for operating cost	-	-	(58,100)	-	(58,100)
Net cash (used in) provided by operating activities	(241,330)	5,205,508	(19,282,965)	-	(14,318,787)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State appropriations	-	-	14,579,417	-	14,579,417
Pell grant revenues	-	-	6,743,168	-	6,743,168
Gift receipts	-	158,035	30,174	-	188,209
William D. Ford direct lending receipts	-	-	17,934,560	-	17,934,560
William D. Ford direct lending payments	-	-	(17,931,470)	-	(17,931,470)
Transfers from Pierpont	39,146	-	-	-	39,146
Transfers to Pierpont	95,185	(118,063)	(22,245)	-	(45,123)
Net cash provided by noncapital financing activities	134,331	39,972	21,333,604	-	21,507,907
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:					
Capital bond proceeds from State	-	-	-	-	-
E&G capital and debt service support revenue	1,940,337	-	-	-	1,940,337
Payments from Pierpont on debt obligation	232,687	-	-	-	232,687
Fees assessed by the Commission	(70,214)	-	-	-	(70,214)
Purchases of capital assets	(844,280)	(1,692,426)	(36,900)	-	(2,573,606)
Purchases of equipment	(100,335)	(8,823)	(726,621)	-	(835,779)
Principal paid on leases	-	(13,571)	620,086	-	606,515
Interest paid on leases	-	(31)	(4,356)	-	(4,387)
Assessment for E&G capital and debt service costs	-	-	(2,008,305)	-	(2,008,305)
Payments to the Commission on debt obligation	(139,452)	-	-	-	(139,452)
Principal paid on bonds	(723,529)	(2,420,537)	(36,560)	-	(3,180,626)
Interest paid on bonds	(180,934)	(2,467,272)	(28,303)	-	(2,676,509)
Bond interest income	1,064	13,081	236	-	14,381
Net cash provided by (used in) capital financing activities	115,344	(6,589,579)	(2,220,723)	-	(8,694,958)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	47,392	129,133	209,153	-	385,678
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	55,737	(1,214,966)	39,069	-	(1,120,160)
CASH AND CASH EQUIVALENTS — Beginning of year	3,866,281	11,066,348	14,181,963	-	29,114,592
CASH AND CASH EQUIVALENTS — End of year	$ 3,922,018	$ 9,851,382	$ 14,221,032	$ -	$ 27,994,432

(Continued)

SCHEDULE OF CASH FLOW INFORMATION
YEAR ENDED JUNE 30, 2018

	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Total Institution
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:				
Operating (loss) income	$ (2,276,084)	$ 2,865,628	$ (19,184,347)	$ (18,594,803)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	2,024,188	2,148,493	361,807	4,534,488
Pension expense — special funding situation	-	-	160,486	160,486
OPEB expense — special funding situation	-	61,630	511,558	573,188
Net effect of change in accounting policy	-	(4,922)	148,845	143,923
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
Receivables — net	-	(52,792)	(452,405)	(505,197)
Loans to students — net	-	-	421,120	421,120
Inventories	-	-	(859)	(859)
Deferred outflows of resources	-	(83,155)	(646,204)	(729,359)
Other assets	-	-	53,598	53,598
Advances from federal sponsors	-	-	(548,471)	(548,471)
Accounts payable	10,566	(61,764)	(181,272)	(232,470)
Accrued liabilities — payroll	-	56,315	193,730	250,045
Other liabilities	-	-	(2,927)	(2,927)
Compensated absences	-	26,817	1,465	28,282
Net other postemployment benefits liability	-	(104,570)	(1,057,684)	(1,162,254)
Net pension liability	-	-	(240,617)	(240,617)
Deferred inflows of resources	-	161,687	1,325,015	1,486,702
Unearned revenue	-	-	(78,062)	(78,062)
Undistributed receipts (disbursements) — deposits	-	192,141	(67,741)	124,400
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (241,330)	$ 5,205,508	$ (19,282,965)	$ (14,318,787)
NONCASH TRANSACTIONS:				
Construction in progress additions in accounts payable	$ 40,625	$ -	$ 179,254	$ 219,879
Construction in progress additions in retainages payable	$ -	$ -	$ 15,685	$ 15,685
Transfer from Pierpont (exclusive of $5,977 of cash)	$ 381,828	$ -	$ -	$ 381,828
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:				
Cash and cash equivalents classified at current	$ 3,921,161	$ 9,851,382	$ 14,221,032	$ 27,993,575
Cash and cash equivalents classified at noncurrent	857	-	-	857
	$ 3,922,018	$ 9,851,382	$ 14,221,032	$ 27,994,432

(Concluded)

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2018

INTERNAL FUND: BOG Support

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Instruction	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Public service	-	-	-	-	-	-	-	-
Academic support	-	-	-	-	-	-	-	-
Student services	-	-	-	-	-	-	-	-
General institutional support	-	-	723	-	-	-	-	723
Student financial aid	-	-	-	-	678	-	-	678
Operation and maintenance	-	-	251,908	-	-	-	-	251,908
Depreciation	-	-	-	-	-	2,024,188	-	2,024,188
Loan cancellations and write-offs	-	-	-	-	-	-	-	-
TOTAL	$ -	$ -	$ 252,631	$ -	$ 678	$ 2,024,188	$ -	$ 2,277,497

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2018

INTERNAL FUND: AUXILIARY

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$ 2,260,008	$ 520,815	$ 2,924,922	$ 984,515	$ -	$ -	$ -	$ 6,690,260
Instruction	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Public service	43,110	6,858	21,063	-	-	-	-	71,031
Academic support	-	-	-	-	-	-	-	-
Student services	61,279	6,250	37,209	-	250	-	-	104,988
General institutional support	139,702	33,344	290,035	-	-	-	-	463,081
Student financial aid	-	-	-	-	834,302	-	-	834,302
Operation and maintenance	101,695	28,529	191,822	-	-	-	-	322,046
Depreciation	-	-	-	-	-	2,148,493	-	2,148,493
Loan cancellations and write-offs	-	-	-	-	-	-	75,161	75,161
TOTAL	$ 2,605,794	$ 595,796	$ 3,465,051	$ 984,515	$ 834,552	$ 2,148,493	$ 75,161	$ 10,709,362

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2018

INTERNAL FUND: FAIRMONT STATE UNIVERSITY

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Assessment for Student Activity Costs	Assessment for Auxiliary Fees and Debt Service	Assessment for Faculty Services	Assessment for Operating Costs	Assessment for Support Services	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 828,199	$ 212,935	$ 214,172	$ 262,510	$ -	$ -	$ -	$ 4,333,379	$ -	$ -	$ -	$ -	$ -	$ 5,851,195
Instruction	13,657,726	3,112,666	2,201,234	2,437	7,269	-	-	-	199,231	49,718	125,165	-	-	19,355,446
Research	67,633	6,100	39,603	-	-	-	-	-	-	-	-	-	-	113,336
Public service	362,345	62,394	363,263	-	7,690	-	-	-	-	-	-	-	-	795,692
Academic support	2,356,661	616,863	1,100,462	-	-	-	-	-	-	8,830	48,454	-	-	4,131,270
Student services	3,008,015	797,634	1,232,134	-	1,395	-	340,140	-	-	-	-	-	-	5,379,318
General institutional support	2,528,455	811,265	1,664,342	1,368	-	-	-	-	-	-	-	-	179,715	5,185,145
Student financial aid	185,275	38,235	1,118	-	4,657,220	-	-	-	-	-	-	-	-	4,881,848
Operation and maintenance	1,115,340	374,057	1,574,481	1,514,334	-	-	-	-	-	-	-	-	-	4,578,212
Depreciation	-	-	-	-	-	361,807	-	-	-	-	-	-	-	361,807
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	-	-	184,109	-	184,109
TOTAL	$ 24,109,649	$ 6,032,149	$ 8,390,809	$ 1,780,649	$ 4,673,574	$ 361,807	$ 340,140	$ 4,333,379	$ 199,231	$ 58,548	$ 173,619	$ 184,109	$ 179,715	$ 50,817,378

See note to schedules.

(Concluded)

1. INTERNAL FUND FINANCIAL DATA

The additional information schedules are included to comply with the requirements of the Commission to provide financial information for all internal funds of Fairmont State. This presentation provides financial information for Fairmont State University, Fairmont State Auxiliaries, and Board of Governors Support (BOG Support). The BOG Support internal fund comprises Fairmont State's ownership based on the Separation of Assets and Liabilities Agreement, which was 67.84% as of June 30, 2018. The BOG Support internal fund consists of capital funds for all E&G shared bonding and plant repairs and replacements, plant and other capitalized assets, and grants in support of capital projects.

Financial Schedules - The financial schedules for Fairmont State University, Auxiliary, and BOG Support are driven by rollup of funds to fund type. Separate fund types for each internal fund were established in each net position category (unrestricted, restricted, etc.). This setup has allowed Fairmont State and Pierpont to produce separate financial statements (statements of net position, statements of revenues, expenses, and changes in net position, and natural versus functional classification reports) from a shared financial accounting system. These supplemental schedules are produced as a by-product of the financial reporting system.

The following represents additional footnotes outlining faculty teaching services shared between Fairmont State and Pierpont, services that are charged to both Fairmont State and Pierpont, and student fee distributions. These representations are based on the approved chargeback agreement between Fairmont State and Pierpont and legislative actions:

a. *Revenues* - State appropriations are allocated by the Legislature each year. Appropriations decreased by 2.62% for Fairmont State.

   Student fee revenues are directly credited to the appropriate two- and four-year college funds based on the students' program major. Student enrollment drives the fee revenue dollars available to each Institution, as follows:

   1. Required auxiliary, capital, and student activity fee revenues are recorded as revenues to the institution in which the student is enrolled. Under the contract agreement, all (100%) of these revenues will be transferred as an expense to the capital, auxiliary, and student activity funds from which the operating, capital, and debt service expenditures are paid (primarily Fairmont State funds). Most of these fees are pledged on revenue bonds and must be transferred to maintain compliance with bond covenants.

   2. User fees collected from students of either institution are deposited directly to the appropriate auxiliary revenue account and are not recorded as revenues by separate institutions. Examples of this type of revenue are parking, books, meals, and rent.

   3. Grant revenues are deposited in the institution's fund to which the grant was awarded.

   4. Student payments made via lockbox, web, etc., are deposited to Fairmont State's clearing fund and are moved daily to the appropriate operating state fund for each institution.

   5. Interest income is allocated by the Commission to both institutions based on current allocation methods.

b. *Expenses*:

Direct expenditures:

1. Direct expenditures will be assigned directly to either Fairmont State or Pierpont.

2. Full- and part-time faculty personnel services and fringe benefit expenditures are paid from the institution where the personnel are employed.

Chargeback expenditures:

1. Teaching service expenses are charged back from one institution to the other based on the number of credit hours taught. This chargeback process includes instructional salary and benefit costs. The calculation includes the faculty member's salary and benefit costs, courses taught, the students being taught, and the number of student credit hours being taught. The teaching chargeback services calculations are performed once each semester. The teaching chargeback calculation results in a value allocated for each institution for the credit hours taught to both Pierpont and Fairmont State students.

2. Support service chargebacks are for salary and benefit costs from one institution to the other and/or services provided from the administrative, student service, and physical plant support areas of Fairmont State to Pierpont and vice versa. The salary and benefit chargeback services from each institution to the other for support services are based on the agreed-upon percentage in the chargeback agreement.

   Support service chargebacks for adjunct and/or supplemental pay contracts:

   Chargebacks at 100% of cost occur when one institution's employee is hired to teach or work part-time by the other institution. This action of chargeback allows the employee to maintain one payroll account and ensures that one W-2 is issued to this employee.

   Support services salary and benefit chargebacks are performed monthly and are supported with detailed reports showing employee costs being charged by Pierpont to Fairmont State and vice versa.

3. Operating (nonlabor) expenses for all support offices are charged back based on state code requirements. The organization manager of those offices has budget authority to expend against these budgets during the fiscal year. All unspent budgets at the end of each fiscal year are not carried forward to future fiscal years. Therefore, unspent budget increases the fund balance of both institutions. These fund balances are under the direct control of the respective Presidents of each institution.

4. Support staff actual liability costs:

   The liability costs incurred annually from employee benefits provided to support staff, such as retiree health premiums are allocated to the institutions based on the agreed-upon percentage in the chargeback agreement.

5. Support staff accrued liabilities:

   Accrued liabilities (net OPEB liability, annual leave, etc.) required to be recorded in the financial statements annually for all support staff are allocated to the institutions based on the agreed-upon percentage in the chargeback agreement.

6. PEIA retiree and severance payables in the current year:

   Compensated absences - As of June 30, 2018, PEIA retiree and liabilities are distributed to the component units based on funding source. However, the chargeback agreement for fiscal year 2018 between the institutions reads as follows: Payout of PEIA retiree and severance costs incurred during the year will be allocated to the institutions based on the percentage defined in the chargeback agreement. For fiscal year 2018, the percentages are 30.56% for the two-year institution and 69.44% for the four-year institution.

REQUIRED SUPPLEMENTARY INFORMATION

FAIRMONT STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
JUNE 30, 2018

State Teachers' Retirement System
Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fairmont State's proportion of the net pension liability (asset) (percentage)	0.021664%	0.024067%	0.032680%	0.040054%						
Fairmont State's proportionate share of the net pension liability (asset)	$ 748,485	$ 989,102	$ 1,132,445	$ 1,381,799						
State's proportionate share of the net pension liability (asset)	1,655,218	1,883,975	2,583,977	3,122,299						
Total proportionate share of the net pension liability (asset)	$ 2,403,703	$ 2,873,077	$ 3,716,422	$ 4,504,098						
Fairmont State's covered payroll	$ 597,892	$ 622,017	$ 988,972	$ 1,226,834						
Fairmont State's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	125.19%	159.02%	114.51%	112.63%						
Plan fiduciary net position as a percentage of the total pension liability	67.85%	61.42%	66.25%	65.95%						

* - The amounts presented for each fiscal year were determined as of June 30th of the previous year (measurement date).
This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Fairmont State should present information for those years for which information is available.

FAIRMONT STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PENSION CONTRIBUTIONS
JUNE 30, 2018

State Teachers' Retirement System
Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Contractually required contribution	$ 86,001	$ 89,684	$ 93,303	$ 148,605						
Contributions in relation to the contractually required contribution	(86,001)	(89,684)	(93,303)	(148,605)						
Contribution deficiency (excess)	$ -	$ -	$ -	$ -						
Fairmont State's covered payroll	$ 576,374	$ 597,892	$ 622,017	$ 988,972						
Contributions as a percentage of covered payroll	15.00%	15.00%	15.00%	15.00%						

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Fairmont State should present information for those years for which information is available.

FAIRMONT STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET OPEB LIABILITY
JUNE 30, 2018

Last 10 Fiscal Years*

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Fairmont State's proportion of the net OPEB liability (asset) (percentage)	0.369685982%									
Fairmont State's proportionate share of the net OPEB liability (asset)	$ 9,090,538									
State's proportionate share of the net OPEB liability (asset)	1,867,207									
Total proportionate share of the net OPEB liability (asset)	$ 10,957,745									
Fairmont State's covered-employee payroll	$ 20,782,693									
Fairmont State's proportionate share of the net OPEB liability (asset) as a percentage of its covered-employee payroll	43.74%									
Plan fiduciary net position as a percentage of the total OPEB liability	25.10%									

* - The amounts presented for each fiscal year were determined as of June 30th of the previous year (measurement date).
This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Fairmont State should present information for those years for which information is available.

FAIRMONT STATE UNIVERSITY
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF OPEB CONTRIBUTIONS
JUNE 30, 2018

Last 10 Fiscal Years

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
Statutorily required contribution	$ 827,995									
Contributions in relation to the statutorily required contribution	(827,995)									
Contribution deficiency (excess)	$ -									
Fairmont State's covered-employee payroll	$ 19,811,760									
Contributions as a percentage of covered-employee payroll	4.18%									

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, Fairmont State should present information for those years for which information is available.

Changes in Assumptions

Amounts reported reflect changes in assumptions to more closely reflect actual experience. Significant changes in assumptions are related to projected salary increases, inflation rate, and mortality tables.

	June 30, 2017	June 30, 2016	June 30, 2015	June 30, 2014
Inflation	3.0%	3.0%	1.9%	2.2%
Salary Increases	For teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.00 to 6.00%. For non-teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.00 to 6.50%.	For teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.00 to 6.00%. For non-teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.00 to 6.50%.	For teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.75 to 5.25%. For non-teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.40 to 6.50%.	For teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.75 to 5.25%. For non-teacher members, salary increases are based on member experience, dependent on age and gender, ranging from 3.40 to 6.50%.
Investment Rate of Return	7.5%, net of pension plan investment expense, including inflation.	7.5%, net of pension plan investment expense, including inflation.	7.5%, net of pension plan investment expense, including inflation.	7.5%, net of pension plan investment expense, including inflation.
Mortality	Active: RP2000, non-annuitant table, projected with Scale AA on a fully generational basis. Retired: healthy males – 97% of RP2000 healthy annuitant table, projected with Scale AA on a fully generational basis; healthy females – 94% of RP2000 healthy annuitant table, projected with Scale AA on a fully generational basis; disabled males – 96% of RP2000 disabled annuitant table, projected with Scale AA on a fully generational basis; disabled females – 101% of RP2000 disabled annuitant table, projected with Scale AA on a fully generational basis.	Active: RP2000, non-annuitant table, projected with Scale AA on a fully generational basis. Retired: healthy males – 97% of RP2000 healthy annuitant table, projected with Scale AA on a fully generational basis; healthy females – 94% of RP2000 healthy annuitant table, projected with Scale AA on a fully generational basis; disabled males – 96% of RP2000 disabled annuitant table, projected with Scale AA on a fully generational basis; disabled females – 101% of RP2000 disabled annuitant table, projected with Scale AA on a fully generational basis.	Active: RP2000, non-annuitant monthly mortality table. Retired: RP2000 healthy annuitant, scale AA; Disabled: RP2000 disabled annuitant mortality table, scale AA.	Active: RP2000, non-annuitant monthly mortality table; Retired: RP2000 healthy annuitant, scale AA; Disabled: RP2000 disabled annuitant mortality table, scale AA.
Discount Rate	7.5%	7.5%	7.5%	7.5%

There are no other significant factors that affect trends in the amounts reported, such as a change of benefit terms or other assumptions. Additional information, if necessary, can be obtained from the CPRB Comprehensive Annual Financial Report for the corresponding year.

There were no other factors that affect trends in the amounts reported, such as a change of benefit terms, size or composition of the population covered by the benefit terms, or other assumptions. Additional information, if necessary, can be obtained from the RHBT audited Financial Statements, Required Supplementary Information, and Other Financial Information for the year ended June 30, 2017.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S 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*

Board of Governors
Fairmont State University
Fairmont, West Virginia

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 the business-type activities of Fairmont State University (Fairmont State), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Fairmont State's financial statements, and have issued our report thereon dated October 15, 2018. Our report also includes an emphasis of a matter for the adoption of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion was not modified with respect to this change in accounting principle.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Fairmont State's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fairmont State's internal control. Accordingly, we do not express an opinion on the effectiveness of Fairmont State'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.

The Virginia Center • 1411 Virginia Street, East • Suite 100 • Charleston, WV 25301
Phone (304) 343-4126 or 1(800) 788-3844 • Fax (304) 343-8008
Wharf District • 68 Clay Street • Suite C • Morgantown, WV 26501
Phone (304) 554-3371 • Fax (304) 554-3410
Towne Square • 201 Third Street • PO Box 149 • Parkersburg, WV 26102
Phone (304) 485-6584 • Fax (304) 485-0971
www.suttlecpas.com • E-mail: cpa@suttlecpas.com
A Professional Limited Liability Company

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairmont State's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 15, 2018