Fairmont State University

Financial Statements
Years Ended June 30, 2014 and 2013

and

Independent Auditor's Reports

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 (the University), a component unit of the West Virginia Higher Education Policy Commission, as of and for the years ended June 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise the University's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the University, as of June 30, 2014 and 2013, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 - 24 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the University's basic 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 basic 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 basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2014, on our consideration of the University's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the University's internal control over financial reporting and compliance.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
October 31, 2014

FAIRMONT STATE UNIVERSITY

(Includes the following Internal Funds: Unrestricted, Restricted, and Other Funds, Auxiliary Funds, and Board of Governors Support Fund)

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2014

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 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.

New legislation became effective July, 1, 2008 that provided for a separate governing board for Pierpont Community & Technical College (Pierpont). This new legislation defines the statewide network of independently-accredited community and technical colleges. 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. This is the fifth year of separate financial statement reporting for both Fairmont State and Pierpont.

Total enrollment of Fairmont State is approximately 4,012 students from 28 states and 25 countries. The student to faculty ratio is 17:1. Approximately 82% of our students receive some form of scholarship or financial aid. Campus activities include more than 65 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

The Governmental Accounting Standards Board (GASB) released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which requires management to provide discussion and analysis to cover the following elements; financial highlights, comparative analysis for each basic financial statement, capital and long-term debt activity, and economic outlook for the entity.

For fiscal years 2002-2009, Fairmont State (which included Fairmont State University, Pierpont Community & Technical College, and Board of Governors Support (BOG Support) which were component parts of Fairmont State) presented combined financial statements under this GASB standard. Supplementary information was provided in accordance with the requirements of GASB Statement No. 35 and the Higher Education Policy Commission (Commission) as it relates to reporting the financial condition and operations of all components. With the separation of assets and liabilities agreement, the reporting structure changed beginning with fiscal year 2010. The Fairmont State audited financial report now includes supplementary information for Unrestricted, Restricted, and Other Funds, University-owned Auxiliary Funds, and Fairmont State's ownership in BOG Support. BOG Support consists primarily of Educational and General (E&G), 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.

The Fairmont State Foundation (Foundation) financial information will not be presented in these financial statements. 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 year 2014.

This section of the annual financial report focuses on an overview of Fairmont State's financial performance during the fiscal year ended June 30, 2014 with comparisons to the previous year.

As required by GASB No. 35 reporting standards, the Fairmont State annual report consists of three basic 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

The Board of Governors of Fairmont State and the Board of Governors of Pierpont recognize the historical association between the two institutions and the benefit of collaboration to the students of both institutions. 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 2014 is the fifth year of operating and reporting based on the agreement. The Separation of Assets and Liabilities Agreement maintains a relationship that is responsible to the students, bond holders, and the tax payers of the State of West Virginia. The Agreement provides specific language in relation to these goals 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) & 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."

The agreement also establishes general principles to apply to the division of assets and liabilities and allocation of revenues and expenditures between Fairmont State and Pierpont. Some of the most significant guidelines are as follows:

"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.

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."

The Agreement, which applies to the Series 2012 A and Series 2012 B bonds, also provides specific language in relation to outstanding bond indebtedness as follows:

***"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."*

Based on the pledge of cooperation, legislative guidelines, and bond covenant requirements, the Boards of Governors of Fairmont State and Pierpont agreed to specific terms for financial separation, including the following:

"All capital and infrastructure fees assessed to both FSU & 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.

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 & 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.

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 & PCTC students will be required to pay the fees stipulated in all Bond Document covenants.”

We have continued to operate and prepare financial statements for fiscal year 2014 based on this Agreement. Financial statement Note 17, Separation of Assets and Liabilities Agreement, provides additional information about this Agreement and the defining legislation. The fiscal year 2014 audited financial statements are presented in comparative format and reflect the reporting structure defined in the agreement.

The most significant financial highlight for fiscal year 2014 was the progress on four major facility renovation projects funded by the Education, Arts, Science, and Tourism (EAST) bond proceeds.

In fiscal year 2011, Fairmont State was awarded $18,700,000 of EAST bond proceeds. The projects include major renovations to Turley Center, Hardway Hall, Wallman Hall, and the installation of an elevator in the Musick Library. As described in Note 5, Capital Assets, $18,700,000 had been incurred for projects as of June 30, 2014. The bonds have been accounted for as prescribed by the Separation of Assets and Liabilities Agreement due to the fact that the renovations are to shared buildings on the main campus. As of June 30, 2014, Fairmont State has recognized a total of $12,263,329 in capital asset additions and capital bond proceeds from the State. For fiscal year 2014, Fairmont State recognized $2,519,903 in capital bond proceeds from the State. The bond proceeds were significant to the increase in net position of $2,950,369.

Other financial highlights include enrollment declines, an increase in other postemployment benefits (OPEB) liability, and changes in net position.

- In fiscal year 2014, Fairmont State experienced enrollment declines. The undergraduate full-time equivalent (FTE) decreased from 3,743 for Fall 2012 to 3,589 for Fall 2013. The undergraduate headcount decreased from 4,112 for Fall 2012 to 3,958 for Fall 2013. Graduate FTE and headcount also decreased from Fall 2012 to Fall 2013 from 196 to156 and from 339 to 274, respectively.

- Effective July 1, 2007, Fairmont State adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement provides standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities. The compensated absences liability for sick leave calculated as of June 30, 2007 following GASB Statement No. 16 for approximately $2 million was removed from the financial statements. This accrual was replaced by the OPEB liability accrual. The historical activity dealing with the OPEB liability in the past is as follows:

    - For fiscal years 2013, 2012, 2011, 2010, 2009, and 2008 the OPEB liability accruals were $157,141, $2,552,471, $2,514,779, $2,727,735, $419,810, and $333,145, respectively, for a total unfunded liability of $8,705,081 at June 30, 2013.
    - The additional OPEB liability for fiscal year 2014 was recorded in the amount of $176,933 for a total unfunded liability of $8,882,014 as of June 30, 2014.

  The OPEB liability is recorded based on records maintained by the West Virginia Public Employee Insurance Agency (PEIA). The State of West Virginia has instituted several measures to reduce the OPEB liability including: changes in eligibility criteria, retiree benefit changes, reduction in future retiree premium subsidy costs borne by the State, and passed legislation during fiscal year 2013 committing funds to pay down the liability. With the plan and design changes, an additional annual allocation plus the current funds designated for payment of OPEB costs, the liability is projected to be eliminated by fiscal year 2037. Reductions to the OPEB liability are expected to begin in fiscal year 2017.

- Total net position increased by $2,950,369 or 3.91%. The increase can be attributed to the following:

- Unrestricted primary operating funds of Fairmont State decreased by $759,977 after the increase in OPEB liability of $157,022.
- Unrestricted fund manager funds of Fairmont State increased by $92,681.
- Unrestricted net position balances for Auxiliary funds decreased by $184,788 after the increase in OPEB liability of $19,911.
- Restricted for Capital Projects increased by $257,439.
- Net Investment in Capital Assets increased by $3,561,033 due primarily to the recognition of EAST Bond proceeds in the amount of $2,519,903. Fairmont's ownership interest in other capital investments during the year included the Jaynes Hall Roof Repair for $163,241, Caperton Center Roof Renewal for $153,934, Hunt Haught Hall Greenhouse for $87,375, Womens' Basketball Locker Room for $74,318, and Starbucks for $100,608.

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 plus 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**	
			(Amended)
Assets	**2014**	**2013**	**2012**
Current Assets	$ 34,449,159	$ 35,351,255	$ 32,520,024
Noncurrent Assets	116,459,269	115,681,517	109,392,254
Total Assets	150,908,428	151,032,772	141,912,278
Deferred Outflows of Resources	1,262,177	1,332,407	1,402,636
Total	$ 152,170,605	$ 152,365,179	$ 143,314,914
Liabilities			
Current Liabilities	$ 8,707,850	$ 9,219,799	$ 8,551,672
Noncurrent Liabilities	65,039,012	67,672,006	69,570,416
Total Liabilities	73,746,862	76,891,805	78,122,088
Deferred Inflows of Resources	-	-	-
Net Position			
Net Investment in Capital Assets	59,615,067	56,054,034	47,693,873
Restricted for:			
Expendable:			
Loans	156,150	156,038	356,985
Scholarships	6,353	22,056	20,246
Capital Projects	4,377,852	4,120,413	3,802,416
Debt Service	1,061	1,489	24,612
Total Restricted	4,541,416	4,299,996	4,204,259
Unrestricted (After OPEB)	14,267,260	15,119,344	13,294,694
Total Net Position	78,423,743	75,473,374	65,192,826
Total	$ 152,170,605	$ 152,365,179	$ 143,314,914

- Total current assets decreased by $902,096 or 2.55% to $34,449,159, resulting primarily from a decrease in cash and cash equivalents of $2,010,397. In comparison, at June 30, 2013, current assets increased by 8.71% due primarily to an increase in cash and cash equivalents.
    - The decrease in cash consisted primarily of:
        - A decrease in E&G Unrestricted cash of $1,185,630. This included a decrease in the E&G Operating fund of $919,730 and Strategic Plan Awards for Fiscal Years 2012 and 2013 in the amount of $122,397. E&G operating cash was transferred to Auxiliary Funds in the amount of $519,714. These transfers were approved by the BOG for capital improvements to the Feaster Center in the amount of $362,500 and the Press Box Heating Ventilation and Cooling (HVAC) in the amount of $44,110. Funds were also transferred from E&G to Auxiliary for athletic scholarships in the amount of $113,104.
        - A decrease in E&G Capital Renewal and Replacement funds for continuing capital projects in the amount of $1,806,960. This decrease included receivables for EAST Bond projects in the amount of $1,164,149.

    - A decrease in Auxiliary Plant Renewal and Replacement funds for continuing capital projects in the amount of $927,120. Funds were expended on several capital projects during the year including the Feaster Center Pool renovations in the amount of $921,340.
    - E&G Capital and Infrastructure Plant Renewal and Replacement Reserve Funds for new capital projects increased by $729,623. At June 30, 2014, Fairmont State's ownership in these funds was $2,527,210 or 65.90%. These funds could not be expended on recommended capital repairs and replacement due to a disagreement between Fairmont State and Pierpont concerning the expenditure of the funds. This matter has been assigned to arbitration, and the hearing is scheduled to occur in November 2014.
    - An increase in Auxiliary cash reserve balances for the Falcon Center and Housing in the amounts of $152,484 and $353,705, respectively. The Athletic reserve cash balance increased by $45,983, and the Athletics Special Equity reserve increased by $200,686. Facilities fee cash reserve balance decreased by $6,195.
  - Other changes in current assets consisted of an increase in accounts receivable in the amount of $864,168. The primary increase is for due from Pierpont in the amount of $687,024. This is due to the funds that were not transferred to the E&G Capital and Infrastructure BOG Support funds due to pending arbitration between the institutions. Due from other State agencies increased by $223,938, and student tuition and fees receivable decreased by $98,054.

- Total noncurrent assets, comprised primarily of capital assets including buildings and equipment, increased by $777,752 or 0.67% to $116,459,269. In comparison, at June 30, 2013, noncurrent assets increased by 5.75% due primarily to an increase in capital assets.

  - The primary cause for the increase in noncurrent assets is the increase in capital assets in the amount of $1,065,976.
  - Noncurrent portion of Perkins loans receivable from students decreased by $104,814.
  - Noncurrent portion of due from Pierpont for debt service decreased by $260,415 during the year to reflect Pierpont's portion of indebtedness paid during the year. The balance at June 30, 2014 was $3,735,593.

- Total deferred outflows of resources decreased by $70,230 or 5.27% to $1,262,177 to reflect the deferred loss on the Series 2012 bonds in accordance with GASB Statement No. 65.

- Total current liabilities decreased by $511,949 or 5.55% to $8,707,850 due primarily to decreases in accounts payable and retainages payable of $719,393 and $282,092, respectively. In comparison, at June 30, 2013, current liabilities increased by 7.81% due primarily to increases in retainages payable and unearned revenue.

  - Accounts payable decreased by $510,548 in BOG Support funds due primarily to a decrease in ongoing capital projects at June 30, 2014.
  - The increase in retainages payable of $282,092 is also due to the decrease in ongoing renovations at June 30, 2014.
  - The decreases were offset by an increase in unearned revenue and deposits of $530,565.

- Total noncurrent liabilities decreased by $2,632,994 or 3.89% to $65,039,012. In comparison, at June 30, 2013, noncurrent liabilities decreased by 2.73% due primarily to the decrease in bonds payable because of principal payments.

  - The 2014 decrease is due primarily to a decrease in the noncurrent portion of bonds payable of $2,385,192 due to current year principal payments.
  - Existing debt obligations due to the Commission decreased by $102,090.
  - Noncurrent portion of capital lease payable decreased by $137,244.
  - Noncurrent portion of compensated absences decreased by $22,393.

- Other noncurrent liabilities decreased by $85,000.
- The decrease in debt obligations is offset by an increase in OPEB liability of $176,933.

- 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 $78,423,743 (net position). Of this amount, $14,267,260 (unrestricted net position) may be used to meet the educational and general operations needs of Fairmont State. Unrestricted net position by component part was as follows at June 30, 2014:

▪	Auxiliary funds	$ 8,837,194	
▪	Unrestricted and Other funds	5,430,066	(After OPEB)
		$ 14,267,260	

The Unrestricted, Restricted, and Other funds net position of $5,430,066 includes fund manager funds of $872,259. Also, Fairmont State's Unrestricted President's control net position amount decreased by $759,977 to $4,557,807 at June 30, 2014. This decrease is after the increase in OPEB liability for fiscal year 2014 in the amount of $157,022. The increase in the OPEB liability was offset by a decrease in cash in Fairmont State's E&G funds of $1,159,466 at June 30, 2014. The Auxiliary net position decreased by $184,788 to $8,837,194. This was also due primarily to a decrease in cash of $142,417 and an increase in unearned revenue of $141,396. Net investment in capital assets increased by $3,561,033 to $59,615,067. This is due primarily to the renovations from the EAST Bond proceeds.

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.

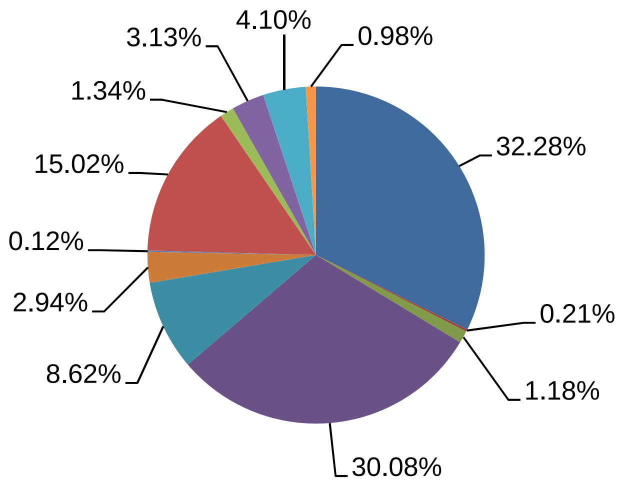
Condensed Schedule of Revenues, Expenses, and Changes in Net Position
Year Ended June 30:

	2014	2013	(Amended) 2012
Operating Revenues	$ 38,583,055	$ 39,373,909	$ 42,440,294
Operating Expenses	60,998,530	62,622,662	65,422,906
Operating Loss	(22,415,475)	(23,248,753)	(22,982,612)
Total Net Nonoperating Revenues	22,582,231	25,039,918	24,076,539
Increase in Net Position before Other Revenues, Expenses, Gains or Losses, and Transfer	166,756	1,791,165	1,093,927
State Capital Grants (Federal)	-	-	909,938
Capital Projects Proceeds from the Commission	-	-	305,265
Capital Bond Proceeds from the State	2,519,903	8,655,159	1,039,228
Increase in Net Position before Transfer	2,686,659	10,446,324	3,348,358
Transfer of Net Position from (to) Pierpont	263,710	(165,776)	(40,019)
Increase in Net Position	2,950,369	10,280,548	3,308,339
Net Position – Beginning Year	75,473,374	65,192,826	61,884,487
Net Position – End of Year	$ 78,423,743	$ 75,473,374	$ 65,192,826

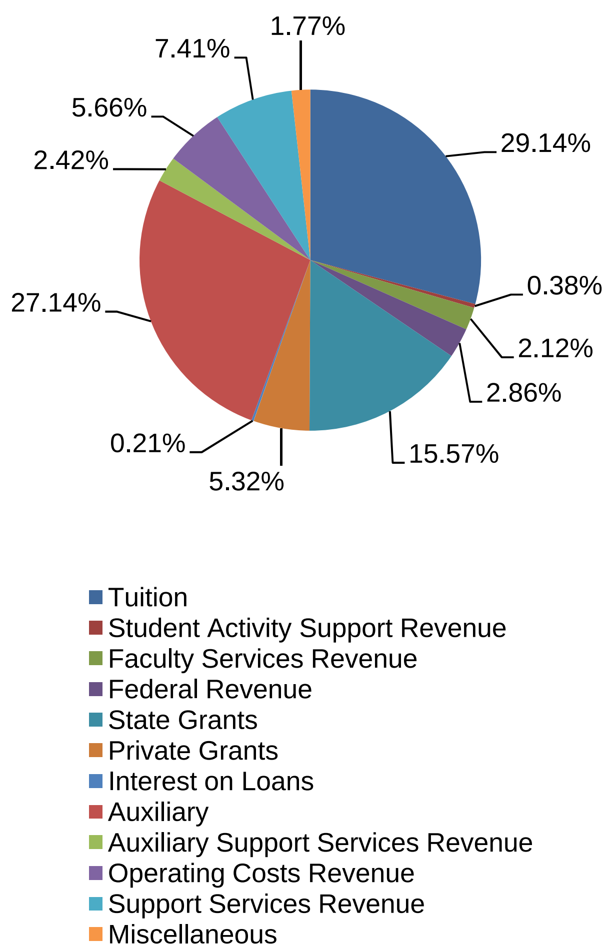
Operating Revenues:

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

Before GASB Statement No. 35 Adjustment



After GASB Statement No. 35 Adjustment



The total gross operating revenues for fiscal year 2014 prior to GASB Statement No. 35 adjustments and reclassification were $69,710,639. This amount was adjusted for scholarship allowance in the amount of $11,264,041 and direct loans in the amount of $19,863,543. Total operating revenues for fiscal year 2014 after GASB No. 35 adjustments and reclassification is $38,583,055.

	Prior to GASB No. 35 Changes	After GASB No. 35 Changes
Tuition and Fees	$22,502,814	$11,238,773
Federal Revenues	$20,968,890	$ 1,105,347

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, decreased by $252,557 or 2.20% to $11,238,773 compared to a 5.62% decrease in fiscal year 2013.

    - Tuition and fees increased prior to scholarship allowance by $337,420 or 1.52%. The scholarship allowance increased by $589,977 for a total decrease in net tuition and fees of $252,557.
    - The Board of Governors increased Tuition and Required E&G fees for fiscal year 2014. The resident fee increased by $152 to $2,003 or 8.21% and the non-resident fee increased by $432 to $4,540 or 10.52%. The Board of Governors did not increase tuition and fees for fiscal year 2013.
    - The decrease in tuition and fees is due primarily to undergraduate and graduate enrollment declines.

- Federal financial aid and federal grants revenues, after the adjustment for Direct Loans, increased by $112,231 or 11.30% to $1,105,347 compared to decrease of 66.34% in fiscal year 2013.

    - Title III Strengthening Institutions revenues increased by $240,285.

- State contracts and grants decreased by $165,445 or 2.68% to $6,008,679 compared to an increase of 6.91% in fiscal year 2013. State contracts and grants include institutional grants from other State agencies. This category also includes federal funds received through another State agency or other entity and state funded student financial aid.

    - The State Promise Scholarship program increased by $18,792 to total awards of $2,576,527.
    - The WV State Higher Education Grants decreased by $267,753 for fiscal year 2014 to $2,850,828.
    - The State HEAPS grant program increased by $21,645 to total awards of $162,757.

- Private contracts and grants increased by $242,645 or 13.41% to $2,052,291 compared to a decrease of 10.17% in fiscal year 2013.

    - Alternative student loans increased by $200,016 to $892,447.
    - Private scholarships increased by $19,592 to $447,575.
    - TEP County Partnerships increased by $19,888 to $28,601.

- Auxiliary enterprises revenue increased by $378,211 or 3.75% to $10,471,506 compared to an increase of 1.40% in fiscal year 2013.

    - The increase was primarily due to an increase in Athletic Special Equity Fee revenues of $290,242 and regular Athletic Fees of $269,989. The BOG approved fee increases of $49 or 102.08% for the Special Equity Fee and $48 or 39.67% for the Athletic Fee.

  - The increase was offset by a decrease in student enrollment that generated a decrease in activity fees of $69,762 and facilities fees of $35,884.

- Miscellaneous revenues increased by $68,683 or 11.17% to $683,473 compared to a decrease of 2.65% in fiscal year 2013.

  - Miscellaneous revenues of $377,056 from auxiliary operations consisted primarily of copy center revenues of $195,908, parking fines of $35,813, and bookstore vendor rent of $60,000.
  - Other miscellaneous revenues earned by Fairmont State consisted of various sources including:

    - Revenues from the Community Music Program of $61,875,
    - Fine arts ticket sales of $15,957, and
    - Revenues in support of the Nursing Program of $19,600.

- State appropriations decreased by $1,776,557 or 9.94% to $16,104,114 compared to an increase of 0.43% in fiscal year 2013.

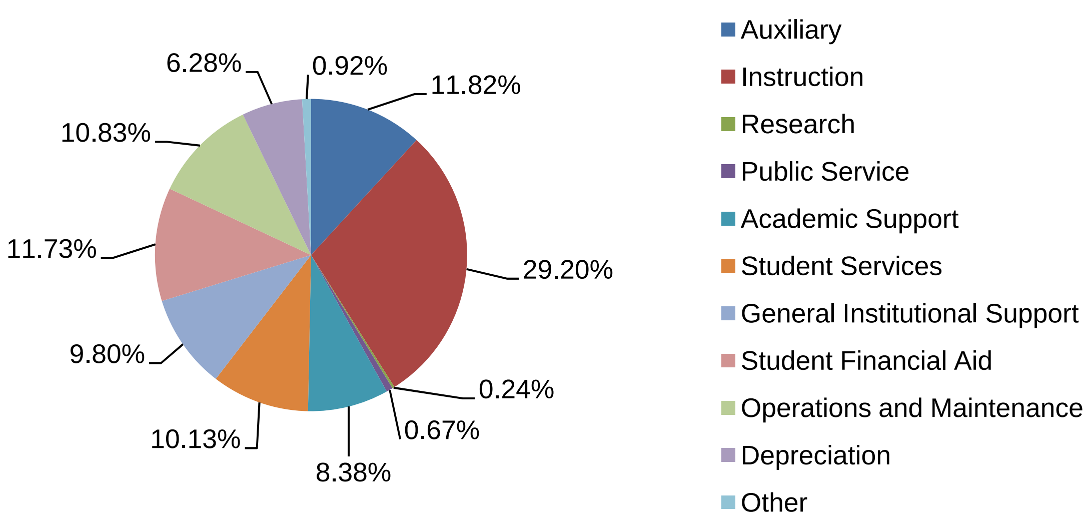
- As noted above, Pell grants are reported as nonoperating revenues because of specific guidance in the AICPA industry audit guide. Pell grants revenue decreased by $464,036 or 5.44% to $8,070,359 compared to a 7.02% decrease in fiscal year 2013.

FUNCTIONAL CLASSIFICATION CHART

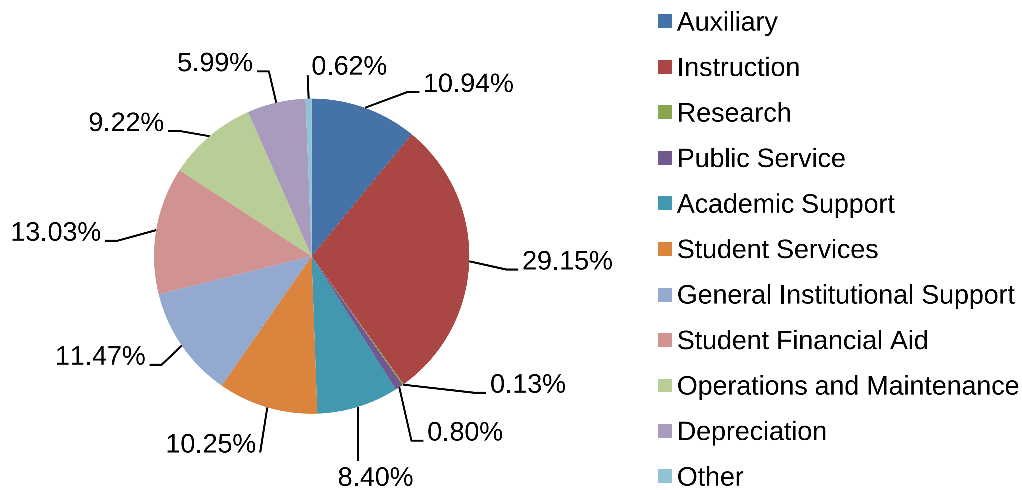
Operating Expenses:

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

2014



2013



Breakdown of Expense by Functional Classification:

For fiscal year 2014, Fairmont State's total operating expenses were $60,998,530. Instruction expenses totaled $17,809,371 or 29.20% of the total operating budget. The following reflects the amounts and percentages for these expenses:

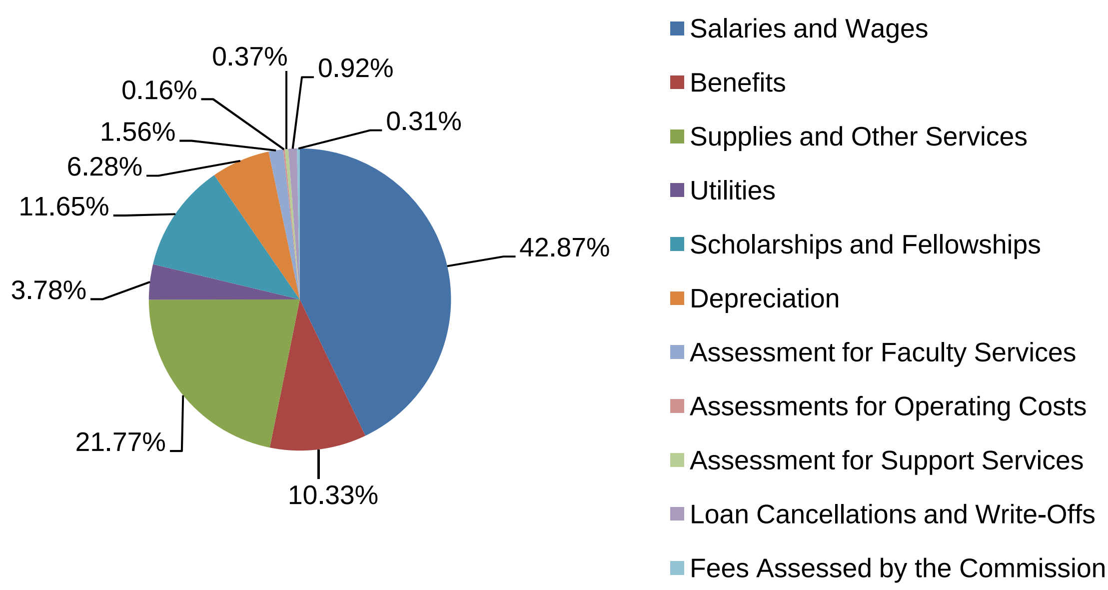
	2014	%	2013	%	2012	%
Auxiliary	$ 7,211,838	11.82%	$ 6,847,899	10.94%	$ 6,283,026	9.60%
Instruction	17,809,371	29.20%	18,256,769	29.15%	19,569,783	29.91%
Research	146,504	0.24%	82,429	0.13%	96,944	0.15%
Public service	411,219	0.67%	503,151	0.80%	2,604,574	3.98%
Academic support	5,108,631	8.38%	5,259,295	8.40%	5,162,360	7.89%
Student services	6,178,459	10.13%	6,416,336	10.25%	6,317,849	9.66%
General institutional support	5,978,821	9.80%	7,182,444	11.47%	6,796,953	10.39%
Student financial aid	7,157,534	11.73%	8,162,552	13.03%	8,610,724	13.16%
Operation and maintenance*	6,603,558	10.83%	5,774,853	9.22%	5,856,061	8.95%
Depreciation	3,830,363	6.28%	3,750,885	5.99%	3,734,752	5.71%
Other	562,232	0.92%	386,049	0.62%	389,880	0.60%
Total	$ 60,998,530	100.00%	$ 62,622,662	100.00%	$ 65,422,906	100.00%

**Operation and maintenance expense increased by $828,705 or 14.35% to $6,603,558 for fiscal year 2014. The increase is due primarily to furniture, fixtures, and equipment costs not capitalized from the EAST Bond projects in the amount of $502,208 for Turley Center, $169,209 for Wallman Hall, and $26,239 for Hardway Hall. Also, costs of campus lighting upgrades were expensed in the amount of $119,679. These costs represent FSU's ownership percentage in BOG Support of 65.90% at June 30, 2014.*

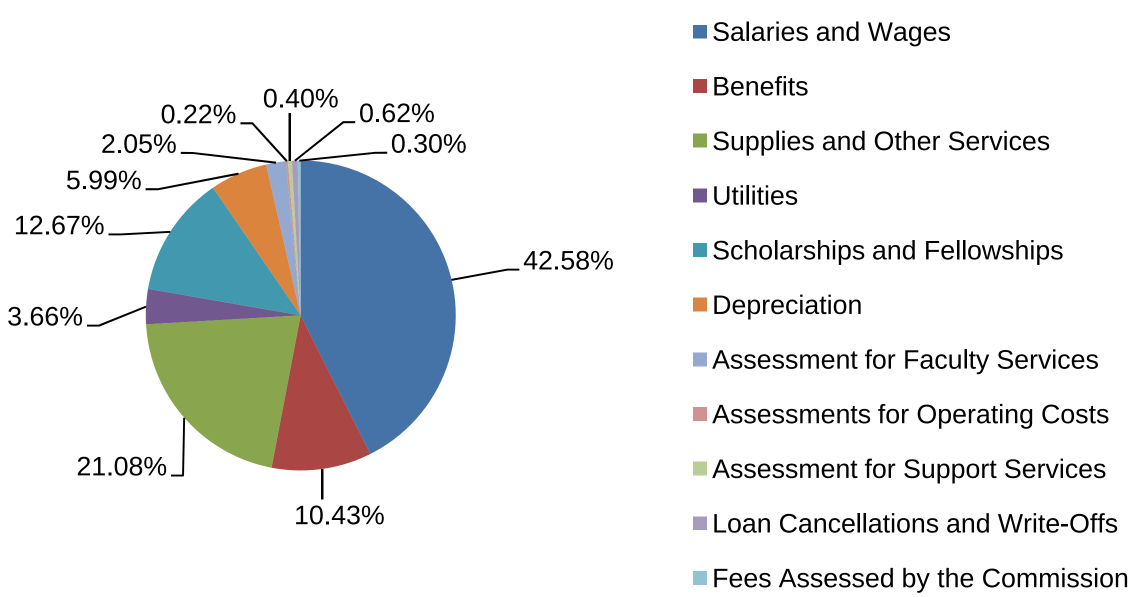
NATURAL CLASSIFICATION CHARTS

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

<u>2014</u>



<u>2013</u>



Breakdown of Expenses by Natural Classification:

For fiscal year 2014, Fairmont State's total operating expenses were $60,998,530. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $32,459,564 or 53.21%. The following reflects the amounts and percentages for the expenses:

	2014	%	2013	%	2012	%
Salaries and wages	$ 26,155,418	42.87%	$ 26,661,826	42.58%	$ 26,078,081	39.86%
Benefits	6,304,146	10.33%	6,534,407	10.43%	8,849,831	13.53%
Supplies and other services	13,278,126	21.77%	13,203,327	21.08%	13,412,943	20.50%
Utilities	2,302,972	3.78%	2,290,925	3.66%	2,310,059	3.53%
Scholarships and fellowships	7,103,485	11.65%	7,935,659	12.67%	8,610,724	13.16%
Depreciation	3,830,363	6.28%	3,750,885	5.99%	3,734,752	5.71%
Assessment for faculty services	950,151	1.56%	1,284,767	2.05%	1,319,526	2.02%
Assessment for operating costs	98,995	0.16%	136,450	0.22%	179,774	0.27%
Assessment for support services	225,121	0.37%	248,441	0.40%	351,776	0.54%
Loan cancellations & write offs	562,232	0.92%	386,049	0.62%	389,880	0.60%
Fees assessed by the commission	187,521	0.31%	189,926	0.30%	185,560	0.28%
Total	$ 60,998,530	100.00%	$ 62,622,662	100.00%	$ 65,422,906	100.00%

- Salaries and wages decreased by $506,408 or 1.90% to $26,155,418 compared to an increase of 2.24% in fiscal year 2013.
    - In fiscal year 2014, the only salary increases were for classified staff not at their years of service rate on the Mercer classification system who were brought up to scale, reclassifications, and faculty promotions.
- Benefits decreased by $230,261 or 3.52% to $6,304,146 compared to a decrease of 26.16% in fiscal year 2013.
    - OPEB expense for fiscal year 2014 increased by $17,794. OPEB expense for fiscal year 2014 was $933,263. Financial statement Note 9 provides additional information on the OPEB liability and expenses.
    - Other benefits expense categories were within a relatively consistent range.
- Supplies and other services expense increased by $74,799 or 0.57% to $13,278,126 compared to a decrease of 1.56% in fiscal year 2013.
- Utilities expense increased by $12,047 or 0.53% to $2,302,972 compared to a decrease of 0.83% in fiscal year 2013. Utilities usage is within a relatively consistent range, with the expected amounts based on the current facilities structure.
- Scholarships expense decreased by $832,174 or 10.49% to $7,103,485 compared to a decrease of 7.84% in fiscal year 2013. Scholarships and fellowships decreased by $242,195 before scholarship allowance.
    - This decrease is primarily due to decreases in Federal Pell awards in the amount of $464,036 and State of WV Higher Education Grants of $267,753.
    - Scholarship allowance increased by $589,977 or 5.53% to $11,264,041 for fiscal year 2014.

- Depreciation expense increased by $79,478 or 2.12% to $3,830,363 and was 6.28% of total operating expenses. For fiscal year 2013, depreciation expense was $3,750,885 and 5.99% of total operating expenses.

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:

Cash Provided By (Used In)	2014	2013	(Amended) 2012
Operating Activities	$ (18,628,641)	$ (18,436,755)	$ (16,918,112)
Noncapital Financing Activities	24,016,317	26,683,320	27,026,312
Capital and Financing Related Activities	(7,434,135)	(5,142,576)	(8,404,790)
Investing Activities	45,400	48,185	30,887
Net Change in Cash and Cash Equivalents	(2,001,059)	3,152,174	1,734,297
Cash - Beginning of Year	33,703,325	30,551,151	28,816,854
Cash - End of Year	$ 31,702,266	$ 33,703,325	$ 30,551,151

Major sources of funds included in operating activities consist of tuition and fees of $9,802,986, contracts and grants of $9,515,493, and auxiliary enterprise charges of $10,386,915. Major uses of funds under this category were payments made to and on behalf of employees for salaries and benefits amounting to $32,382,396, payments to suppliers amounting to $13,721,804, and payments for scholarships and fellowships of $5,720,592.

Major sources of cash flow provided from noncapital financing activities consist of State appropriations amounting to $15,926,562 and Federal Pell grant revenues of $8,070,971.

The major source of cash flow provided from capital financing activity was related to the proceeds from the EAST Bonds in the amount of $2,292,232. The major use of funds under this category was for construction project expenditures in the amount of $4,439,616. Other uses of cash flow were for payment of principal and interest on bonds of $2,182,279 and $2,105,218, respectively.

Additional Administrative Notes

During fiscal year 2014, separate budgets were maintained and reported on the three component parts of Fairmont State. These component parts are: 1) Unrestricted, Restricted, and Other Funds 2) Auxiliary Funds, and 3) Fairmont State's ownership in BOG Support Funds. Fairmont State's management has included the BOG Support component, which reports capital funds that support both academic institutions, as a separate reporting component. These funds are allocated based on the average of the past ten (10) years of credit hour enrollments. This allocation is performed at the end of each year for financial reporting purposes. The following supplemental schedules were developed to show the component parts of Fairmont State along with a combined column:

1. The Schedule of Net Position Information
2. The Schedule of Revenues, Expenses, and Changes in Net Position Information
3. The Schedule of Cash Flow Information
4. The Schedule of Natural vs. Functional Classifications Information

The above schedules may be found in the additional information section of this report.

The component reporting structure for Fairmont State has allowed administration to provide reports to Fairmont State's BOG separated by Unrestricted E&G funds, Restricted funds, and Auxiliary operations. The reporting structure recognizes separate budgeted entities, which provides the administration and the Governing Board with information to manage the respective components.

Capital Asset and Long-Term Debt Activity

As described in the financial highlights for fiscal year 2013, Fairmont State has significant outstanding debt from four bond series 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 2013 into one bond issuance with two Series.

The bond issue is supported by auxiliary and infrastructure fund student and user fees. The auxiliary fund budgets that support the bonds (which include interest and principal debt service payments) transferred excess revenues to plant reserves of approximately $1,065,000 in fiscal year 2014. Infrastructure excess revenues transferred to reserves were $316,527.

The refinanced bonds are payable over twenty years, and the 2006 bonds are payable over twenty years from the time of issuance. Total principal repayments made during fiscal year 2014 amounted to $2,182,279. The current portion of bonds payable due in fiscal year 2015 is $2,385,194, and the long-term portion of bonds payable is $52,507,930.

The 2012A and 2012B 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 both the Series 2012 Bonds and the 2006 Bonds.

During 2014, 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, 2014 was $1,930,810. As of June 30, 2014, the current portion due to Commission was $114,687, and the long-term portion was $1,816,123.

Fairmont State's Leadership

The Fairmont State University Governing Board Members for fiscal year 2014:

Name	*Position Held*	*End of 2014 Status*
Holly Fluharty	Classified Staff Representative	Member
Robert Mild	Faculty Representative	Secretary
John Myers	Lay Member	Member
Mark Pallotta	Lay Member	Member
Shirley Stanton	Lay Member	Member
Bryan Towns	Lay Member	Member
Ron Tucker	Lay Member	Chair
Bryan Foley	Student Representative	Member
John Schirripa	Lay Member	Member
Frank Washenitz	Lay Member	Member
Dixie Yann	Lay Member	Vice-Chair
Chris Courtney	Lay Member	Member

The Governing Boards receive a financial report at each meeting.

Economic Outlook

For fiscal year 2015, the University's State appropriations decreased by $253,816. Fairmont State did increase tuition and fees for the 2015 fiscal year by 8.28% overall. Auxiliary room fees were increased by $100 (5.0%) and board fees by $53 (3.0%) for fiscal year 2015.

The room increase of 6.0% will occur in the 2016 fiscal year to continue to fund a University Housing Master Plan that is a 20-year plan, which will replace our apartments with modern style units and also modernize our older dormitory facilities. Even though our planned recent increases will grow 10% over the next two years, we are currently lower than all of our competitors and expect that average annual market increases will keep us in a competitive position.

The debt service coverage ratio for the 2012 bonds is required to be 100%. The debt service coverage ratio at the ends of 2014 and 2013 and ending fund balances are listed below along with the projected budget information for fiscal year 2015:

	Debt Service Coverage Ratio	Ending Balance
June 30, 2013	306%	$10,880,763
June 30, 2014	296%	$11,078,958
June 30, 2015, projected	297%	$12,630,135

It should be recognized that the University is looking forward for the next twenty years and documenting and obtaining 20-year Master Plans for:

- Student Activity Center (approved by BOG on June 21, 2012)
- Housing Master Plan (approved by BOG on August 16, 2012)
- Facilities Master Plan (yet to be approved)

- Infrastructure Master Plan (yet to be approved)
- Athletic Master Plan (approved by BOG on June 20, 2013)

These plans will guide administration for the next 20 years to maintain sound financial operations and up-to-date facilities and equipment.

It is important to acknowledge that the OPEB liability has increased by only minimal amounts for the last two years and is expected to be funded by the State due to action taken by the West Virginia State Legislature. This liability is projected to be eliminated by fiscal year 2037. We do not anticipate any significant future increases to this liability, and payments toward this liability will be made primarily by State support over the next 23 years.

Fairmont State continues to maintain stable unrestricted net position, including auxiliary operations, and it is our goal to remain in this stable position for years into the future. Cash reserves in the unrestricted and auxiliary funds are stable. E&G capital funds continue to be invested in capital projects occurring to improve student life on the Fairmont State and Pierpont shared campus. The E&G capital reserves are sufficient to continue efforts on many repair projects that require approval by the Governing Boards of Fairmont State and Pierpont.

State appropriations are expected to be $15,850,298 in fiscal year 2015. The University is planning to increase the E&G fees by 5%. Given Fairmont State's tuition and fee rates are the seventh lowest in the state compared to all West Virginia baccalaureate institutions, the increase is not significant, and the Institution should remain very competitive with State institutions. Fairmont State is in the process of reducing its 2015 budget by $1.0 million dollars to maintain a healthy E&G Unrestricted Net Position Reserve to deal with future one-time needs. This action is occurring due to enrollment decline.

The enrollment of Fairmont State University decreased by 218 or 5.15% in headcount and decreased by 204 or 5.45% in full time equivalents.

Also, Pierpont Community and Technical College enrollment decreased by 374 or 13.93% in headcount and decreased by 310 or 16.12% in full time equivalents.

Declines in enrollment for both Fairmont State and Pierpont created a loss of revenue for the shared campus auxiliary enterprises operations and shared E&G capital funds available for repairs and replacement activity. The loss of revenues is documented below. In response to these losses, there have been reductions to operating budgets in all areas and adjustments to some lower priority capital repairs in the 2015 fiscal year to ensure maintaining a stable net position at the end of fiscal year 2015.

FY 2015 Fee Revenue - Enrollment Decline			
	Fund	**Amount**	
University Education & General	9000XX	$(1,057,676)	
University Graduate Programs	9070XX	6,564	
		$(1,051,112)	Total University E&G
Student Programs-Univ. Central Support	9005XX	$(15,702)	
Student Programs-CTC Central Support	3104XX	(19,400)	
		$(35,102)	Total Student Programs
Central Fees-Univ. Central Support	9007XX	$(5,608)	
Central Fees-CTC Central Support	3105XX	(6,933)	
		$(12,541)	Total Central Fees
Total E&G Targeted Reductions		**$(1,098,755)**	
Activities Center-Univ.	9141XX	$(92,334)	
Activities Center-CTC	3441XX	(102,105)	
		$(194,439)	Total Activities Center
Athletics-Univ.	9101XX	$(56,728)	
Athletics-Special Equity-Univ.	3401XX	($33,175)	
		$(89,903)	Total Athletics
Facilities-Univ.	9121XX	$(45,085)	
Facilities-CTC	3421XX	(51,791)	
		$(96,876)	Total Facilities
Infrastructure-Univ.	9201XX	$(46,691)	
Infrastructure-CTC	3501XX	(56,152)	
		$(102,843)	Total Infrastructure
Total Auxiliary Targeted Reductions		**$(484,061)**	
E&G Capital-Univ.	9205XX	$(162,266)	
E&G Capital-CTC	3505XX	(148,073)	
		$(310,339)	Total E&G Capital
Total E&G Capital Targeted Reductions		**$(310,339)**	

Due to declining enrollments, Fairmont State is planning to adjust budget plans to ensure stable outcomes in fiscal years 2015, 2016, and beyond in our Unrestricted E&G and Auxiliary funds. Please know that Fairmont State will continue to invest in the campus to improve campus accessibility and provide improved student life. The Institution has made this campus investment while maintaining a healthy unrestricted net position balance.

As mentioned above, the E&G Operating Fund, Auxiliary Fund, and E&G Capital Fund have sufficient reserves to support the Institution during this time of declining enrollments. The reserve values before and after the OPEB liability can be found on page 49 - 50 of this report. It is important to again recognize that the OPEB liability, while recorded on the University's financial statements, will be taken care of by the State and will not be a future payout of real dollars from University funds. Therefore, the true Unrestricted Fund net position is before OPEB liability. This places the University with Unrestricted reserves of $23,149,274 at the end of fiscal year 2014. These reserves are broken down as follows:

Unrestricted Designated for Auxiliaries	$ 9,780,324
Unrestricted for Fund Managers	872,259
Unrestricted Undesignated	12,496,691
Total Unrestricted	$ 23,149,274

These Unrestricted reserves gave the University Governing Board the confidence to make decisions to invest a small portion of the Undesignated Fund in the future of Fairmont State Athletics and to implement a staff cost reduction initiative.

In FY 2015, Fairmont State Board of Governors approved the use of E&G Operating Reserves (with repayment plans) to fund the Athletic basketball floor and bleacher project that will cost $1,079,180 and an Early Retirement Incentive plan that will cost $1,404,694 over the next four fiscal years. The Athletic Basketball project is planned to be repaid by donor funds, and the Early Retirement plan is being repaid from personnel savings from either not filling positions or filling positions at lower salaries.

Request for Information

The financial report is designed to provide an overview of the finances of Fairmont State for those with an interest in the University. Questions concerning any of the financial information provided in this report or requests for additional information should be addressed to Fairmont State University at 1201 Locust Avenue, Fairmont, West Virginia.

STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

ASSETS AND DEFERRED OUTFLOWS	2014	2013
CURRENT ASSETS:		
Cash and cash equivalents	$ 31,428,945	$ 33,439,342
Accounts receivable — net	2,219,553	1,355,385
Due from Primary Government	177,552	-
Due from Pierpont for debt service — current portion	212,805	208,553
Loans to students — current portion	196,355	179,206
Inventories	164,466	168,769
Other current assets	49,483	-
Total current assets	34,449,159	35,351,255
NONCURRENT ASSETS:		
Cash and cash equivalents	273,321	263,983
Loans to students — net of allowance of $237,490 and $416,771, respectively	870,098	974,912
Due from Pierpont for debt service	3,735,593	3,996,008
Other noncurrent assets	67,667	-
Capital assets — net	111,512,590	110,446,614
Total noncurrent assets	116,459,269	115,681,517
DEFERRED OUTFLOWS OF RESOURCES:		
Total deferred outflows of resources	1,262,177	1,332,407
TOTAL	$ 152,170,605	$ 152,365,179

(Continued)

STATEMENTS OF NET POSITION
JUNE 30, 2014 AND 2013

LIABILITIES, DEFERRED INFLOWS, AND NET POSITION	2014	2013
CURRENT LIABILITIES:		
Accounts payable	$ 1,036,324	$ 1,755,717
Due to Pierpont	10,909	7,001
Due to the Commission	27,199	9,850
Accrued liabilities — payroll	2,211,785	2,267,056
Accrued interest payable	190,212	197,622
Retainages payable	52,955	335,047
Unearned revenue and deposits	1,624,883	1,094,318
Compensated absences — current portion	831,458	848,841
Capital leases — current portion	137,244	133,231
Debt obligation to the Commission — current portion	114,687	109,256
Bonds payable — current portion	2,385,194	2,309,468
Other current liabilities	85,000	152,392
Total current liabilities	8,707,850	9,219,799
NONCURRENT LIABILITIES:		
Other postemployment benefits liability	8,882,014	8,705,081
Compensated absences	386,415	408,808
Advances from federal sponsors	1,182,565	1,260,573
Capital leases	93,965	231,209
Debt obligation to the Commission	1,816,123	1,918,213
Bonds payable	52,507,930	54,893,122
Other noncurrent liabilities	170,000	255,000
Total noncurrent liabilities	65,039,012	67,672,006
DEFERRED INFLOWS OF RESOURCES		
Total deferred inflows of resources	-	-
NET POSITION:		
Net investment in capital assets	59,615,067	56,054,034
Restricted for — expendable:		
Loans	156,150	156,038
Scholarships	6,353	22,056
Capital projects	4,377,852	4,120,413
Debt service	1,061	1,489
Total restricted	4,541,416	4,299,996
Unrestricted	14,267,260	15,119,344
Total net position	78,423,743	75,473,374
TOTAL	$ 152,170,605	$ 152,365,179

(Concluded)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $11,264,041 and $10,674,064, respectively	$ 11,238,773	$ 11,491,330
Student activity support revenue	145,834	173,279
Auxiliary enterprise revenue	10,471,506	10,093,295
Auxiliary support services revenue	932,948	1,163,803
Contracts and grants:		
Federal	1,105,347	993,116
State	6,008,679	6,174,124
Private	2,052,291	1,809,646
Interest on student loans receivable	80,535	27,370
Faculty services revenue	819,354	1,401,248
Operating costs revenue	2,183,569	2,166,296
Support services revenue	2,860,746	3,265,612
Miscellaneous — net	683,473	614,790
Total operating revenues	38,583,055	39,373,909
OPERATING EXPENSES:		
Salaries and wages	26,155,418	26,661,826
Benefits	6,304,146	6,534,407
Supplies and other services	13,278,126	13,203,327
Utilities	2,302,972	2,290,925
Student financial aid — scholarships and fellowships	7,103,485	7,935,659
Depreciation	3,830,363	3,750,885
Assessment for faculty services	950,151	1,284,767
Assessment for operating costs	98,995	136,450
Assessment for support services	225,121	248,441
Loan cancellations and write-offs	562,232	386,049
Fees assessed by the Commission for operations	187,521	189,926
Total operating expenses	60,998,530	62,622,662
OPERATING LOSS	$ (22,415,475)	$ (23,248,753)

(Continued)

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	2013
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 16,104,114	$ 17,880,671
Pell grant revenues	8,070,359	8,534,395
E&G capital and debt service support revenue	873,941	1,000,164
Fees assessed to Pierpont for debt service	66,760	66,760
Investment income	49,258	48,274
Gifts	11,059	328,818
Interest on indebtedness	(1,685,584)	(1,837,276)
Gain on disposal of fixed assets	(604)	(20,960)
Assessment for E&G capital and debt service costs	(786,337)	(836,735)
Fees assessed by the Commission for debt service	(120,735)	(124,193)
Net nonoperating revenues	22,582,231	25,039,918
INCREASE IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFER	166,756	1,791,165
CAPITAL BOND PROCEEDS FROM THE STATE	2,519,903	8,655,159
INCREASE IN NET POSITION BEFORE TRANSFER	2,686,659	10,446,324
TRANSFER OF NET POSITION TO PIERPONT	263,710	(165,776)
INCREASE IN NET POSITION	2,950,369	10,280,548
NET POSITION — Beginning of year	75,473,374	65,192,826
NET POSITION — End of year	$ 78,423,743	$ 75,473,374

(Concluded)

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

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 9,802,986	$ 10,049,302
Contracts and grants	9,515,493	9,257,240
Payments to and on behalf of employees	(32,382,396)	(32,889,571)
Payments to suppliers	(13,721,804)	(12,985,096)
Payments to utilities	(2,307,275)	(2,323,359)
Payments for scholarships and fellowships	(5,720,592)	(6,464,157)
Loans issued to students	(36,807)	(49,579)
Interest on student loans receivable	18,154	15,947
Auxiliary enterprise charges	10,386,915	9,958,627
Fees assessed by the Commission	(187,521)	(189,926)
Other receipts — net	581,938	699,566
Other assets	(117,150)	-
Student activity support revenue	133,243	173,279
Auxiliary fees and debt service support revenue	852,318	1,163,803
Assessment for support services	(225,173)	(249,311)
Support services revenue	2,863,257	3,264,644
Faculty services revenue	819,354	1,401,248
Assessment for faculty services	(950,151)	(1,284,767)
Operating support services revenue	2,140,935	2,149,357
Assessment for operating cost	(94,365)	(134,002)
Net cash used in operating activities	(18,628,641)	(18,436,755)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	15,926,562	17,880,671
Pell grant revenues	8,070,971	8,535,171
Gift receipts	(4,486)	326,512
William D. Ford direct lending receipts	19,863,543	21,114,714
William D. Ford direct lending payments	(19,863,543)	(21,113,580)
Transfers to Pierpont	27,847	(14,135)
Transfers to/from Pierpont	(4,577)	(46,033)
Net cash provided by noncapital financing activities	24,016,317	26,683,320
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital bond proceeds from State	2,292,232	8,693,099
E&G capital and debt service support revenue	321,407	1,000,164
Fees assessed to Pierpont	162,856	169,961
Payments from Pierpont on debt obligation	199,361	197,168
Proceeds from sale of fixed assets	-	1,750
Fees assessed by the Commission	(120,735)	(124,193)
Purchases of capital assets	(4,439,616)	(9,064,587)
Purchases of equipment	(526,658)	(644,019)
Principal paid on leases	(133,231)	(116,573)
Interest paid on leases	(8,048)	(11,104)
Assessment for E&G capital and debt service costs	(786,338)	(836,735)
Payments to the Commission on debt obligation	(109,973)	(106,134)
Principal paid on bonds	(2,182,279)	(2,167,194)
Interest paid on bonds	(2,105,218)	(2,119,815)
Payment for bond issue costs	-	(16,097)
Bond interest income	2,105	1,733
Net cash used in capital financing activities	(7,434,135)	(5,142,576)

(Continued)

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

	2014	2013
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	$ 45,400	$ 48,185
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,001,059)	3,152,174
CASH AND CASH EQUIVALENTS — Beginning of year	33,703,325	30,551,151
CASH AND CASH EQUIVALENTS — End of year	$ 31,702,266	$ 33,703,325
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (22,415,475)	$ (23,248,753)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	3,830,363	3,750,885
Changes in assets and liabilities:		
Receivables — net	(230,882)	328,539
Loans to students — net	87,665	80,955
Inventories	4,303	(14,722)
Other assets	(117,150)	-
Advances from federal sponsors	(78,008)	108,989
Accounts payable	(169,515)	(263,422)
Accrued liabilities — payroll	(55,271)	84,848
Accrued liabilities — other	(152,392)	407,392
Compensated absences	(39,776)	4,866
Other postemployment benefits liability	176,933	157,151
Unearned revenue	443,402	193,452
Undistributed receipts (disbursements) — deposits	87,162	(26,935)
NET CASH USED IN OPERATING ACTIVITIES	$ (18,628,641)	$ (18,436,755)
NONCASH TRANSACTIONS:		
Construction in progress additions in accounts payable	$ 271,725	$ 605,814
Construction in progress additions in retainages payable	$ 52,955	$ 335,047
Transfer to Pierpont (exclusive of $36,692 and $14,135 of cash in 2014 and 2013, respectively)	$ 240,441	$ 151,641
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents classified as current	$ 31,428,945	$ 33,439,342
Cash and cash equivalents classified as noncurrent	273,321	263,983
	$ 31,702,266	$ 33,703,325

(Concluded)

1. ORGANIZATION

Fairmont State University (Fairmont State or Fairmont) 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 an operating 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, 2014 and 2013.

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, WV 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 collectibility 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 $252,725 and $204,317 for the years ended June 30, 2014 and 2013, 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. The accompanying financial statements reflect all adjustments required by GASB.

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 57^{th} Street SE, Charleston, WV 25304 or http://www.wvpeia.com.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (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 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.

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.

West Virginia has a single private insurance company, BrickStreet Insurance, which provides workers' compensation coverage to all employers in the state. Other private insurance companies began to offer coverage to the private-sector employers beginning July 1, 2009 and began to offer to government employers July 1, 2010. Nearly every employer in the State, who has a payroll must have coverage. The cost of all coverage is paid by the employers. BrickStreet retains the risk related to the compensation of injured employees under the program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2014 and 2013, Fairmont State received and disbursed approximately $19.9 million and $21.1 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 2014 and 2013, Fairmont State received and disbursed $8.3 million and $8.8 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Statements Issued by the Governmental Accounting Standards Board

The GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, effective for fiscal years beginning after June 15, 2013. This statement requires a state or local government guarantor that offers a nonexchange financial guarantee to another organization to recognize a liability on its financial statements when it is more likely than not that the guarantor will be required to make a payment to the obligation holders under the agreement. In addition, the Statement requires: (1) A government guarantor to consider qualitative factors when determining if a payment on its guarantee is more likely than not to be required. Such factors may include whether the issuer of the guaranteed obligation is experiencing significant financial difficulty or initiating the process of entering into bankruptcy or financial reorganization; (2) An issuer government that is required to repay a guarantor for guarantee payments made to continue to report a liability unless legally released. When a government is released, the government would recognize revenue as a result of being relieved of the obligation; (3) A government guarantor or issuer to disclose information about the amounts and nature of nonexchange financial guarantees. The adoption of this statement did not have a material effect on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board

The GASB has issued Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective for fiscal years beginning after June 15, 2014. This statement enhances the information provided in the financial statements regarding the effects of pension-related transactions, the pension obligations of the entity, and the resources available to satisfy those obligations. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 68 may have on its financial statements.

The GASB has also issued Statement No. 69, *Government Combinations and Disposals of Government Operations*, effective for fiscal years beginning after December 31, 2013. This statement provides guidance on measurement and reporting of combinations and disposals of government operations. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 69 may have on its financial statements.

The GASB has also issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - an Amendment of GASB Statement No. 68*, effective for fiscal years beginning after June 15, 2014. The requirements of this Statement will eliminate the source of a potential significant understatement of restated beginning net position and expense in the first year of implementation of Statement 68 in the accrual-basis financial statements of employers and nonemployer contributing entities. This benefit will be achieved without the imposition of significant additional costs. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 71 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2014 and 2013, was held as follows:

	2014		
	Current	**Noncurrent**	**Total**
State Treasurer/BTI	$ 31,257,610	$ -	$ 31,257,610
Trustee	-	1,061	1,061
In bank	168,166	272,260	440,426
On hand	3,169	-	3,169
	$ 31,428,945	$ 273,321	$ 31,702,266

	2013		
	Current	**Noncurrent**	**Total**
State Treasurer/BTI	$ 33,246,810	$ -	$ 33,246,810
Trustee		1,489	1,489
In bank	189,367	262,494	451,861
On hand	3,165	-	3,165
	$ 33,439,342	$ 263,983	$ 33,703,325

Cash held by the Treasurer includes $-0- and $-0- of restricted cash at June 30, 2014 and 2013, respectively.

The combined carrying amount of cash in the bank at June 30, 2014 and 2013, was $440,426 and $451,861, respectively, as compared with the combined bank balance of $701,228 and $546,617, 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. Non-interest-bearing accounts are 100% insured through December 31, 2014.

Amounts with the State Treasurer as of June 30, 2014 and 2013, are comprised of three investment pools, the WV Money Market Pool, the WV Government Money Market Pool, and the WV Short Term Bond Pool.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

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:

	2014			2013		
External Pool		Carrying Value (in Thousands)	S & P Rating		Carrying Value (in Thousands)	S & P Rating
WV Money Market Pool	$	1,959,590	AAAm	$	2,495,868	AAAm
WV Government Money Market Pool	$	238,954	AAAm	$	287,184	AAAm
WV Short Term Bond Pool	$	771,941	Not Rated	$	615,807	Not Rated

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 and the WV Government Money Market Pool:

	2014			2013		
External Pool		Carrying Value (in Thousands)	WAM (Days)		Carrying Value (in Thousands)	WAM (Days)
WV Money Market Pool	$	1,959,590	36	$	2,495,868	52
WV Government Money Market Pool	$	238,954	37	$	287,184	50

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

	2014			2013		
External Pool		Carrying Value (in Thousands)	Effective Duration (Days)		Carrying Value (in Thousands)	Effective Duration (Days)
WV Short Term Bond Pool	$	771,941	407	$	615,807	358

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.

3. CASH AND CASH EQUIVALENTS (CONTINUED)

Interest Rate Risk - Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Fairmont State's investment policy limits investment maturities from potential fair value losses due to increasing interest rates. No more than 5% of the money market fund's total market value may be invested in the obligations of a single issuer, with the exception of the U.S. government and its agencies.

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.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2014 and 2013, are as follows:

	2014	2013
Student tuition and fees — net of allowance for doubtful accounts of $2,036,730 and $1,681,036, respectively	$ 461,351	$ 559,405
Grants and contracts receivable	65,548	52,024
Due from the Commission	18,219	27,016
Due from other State agencies	772,442	548,504
Due from Pierpont	767,641	80,617
Other accounts receivable	134,352	87,819
	$ 2,219,553	$ 1,355,385

5. CAPITAL ASSETS

Capital asset activities for the years ended June 30, 2014 and 2013 are as follows:

	2014				
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,682,173	$ -	$ -	$ -	$ 7,682,173
Construction in progress	9,718,686	63,417	4,077,340	(12,116,043)	1,743,400
Total capital assets not being depreciated	$ 17,400,859	$ 63,417	$ 4,077,340	$(12,116,043)	$ 9,425,573
Other capital assets:					
Land improvements	$ 4,386,820	$ 6,306	$ -	$ -	$ 4,393,126
Infrastructure	10,465,986	67,260	-	-	10,533,246
Buildings	114,794,062	312,153	12,112,077	-	127,218,292
Equipment	5,497,747	2,461	498,659	(9,046)	5,989,821
Computer software	463,296	-	-	-	463,296
Library books	4,068,672	26,722	15,939	(183,215)	3,928,118
Total other capital assets	139,676,583	414,902	12,626,675	(192,261)	152,525,899
Less accumulated depreciation for:					
Land improvements	2,444,317	2,741	250,489	-	2,697,547
Infrastructure	5,502,534	35,427	678,123	-	6,216,084
Buildings	30,678,495	103,532	2,337,062	-	33,119,089
Equipment	3,631,612	1,626	496,386	(8,445)	4,121,179
Computer software	411,441	-	23,840	-	435,281
Library books	3,962,429	26,025	44,463	(183,215)	3,849,702
Total accumulated depreciation	46,630,828	169,351	3,830,363	(191,660)	50,438,882
Other capital assets — net	$ 93,045,755	$ 245,551	$ 8,796,312	$ (601)	$102,087,017
Capital asset summary:					
Capital assets not being depreciated	$ 17,400,859	$ 63,417	$ 4,077,340	$(12,116,043)	$ 9,425,573
Other capital assets	139,676,583	414,902	12,626,675	(192,261)	152,525,899
Total cost of capital assets	157,077,442	478,319	16,704,015	(12,308,304)	161,951,472
Less accumulated depreciation	46,630,828	169,351	3,830,363	(191,660)	50,438,882
Capital assets — net	$ 110,446,614	$ 308,968	$12,873,652	$(12,116,644)	$111,512,590

5. CAPITAL ASSETS (CONTINUED)

	2013				
	Beginning Balance	**Transfers**	**Additions**	**Reductions**	**Ending Balance**
Capital assets not being depreciated:					
Land	$ 7,682,173	$ -	$ -	$ -	$ 7,682,173
Construction in progress	1,222,197	(4,393)	9,629,824	(1,128,942)	9,718,686
Total capital assets not being depreciated	$ 8,904,370	$ (4,393)	$ 9,629,824	$ (1,128,942)	$ 17,400,859
Other capital assets:					
Land improvements	$ 4,301,954	$ (3,197)	$ 88,063	$ -	$ 4,386,820
Infrastructure	10,366,218	(37,039)	136,807	-	10,465,986
Buildings	113,863,086	(171,616)	1,102,592	-	114,794,062
Equipment	5,843,094	(1,395)	594,930	(938,882)	5,497,747
Computer software	425,446	-	37,850	-	463,296
Library books	4,178,726	(15,262)	23,229	(118,021)	4,068,672
Total other capital assets	138,978,524	(228,509)	1,983,471	(1,056,903)	139,676,583
Less accumulated depreciation for:					
Land improvements	2,177,666	(1,297)	267,948	-	2,444,317
Infrastructure	4,822,575	(17,273)	697,232	-	5,502,534
Buildings	28,499,543	(54,405)	2,233,357	-	30,678,495
Equipment	4,066,476	(756)	482,065	(916,173)	3,631,612
Computer software	392,213	-	19,228	-	411,441
Library books	4,044,166	(14,771)	51,055	(118,021)	3,962,429
Total accumulated depreciation	44,002,639	(88,502)	3,750,885	(1,034,194)	46,630,828
Other capital assets — net	$ 94,975,885	$ (140,007)	$ (1,767,414)	$ (22,709)	$ 93,045,755
Capital asset summary:					
Capital assets not being depreciated	$ 8,904,370	$ (4,393)	$ 9,629,824	$ (1,128,942)	$ 17,400,859
Other capital assets	138,978,524	(228,509)	1,983,471	(1,056,903)	139,676,583
Total cost of capital assets	147,882,894	(232,902)	11,613,295	(2,185,845)	157,077,442
Less accumulated depreciation	44,002,639	(88,502)	3,750,885	(1,034,194)	46,630,828
Capital assets — net	$ 103,880,255	$ (144,400)	$ 7,862,410	$ (1,151,651)	$110,446,614

5. CAPITAL ASSETS (CONTINUED)

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.

During December 2010, the University was approved to receive $18,700,000 of Education, Arts, Science, and Tourism (EAST) bond proceeds to be specifically used for four major facility renovation projects. As of June 30, 2014, $18,700,000 had been incurred for HEPC bond projects, with $1,164,149 included in accounts receivable from the West Virginia Development Office; 85% of these bond proceeds must be spent by December 2014. These bond proceeds will be accounted for as prescribed in the Separation of Assets and Liabilities Agreement between Fairmont State and Pierpont. At June 30, 2014, Fairmont State's portion of the receivable was $767,174. Upon completion, the increase in capitalized assets for Fairmont State and Pierpont are estimated to be approximately $12.3 million and $6.4 million, respectively. The West Virginia Development Office is responsible for repayment of this debt.

Fairmont State has construction commitments of $357,004 as of June 30, 2014.

6. LONG-TERM LIABILITIES

Long-term obligation activities for the years ended June 30, 2014 and 2013, are as follows:

	2014					
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 54,792,712	$ -	$ -	$ (2,182,280)	$ 52,610,432	$ 2,258,004
Add (less) deferred amounts:						
Premium on issuance	2,409,878	-	-	(127,186)	2,282,692	127,190
Total bonds payable — net	57,202,590	-	-	(2,309,466)	54,893,124	2,385,194
Capital leases payable	364,440	-	-	(133,231)	231,209	137,244
Other long-term liabilities:						
Other postemployment benefits liability	8,705,081	-	933,263	(756,330)	8,882,014	-
Accrued compensated absences	1,257,649	-	629,314	(669,090)	1,217,873	831,458
Advances from federal sponsors	1,260,573	-	-	(78,008)	1,182,565	-
Payable to the Commission	2,027,469	13,316	-	(109,975)	1,930,810	114,687
Other long-term liabilities	340,000	-	-	(85,000)	255,000	85,000
Total long-term liabilities	$ 71,157,802	$ 13,316	$ 1,562,577	$ (4,141,100)	$ 68,592,595	$ 3,553,583

*Transfers represent the ownership change from FY13 to FY14.

6. LONG-TERM LIABILITIES (CONTINUED)

	2013					
	Beginning Balance	Transfers	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 56,959,906	$ -	$ -	$ (2,167,194)	$ 54,792,712	$ 2,182,280
Add (less) deferred amounts:						
Premium on issuance	2,537,068	-	-	(127,190)	2,409,878	127,188
Total bonds payable — net	59,496,974	-	-	(2,294,384)	57,202,590	2,309,468
Capital leases payable	282,490	-	198,522	(116,572)	364,440	133,231
Other long-term liabilities:						
Other postemployment benefits liability	8,547,940	-	915,469	(758,328)	8,705,081	-
Accrued compensated absences	1,252,783	-	664,137	(659,271)	1,257,649	848,841
Advances from federal sponsors	1,151,584	-	108,989	-	1,260,573	-
Payable to the Commission	2,141,424	(7,822)	-	(106,133)	2,027,469	109,256
Other long-term liabilities	-	-	340,000	-	340,000	85,000
Total long-term liabilities	$ 72,873,195	$ (7,822)	$ 2,227,117	$ (3,934,688)	$ 71,157,802	$ 3,485,796

*Transfers represent the ownership change from FY12 to FY13.

7. BONDS PAYABLE

Bonds payable at June 30, 2014, are summarized as follows (in thousands):

	Interest Rates	Annual Principal Installments	2014 Principal Outstanding	2013 Principal Outstanding
Facilities Improvement Revenue Bonds 2006 Series, due through 2026	4.18% (10-year reset)	$ 343 - $611	$ 5,905	$ 6,277
Revenue Refunding Bonds 2012, Series A, due through 2032	2.00 - 5.00	730 - 1,155	18,700	19,430
Revenue Refunding Bonds 2012, Series B, due through 2032	2.00 - 5.00	1,080 - 1,720	28,005	29,085
Total outstanding principal			52,610	54,792
Add unamortized bond premium			2,283	2,410
Total			$ 54,893	$ 57,202
Current			$ 2,385	$ 2,309
Noncurrent			52,508	54,893
Total			$ 54,893	$ 57,202

7. BONDS PAYABLE (CONTINUED)

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 & 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.

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 bonds, except for the 2006 Bonds, are fully insured as to principal and interest by Financial Guaranty Insurance Company.

The 2012 Series A and B 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 net 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 of $3,659,260. For the years ended June 30, 2014 and 2013, Fairmont and Pierpont had gross revenues that approximated 296% and 306%, respectively, of the maximum annual debt service.

7. BONDS PAYABLE (CONTINUED)

Future debt service requirements to maturity for the revenue bonds at June 30, 2014, are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	$ 2,258,004	$ 2,031,694	$ 4,289,698
2016	2,344,392	1,940,506	4,284,898
2017	2,441,472	1,845,826	4,287,298
2018	2,539,273	1,747,225	4,286,498
2019	2,642,827	1,644,671	4,287,498
2020-2024	14,696,052	6,733,559	21,429,611
2025-2029	15,633,412	3,904,002	19,537,414
2030-2032	10,055,000	910,200	10,965,200
Total	$ 52,610,432	$ 20,757,683	$ 73,368,115

8. 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, 2014, are as follows:

Years Ending June 30,	
2015	$ 39,410
2016	35,479
2017	34,398
2018	33,348
2019	33,733
2020 - 2032	447,973
Total	$ 624,341

Total lease expense for the years ended June 30, 2014 and 2013, was $40,118 and $39,218, respectively. The University does not have any noncancelable leases.

8. LEASES (CONTINUED)

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

Fairmont State entered into a lease agreement with Fieldturf Finance in April 2007 to cover the acquisition and installation costs for an athletic field turf, markings, and logo. The lease is accounted for as a capital lease, with a total cost of $686,930 and a net book value of $393,076 and $438,872 as of June 30, 2014 and 2013, respectively. The athletic field was placed into service in February 2008. Fairmont State also 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 $191,574 and $195,544 as of June 30, 2014 and 2013, respectively. Future annual minimum lease payments on capital leases for years subsequent to June 30, 2014, are as follows:

Years Ending June 30,	Principal	Interest	Total
2015	$ 137,243	$ 4,035	$ 141,278
2016	39,978	829	40,807
2017	40,417	389	40,806
2018	13,571	31	13,602
Total	$ 231,209	$ 5,284	$ 236,493

9. OTHER POSTEMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2014, 2013, and 2012, the noncurrent liability related to OPEB costs was $8,882,014, $8,705,081, and $8,547,940, respectively. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $933,263 and $102,770, respectively, during 2014, or 11%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $915,469 and $95,544, respectively, during 2013, or 10%. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,266,189 and $90,029, respectively, during 2012, or 3%. As of June 30, 2014, 2013, and 2012, there were 66, 67, and 63, respectively, retirees receiving these benefits. During the 2013 legislative session, the State took proactive measures to address this unfunded liability, which will take effect in future fiscal years and fully fund the liability by 2037.

10. 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.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS (CONTINUED)

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 2014 and 2013, Fairmont State reduced its debt to the Commission against the debt obligation by $96,659 and $113,955, respectively. The amount due to Commission at June 30, 2014 and 2013 is $1,930,810 and $2,027,469, respectively.

11. NET POSITION

Fairmont State's net position at June 30, 2014 and 2013 includes certain designated net position, as follows:

	2014		
	Net Position Before OPEB Liability	**OPEB Liability**	**Total Net Position**
Net investment in capital assets	$ 59,615,067	$ -	$ 59,615,067
Restricted for — expendable:			
Loans	156,150	-	156,150
Scholarships	6,353	-	6,353
Capital projects	4,377,852	-	4,377,852
Debt service	1,061	-	1,061
Total restricted	4,541,416	-	4,541,416
Unrestricted:			
Designated for auxiliaries	9,780,324	943,130	8,837,194
Designated for fund managers	872,259	-	872,259
Undesignated	12,496,691	7,938,884	4,557,807
Total unrestricted	23,149,274	8,882,014	14,267,260
Total net position	$ 87,305,757	$ 8,882,014	$ 78,423,743

11. NET POSITION (CONTINUED)

	2013		
	Net Position Before OPEB Liability	OPEB Liability	Total Net Position
Net investment in capital assets	$ 56,054,034	$ -	$ 56,054,034
Restricted for — expendable:			
Loans	156,038	-	156,038
Scholarships	22,056	-	22,056
Capital projects	4,120,413	-	4,120,413
Debt service	1,489	-	1,489
Total restricted	4,299,996	-	4,299,996
Unrestricted:			
Designated for auxiliaries	9,945,201	923,219	9,021,982
Designated for fund managers	779,578	-	779,578
Undesignated	13,099,646	7,781,862	5,317,784
Total unrestricted	23,824,425	8,705,081	15,119,344
Total net position	$ 84,178,455	$ 8,705,081	$ 75,473,374

12. 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 new Educators Money 401(a) basic retirement plan (Educators Money). New hires have the choice of either plan.

12. RETIREMENT PLANS (CONTINUED)

The STRS is a cost-sharing, defined benefit, public employee retirement system. Employer and employee contribution rates are established annually by the Legislature. The contractual maximum contribution rate is 15%. Fairmont State accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee’s total annual salary for the years ended June 30, 2014, 2013, and 2012. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2014, 2013, and 2012. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years’ salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2014, 2013, and 2012, were $258,320, $272,966, and $287,403, respectively, which consisted of $184,514, $194,984, and $205,296, respectively, from Fairmont State, and $73,806, $77,982, and $82,107, respectively, from covered employees.

The contribution rate is set by the West Virginia State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as Fairmont State. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, 4101 MacCorkle Avenue SE, Charleston, WV 25304.

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, 2014, 2013, and 2012. 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, 2014, 2013, and 2012, were $2,491,232, $2,542,268, and $2,482,730 respectively, which consisted of equal contributions from Fairmont State and covered employees of $1,245,616, $1,271,134, and $1,241,365, respectively.

Total contributions to Educators Money for the years ended June 30, 2014, 2013, and 2012, were $137,256, $99,170, and $87,482, respectively, which consisted of equal contributions from Fairmont State and covered employees of $68,628, $49,585, and $43,741, respectively.

Fairmont State’s total payroll for the year ended June 30, 2014, was $26,261,184, and total covered employees’ salaries in the Educators Money, STRS, and TIAA-CREF were $1,142,863, $1,226,834, and $20,747,802, respectively.

Fairmont State’s total payroll for the year ended June 30, 2013, was $26,868,610, and total covered employees’ salaries in the Educators Money, STRS, and TIAA-CREF were $826,420, $1,301,045, and $21,184,788, respectively.

13. RETIREMENT PLANS (CONTINUED)

Fairmont State's total payroll for the year ended June 30, 2012, was $26,369,131, and total covered employees' salaries in the Educators Money, STRS, and TIAA-CREF were $729,011, $1,366,630, and $20,682,387, respectively.

14. FAIRMONT STATE FOUNDATION, INC. (UNAUDITED)

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 27 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 $22,708,614 and $19,180,975 at June 30, 2014 and 2013, with net position of $22,564,425 and $19,083,921, respectively. Gifts, grants, and bequests to the Foundation totaled $2,414,024 and $2,788,006 in fiscal years 2014 and 2013, respectively.

Total funds expended by the Foundation in support of Fairmont State activities totaled $1,088,066 and $792,718 during 2014 and 2013, respectively. This support and the related expenditures are recorded in Fairmont State's financial statements.

15. AFFILIATED ORGANIZATION

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).

16. 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, no chargeback agreement for fiscal year 2015 has been negotiated. Additional information regarding these transactions may be found in the Component Parts Financial Data section of the Note to Schedules.

Fiscal years 2014 and 2013 transactions associated with the chargeback agreement are as follows:

	2014	2013
Revenues:		
Student activity support revenue	$ 145,834	$ 173,279
Auxiliary support service revenue	932,948	1,163,803
Faculty service revenue	819,354	1,401,248
Operating cost revenue	2,183,569	2,166,296
Support service revenue	2,860,746	3,265,612
E&G capital and debt service support revenue	873,941	1,000,164
Expenses:		
Assessment for faculty service	950,151	1,284,767
Assessment for operating costs	98,995	136,450
Assessment for support service	225,121	248,441
Assessment for E&G capital and debt service costs	768,337	836,735

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

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT

House Bill 3215, effective July 1, 2008, provided for a separate governing board for Pierpont. This new 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.

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

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) & 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."

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."*

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

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.

(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."

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

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 2012 A in the principal amount of $20,165,000 and Revenue Refunding Bonds, Series 2012 B 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 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.

(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 currently outstanding in the principal amount of $5,905,433 and $6,277,713 updated as of June 30, 2014 and 2013, respectively.

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."*

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

The Board 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:

1. *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.*

2. *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.*

3. *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.*

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

5. *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.*

6. *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.*

17. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT (CONTINUED)

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, 2014, the average allocated 65.90% of the debt to Fairmont State and 34.10% of the debt to Pierpont. As of June 30, 2013, the average allocated 65.47% of the debt to Fairmont State and 34.53% of the debt to Pierpont.

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

18. 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, 2014 and 2013, 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.

Fairmont State and Pierpont are in disagreement concerning the use of certain fees (Infrastructure Fees and Education & General (E&G) Capital Fees) assessed as part of the Separation of Assets and Liabilities Agreement. At June 30, 2014, assessments due from Pierpont for Infrastructure Fees in the amount of $218,694 and for E&G Capital Fees in the amount of $619,750 comprise the disputed amount. These fees are due to the BOG Support Fund (BOG Support), which is shared by Fairmont State and Pierpont, for the repairs and maintenance of shared infrastructure and buildings. At June 30, 2014, Fairmont State's ownership percentage in BOG Support is 65.90%. Accordingly, the amounts recorded as receivable on Fairmont State's financial statements for 2014 for Infrastructure Fees and E&G Capital Fees are $144,119 and $408,415, respectively. Fairmont State's and Pierpont's Boards of Governors and Administration have agreed to enter into a negotiation period and attempt to resolve the dispute. The arbitration hearing is scheduled for November 2014, at which time the institutions intend to present a negotiated agreement and seek approval of the Arbitration Committee.

19. 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.

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 2014 and 2013 were $874,495 and $843,659, 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 2014 and 2013 in the amount of $303,932 and $406,578, 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.

20. 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 recognize that they are bound by all bond covenants and are 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."

20. SEGMENT INFORMATION (CONTINUED)

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.

The 2012A Bonds outstanding consist of $12,235,000 serial bonds with varying interest rates from 2% to 5%, which mature serially from June 1, 2014 to 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 $18,355,000 serial bonds with varying interest rates from 2% to 5%, which mature serially from June 1, 2014 to 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 years ended June 30, 2014 and 2013, Fairmont State and Pierpont had gross revenues, as defined by the Indenture, that approximated 296% and 306% 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.

20. SEGMENT INFORMATION (CONTINUED)

The 2006 Bonds outstanding are $5,905,433 with 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 shall automatically adjust to the reset rate and shall bear the reset rate from May 1, 2016 to maturity.

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, 2014 and 2013 is as follows:

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

	2014	
	Facilities Improvement Bonds 2006, As of/Year Ended June 30, 2014	**Revenue Refunding Bonds 2012, As of/Year Ended June 30, 2014**
CONDENSED SCHEDULE OF NET POSITION		
Assets:		
Current assets	$ -	$ 12,499,990
Noncurrent and capital assets	7,345,610	54,569,554
Total assets	7,345,610	67,069,544
Deferred outflows of resources	-	1,262,177
Liabilities:		
Current liabilities	(429,145)	(2,707,788)
Noncurrent liabilities	(5,517,429)	(47,084,466)
Total liabilities	(5,946,574)	(49,792,254)
Net position:		
Net investment in capital assets	1,399,036	7,391,918
Restricted/expendable	-	11,147,549
Total net position	$ 1,399,036	$ 18,539,467
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 630,838	$ 10,839,525
Operating expenses	-	(5,911,483)
Operating income	630,838	4,928,042
Nonoperating revenue	-	17,533
Nonoperating expense	(255,965)	(1,852,960)
Depreciation	(315,680)	(1,885,546)
Increase in net assets	59,193	1,207,069
Net position — beginning of year	1,339,843	17,332,398
Net position — end of year	$ 1,399,036	$ 18,539,467
CONDENSED SCHEDULE OF CASH FLOWS		
Net cash provided by operating activities	$ - (1)	$ 4,591,159
Net cash used in capital and related financing activities	-	(4,408,937)
Net cash provided by investing activities	-	15,973
Increase in cash and cash equivalents	-	198,195
Cash and cash equivalents — beginning of year	-	10,880,763
Cash and cash equivalents — end of year	$ -	$ 11,078,958

Note: Segment information may include assets, liabilities, revenue, and expenses that are also contained in Pierpont’s financial statements.
(1) Activity netted to zero.

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

	2013	
	Facilities Improvement Bonds 2006, As of/Year Ended June 30, 2013	**Revenue Refunding Bonds 2012, As of/Year Ended June 30, 2013**
CONDENSED SCHEDULE OF NET POSITION		
Assets:		
Current assets	$ -	$ 11,839,409
Noncurrent and capital assets	7,661,291	55,669,880
Total assets	7,661,291	67,509,289
Deferred outflows of resources	-	1,332,407
Liabilities:		
Current liabilities	(416,015)	(2,339,250)
Noncurrent liabilities	(5,905,433)	(49,170,048)
Total liabilities	(6,321,448)	(51,509,298)
Net position:		
Net investment in capital assets	1,325,988	5,808,879
Restricted/expendable	13,855	11,523,519
Total net position	$ 1,339,843	$ 17,332,398
CONDENSED SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION		
Operating revenues	$ 630,838	$ 11,205,687
Operating expenses	-	(5,400,542)
Operating income	630,838	5,805,145
Nonoperating revenue	-	17,070
Nonoperating expense	(271,157)	(1,926,590)
Depreciation	(315,680)	(1,878,712)
Increase in net assets	44,001	2,016,913
Net position — beginning of year	1,295,842	15,315,485
Net position — end of year	$ 1,339,843	$ 17,332,398
CONDENSED SCHEDULE OF CASH FLOWS		
Net cash provided by operating activities	$ - (1)	$ 5,477,964
Net cash used in capital and related financing activities	-	(4,066,850)
Net cash provided by investing activities	-	15,801
Increase in cash and cash equivalents	-	1,426,915
Cash and cash equivalents — beginning of year	-	9,453,848
Cash and cash equivalents — end of year	$ -	$ 10,880,763

Note: Segment information may include assets, liabilities, revenue, and expenses that are also contained in Pierpont’s financial statements.
(1) Activity netted to zero.

FAIRMONT STATE UNIVERSITY
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2014 AND 2013

21. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2014 and 2013, are represented as follows:

2014

	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	$ 2,771,640	$ 519,111	$ 3,014,529	$ 906,558	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 7,211,838
Instruction	12,401,255	2,718,328	1,592,550	2,726	-	-	900,151	88,941	105,420	-	-	17,809,371
Research	59,976	3,128	83,400	-	-	-	-	-	-	-	-	146,504
Public service	242,079	48,029	121,111	-	-	-	-	-	-	-	-	411,219
Academic support	2,521,729	575,192	1,881,955	-	-	-	-	10,054	119,701	-	-	5,108,631
Student services	3,479,709	773,517	1,925,233	-	-	-	-	-	-	-	-	6,178,459
General institutional support	3,033,848	981,366	1,724,859	1,227	-	-	50,000	-	-	-	187,521	5,978,821
Student financial aid	-	54,049	-	-	7,103,485	-	-	-	-	-	-	7,157,534
Operation and maintenance	1,645,182	631,426	2,934,489	1,392,461	-	-	-	-	-	-	-	6,603,558
Depreciation	-	-	-	-	-	3,830,363	-	-	-	-	-	3,830,363
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	562,232	-	562,232
TOTAL	$ 26,155,418	$ 6,304,146	$ 13,278,126	$ 2,302,972	$ 7,103,485	$ 3,830,363	$ 950,151	$ 98,995	$ 225,121	$ 562,232	$ 187,521	$ 60,998,530

2013

	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	$ 2,805,219	$ 622,739	$ 2,628,703	$ 791,238	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 6,847,899
Instruction	12,610,161	2,764,079	1,338,481	3,637	-	-	1,284,767	126,094	129,550	-	-	18,256,769
Research	47,708	3,279	31,442	-	-	-	-	-	-	-	-	82,429
Public service	236,666	32,391	230,928	3,166	-	-	-	-	-	-	-	503,151
Academic support	2,672,935	673,039	1,784,074	-	-	-	-	10,356	118,891	-	-	5,259,295
Student services	3,508,622	871,551	2,036,163	-	-	-	-	-	-	-	-	6,416,336
General institutional support	3,166,794	915,758	2,908,849	1,117	-	-	-	-	-	-	189,926	7,182,444
Student financial aid	-	117,904	108,989	-	7,935,659	-	-	-	-	-	-	8,162,552
Operation and maintenance	1,613,721	533,667	2,135,698	1,491,767	-	-	-	-	-	-	-	5,774,853
Depreciation	-	-	-	-	-	3,750,885	-	-	-	-	-	3,750,885
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	386,049	-	386,049
TOTAL	$ 26,661,826	$ 6,534,407	$ 13,203,327	$ 2,290,925	$ 7,935,659	$ 3,750,885	$ 1,284,767	$ 136,450	$ 248,441	$ 386,049	$ 189,926	$ 62,622,662

22. SUBSEQUENT EVENT

Fairmont State's Board of Governors approved an Early Retirement Incentive Plan effective beginning in fiscal year 2015 for those who elect to participate. Eligible faculty and staff members elect to participate in the plan during a specified period. In total, 22 Fairmont State faculty and staff members have elected to participate and began the severance period on August 17, 2014. The severance dates extend to July 1, 2016 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, qualify 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. Fairmont State estimates that the total cost of the severance plan will be approximately $1.4 million and estimates an initial annual budget savings of $515,705 due to the difference between current salary costs and replacement salary costs.

ADDITIONAL INFORMATION

SCHEDULE OF NET POSITION INFORMATION
JUNE 30, 2014

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	$ 3,182,803	$ 10,798,978	$ 17,447,164	$ -	$ 31,428,945
Accounts receivable — net	1,340,883	424,635	644,665	(190,630)	2,219,553
Due from Primary Government	-	-	177,552	-	177,552
Due from Pierpont for debt service — current portion	212,805	-	-	-	212,805
Loans to students — current portion	-	-	196,355	-	196,355
Inventories	-	-	164,466	-	164,466
Other current assets	-	-	49,483	-	49,483
Total current assets	4,736,491	11,223,613	18,679,685	(190,630)	34,449,159
NONCURRENT ASSETS:					
Cash and cash equivalents	95	909	272,317	-	273,321
Loans to students — net	-	-	870,098	-	870,098
Due from Pierpont for debt service	3,735,593	-	-	-	3,735,593
Other noncurrent assets	-	-	67,667	-	67,667
Capital assets — net	48,048,667	56,747,052	6,716,871	-	111,512,590
Total noncurrent assets	51,784,355	56,747,961	7,926,953	-	116,459,269
DEFERRED OUTFLOWS OF RESOURCES					
Deferred Loss on Refunding	113,462	1,131,639	17,076	-	1,262,177
TOTAL	$ 56,634,308	$ 69,103,213	$ 26,623,714	$ (190,630)	$ 152,170,605
LIABILITIES, DEFERRED INFLOWS, AND NET POSITION					
CURRENT LIABILITIES:					
Accounts payable	$ 84,122	$ 325,276	$ 817,556	$ (190,630)	$ 1,036,324
Due to Pierpont	-	-	10,909	-	10,909
Due to the Commission	-	9,794	17,405	-	27,199
Accrued liabilities — payroll	-	152,294	2,059,491	-	2,211,785
Accrued interest payable	59,061	128,454	2,697	-	190,212
Retainages payable	4,346	48,609	-	-	52,955
Unearned revenue and deposits	-	646,082	978,801	-	1,624,883
Compensated absences — current portion	-	119,726	711,732	-	831,458
Capital leases — current portion	-	137,244	-	-	137,244
Debt obligation to the Commission — current portion	114,687	-	-	-	114,687
Bonds payable — current portion	624,063	1,725,600	35,531	-	2,385,194
Other current liabilities	-	-	85,000	-	85,000
Total current liabilities	886,279	3,293,079	4,719,122	(190,630)	8,707,850
NONCURRENT LIABILITIES:					
Other postemployment benefits liability	-	943,130	7,938,884	-	8,882,014
Compensated absences	-	69,524	316,891	-	386,415
Advances from federal sponsors	-	-	1,182,565	-	1,182,565
Capital leases	-	93,965	-	-	93,965
Debt obligation to the Commission	1,816,123	-	-	-	1,816,123
Bonds payable	11,068,282	40,604,169	835,479	-	52,507,930
Other noncurrent liabilities	-	-	170,000	-	170,000
Total noncurrent liabilities	12,884,405	41,710,788	10,443,819	-	65,039,012
DEFERRED INFLOWS OF RESOURCES	-	-	-	-	-
NET POSITION:					
Net investment in capital assets	38,483,025	15,269,105	5,862,937	-	59,615,067
Restricted for — expendable:					
Loans	-	-	156,150	-	156,150
Scholarships	2,652	-	3,701	-	6,353
Capital projects	4,377,852	-	-	-	4,377,852
Debt service	95	910	56	-	1,061
Total restricted	4,380,599	910	159,907	-	4,541,416
Unrestricted E&G Plant and President’s Control	-	-	4,557,799	-	4,557,799
Unrestricted Auxiliary and Fund Manager Funds	-	8,829,331	880,130	-	9,709,461
Total unrestricted	-	8,829,331	5,437,929	-	14,267,260
TOTAL NET POSITION	42,863,624	24,099,346	11,460,773	-	78,423,743
TOTAL	$ 56,634,308	$ 69,103,213	$ 26,623,714	$ (190,630)	$ 152,170,605

See note to schedules.

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION INFORMATION
YEAR ENDED JUNE 30, 2014

ALL FUNDS	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Internal Fund Eliminations	Total Institution
OPERATING REVENUES:					
Tuition and fees — net	$ -	$ -	$ 11,238,773	$ -	$ 11,238,773
Student activity support revenue	-	-	515,373	(369,539)	145,834
Auxiliary enterprise revenue	-	6,466,856	4,004,650	-	10,471,506
Auxiliary support service revenue	-	4,931,182	-	(3,998,234)	932,948
Contracts and grants:					
Federal	-	-	1,105,347	-	1,105,347
State/local	-	-	6,008,679	-	6,008,679
Private	-	-	2,052,291	-	2,052,291
Interest on student loans receivable	-	-	80,535	-	80,535
Faculty services revenue	-	-	819,354	-	819,354
Operating costs revenue	-	-	2,183,569	-	2,183,569
Support services revenue	-	-	2,860,746	-	2,860,746
Miscellaneous — net	45,280	377,056	261,137	-	683,473
Total operating revenues	45,280	11,775,094	31,130,454	(4,367,773)	38,583,055
OPERATING EXPENSES:					
Salaries and wages	-	2,475,967	23,679,451	-	26,155,418
Benefits	-	493,419	5,810,727	-	6,304,146
Supplies and other services	1,115,188	3,267,247	8,895,691	-	13,278,126
Utilities	-	720,326	1,582,646	-	2,302,972
Student financial aid — scholarships and fellowships	-	405,276	6,698,209	-	7,103,485
Depreciation	1,846,763	1,574,681	408,919	-	3,830,363
Assessment for student activity costs	-	-	369,539	(369,539)	-
Assessment for auxiliary fees and debt service	-	-	3,998,234	(3,998,234)	-
Assessment for faculty services	-	-	950,151	-	950,151
Assessment for operating costs	-	-	98,995	-	98,995
Assessment for support services	-	-	225,121	-	225,121
Loan cancellations and write-offs	-	153,218	409,014	-	562,232
Fees assessed by the Commission for operations	-	-	187,521	-	187,521
Total operating expenses	2,961,951	9,090,134	53,314,218	(4,367,773)	60,998,530
OPERATING INCOME (LOSS)	(2,916,671)	2,684,960	(22,183,764)	-	(22,415,475)
NONOPERATING REVENUES (EXPENSES):					
State appropriations	-	-	16,104,114	-	16,104,114
Pell grant revenues	-	-	8,070,359	-	8,070,359
E&G capital and debt service support revenue	2,393,580	-	-	(1,519,639)	873,941
Fees assessed to Pierpont for debt service	66,760	-	-	-	66,760
Investment income	6,003	16,244	27,011	-	49,258
Gifts	(45,471)	52,609	3,921	-	11,059
Interest on indebtedness	(165,403)	(1,493,159)	(27,022)	-	(1,685,584)
Loss/gain on disposal of fixed assets	-	-	(604)	-	(604)
Assessment for E&G capital and debt service costs	-	-	(2,305,976)	1,519,639	(786,337)
Fees assessed by the Commission for debt service	(120,735)	-	-	-	(120,735)
Total net nonoperating revenues	2,134,734	(1,424,306)	21,871,803	-	22,582,231
INCREASE (DECREASE) IN NET POSITION BEFORE OTHER REVENUES, EXPENSES, GAINS, LOSSES, AND TRANSFER	(781,937)	1,260,654	(311,961)	-	166,756
CAPITAL BOND PROCEEDS FROM THE STATE	2,519,903	-	-	-	2,519,903
INCREASE (DECREASE) IN NET POSITION BEFORE TRANSFER	1,737,966	1,260,654	(311,961)	-	2,686,659
TRANSFER OF NET POSITION TO PIERPONT	277,132	492,054	(505,476)	-	263,710
INCREASE (DECREASE) IN NET POSITION	2,015,098	1,752,708	(817,437)	-	2,950,369
NET POSITION — Beginning of year	40,848,526	22,346,638	12,278,210	-	75,473,374
NET POSITION — End of year	$ 42,863,624	$ 24,099,346	$ 11,460,773	$ -	$ 78,423,743

See note to schedules.

SCHEDULE OF CASH FLOW INFORMATION
YEAR ENDED JUNE 30, 2014

	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	$ (83)	$ 47,938	$ 9,755,131	$ -	$ 9,802,986
Contracts and grants	-	-	9,515,493	-	9,515,493
Payments to and on behalf of employees	-	(2,945,001)	(29,437,395)	-	(32,382,396)
Payments to suppliers	(1,126,363)	(3,257,389)	(9,338,052)	-	(13,721,804)
Payments to utilities	-	(756,146)	(1,551,129)	-	(2,307,275)
Payments for scholarships and fellowships	-	(405,277)	(5,315,315)	-	(5,720,592)
Loans issued to students	-	-	(36,807)	-	(36,807)
Interest on student loans receivable	-	-	18,154	-	18,154
Auxiliary enterprise charges	-	6,389,190	3,997,725	-	10,386,915
Fees assessed by the Commission	-	-	(187,521)	-	(187,521)
Other receipts — net	44,247	297,805	239,886	-	581,938
Other assets	-	-	(117,150)	-	(117,150)
Student activity support revenue	-	-	502,782	(369,539)	133,243
Auxiliary fees & debt service support revenues	-	4,850,552	-	(3,998,234)	852,318
Assessment for support services	-	-	(225,173)	-	(225,173)
Support services revenue	-	-	2,863,257	-	2,863,257
Assessment for student activity costs	-	-	(369,539)	369,539	-
Assessment for auxiliary fees & debt service	-	-	(3,998,234)	3,998,234	-
Faculty services revenue	-	-	819,354	-	819,354
Assessment for faculty services	-	-	(950,151)	-	(950,151)
Operating support services revenue	-	-	2,140,935	-	2,140,935
Assessment for operating cost	-	-	(94,365)	-	(94,365)
Net cash (used in) provided by operating activities	(1,082,199)	4,221,672	(21,768,114)	-	(18,628,641)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State appropriations	-	-	15,926,562	-	15,926,562
Pell grant revenues	-	-	8,070,971	-	8,070,971
Gift receipts	(45,471)	34,757	6,228	-	(4,486)
William D. Ford direct lending receipts	-	-	19,863,543	-	19,863,543
William D. Ford direct lending payments	-	-	(19,863,543)	-	(19,863,543)
Transfer to Pierpont	27,847	-	-	-	27,847
Transfer to/from Pierpont	8,845	492,054	(505,476)	-	(4,577)
Net cash (used in) provided by noncapital financing activities	(8,779)	526,811	23,498,285	-	24,016,317
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:					
Capital bond proceeds from State	2,292,232	-	-	-	2,292,232
E&G capital and debt service support revenue	1,841,045	-	-	(1,519,638)	321,407
Fees assessed to Pierpont	162,856	-	-	-	162,856
Payments from Pierpont on debt obligation	199,361	-	-	-	199,361
Fees assessed by the Commission	(120,735)	-	-	-	(120,735)
Purchases of capital assets	(2,916,737)	(1,483,226)	(39,653)	-	(4,439,616)
Purchases of equipment	(257,872)	(123,467)	(145,319)	-	(526,658)
Principal paid on leases	-	(133,231)	-	-	(133,231)
Interest paid on leases	-	(8,048)	-	-	(8,048)
Assessment for E&G capital and debt service costs	-	-	(2,305,976)	1,519,638	(786,338)
Payments to the Commission on debt obligation	(109,973)	-	-	-	(109,973)
Principal paid on bonds	(584,637)	(1,565,679)	(31,963)	-	(2,182,279)
Interest paid on bonds	(477,842)	(1,594,371)	(33,005)	-	(2,105,218)
Bond interest income	258	1,808	39	-	2,105
Net cash provided by (used in) capital financing activities	27,956	(4,906,214)	(2,555,877)	-	(7,434,135)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	6,075	14,908	24,417	-	45,400
DECREASE IN CASH AND CASH EQUIVALENTS	(1,056,947)	(142,823)	(801,289)	-	(2,001,059)
CASH AND CASH EQUIVALENTS — Beginning of year	4,239,845	10,942,710	18,520,770	-	33,703,325
CASH AND CASH EQUIVALENTS — End of year	$ 3,182,898	$ 10,799,887	$ 17,719,481	$ -	$ 31,702,266

(Continued)

SCHEDULE OF CASH FLOW INFORMATION
YEAR ENDED JUNE 30, 2014

	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted, and Other Funds	Total Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES:				
Operating income (loss)	$ (2,916,671)	$ 2,684,960	$ (22,183,764)	$ (22,415,475)
Adjustments to reconcile net operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	1,846,763	1,574,681	408,919	3,830,363
Changes in assets and liabilities:				
Receivables — net	(796)	(103,442)	(126,644)	(230,882)
Loans to students — net	-	-	87,665	87,665
Inventories	-	-	4,303	4,303
Other assets	-	-	(117,150)	(117,150)
Advances from Federal Sponsors	-	-	(78,008)	(78,008)
Accounts payable	(11,412)	(93,294)	(64,809)	(169,515)
Accrued liabilities — payroll	-	13,209	(68,480)	(55,271)
Accrued liabilities — other	-	-	(152,392)	(152,392)
Compensated absences	-	(15,748)	(24,028)	(39,776)
Other postemployment benefits liability	-	19,911	157,022	176,933
Unearned revenue	-	75,000	368,402	443,402
Undistributed receipts (disbursements) — deposits	(83)	66,395	20,850	87,162
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	$ (1,082,199)	$ 4,221,672	$ (21,768,114)	$ (18,628,641)
NONCASH TRANSACTIONS:				
Construction in progress additions in accounts payable	$ 77,238	$ 128,033	$ 66,454	$ 271,725
Construction in progress additions in retainages payable	$ 4,346	$ 48,609	$ -	$ 52,955
Transfer to Pierpont (exclusive of $36,692 of cash)	$ 240,441	$ -	$ -	$ 240,441
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:				
Cash and cash equivalents classified at current	$ 3,182,803	$ 10,798,978	$ 17,447,164	$ 31,428,945
Cash and cash equivalents classified at noncurrent	95	909	272,317	273,321
	$ 3,182,898	$ 10,799,887	$ 17,719,481	$ 31,702,266

(Concluded)

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2014

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	-	-	22,095	-	-	-	-	22,095
Student financial aid	-	-	-	-	-	-	-	-
Operation and maintenance	-	-	1,093,093	-	-	-	-	1,093,093
Depreciation	-	-	-	-	-	1,846,763	-	1,846,763
Loan cancellations and write-offs	-	-	-	-	-	-	-	-
TOTAL	$ -	$ -	$ 1,115,188	$ -	$ -	$ 1,846,763	$ -	$ 2,961,951

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2014

INTERNAL FUND: AUXILIARY

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$ 2,043,797	$ 369,039	$ 2,903,112	$ 720,326	$ -	$ -	$ -	$ 6,036,274
Instruction	-	-	-	-	-	-	-	-
Research	-	-	-	-	-	-	-	-
Public service	26,250	2,275	5,841	-	-	-	-	34,366
Academic support	-	-	-	-	-	-	-	-
Student services	145,849	34,177	52,586	-	-	-	-	232,612
General institutional support	129,298	34,041	160,573	-	-	-	-	323,912
Student financial aid	-	-	-	-	405,276	-	-	405,276
Operation and maintenance	130,773	53,887	145,135	-	-	-	-	329,795
Depreciation	-	-	-	-	-	1,574,681	-	1,574,681
Loan cancellations and write-offs	-	-	-	-	-	-	153,218	153,218
TOTAL	$ 2,475,967	$ 493,419	$ 3,267,247	$ 720,326	$ 405,276	$ 1,574,681	$ 153,218	$ 9,090,134

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2014

INTERNAL FUND: FAIRMONT STATE UNIVERSITY

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Assessment for Activity, Capital, and Debt Service 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	$ 727,843	$ 150,072	$ 111,417	$ 186,232	$ -	$ -	$ -	$ 3,998,234	$ -	$ -	$ -	$ -	$ -	$ 5,173,798
Instruction	12,401,255	2,718,328	1,592,550	2,726	-	-	-	-	900,151	88,941	105,420	-	-	17,809,371
Research	59,976	3,128	83,400	-	-	-	-	-	-	-	-	-	-	146,504
Public service	215,829	45,754	115,270	-	-	-	-	-	-	-	-	-	-	376,853
Academic support	2,521,729	575,192	1,881,955	-	-	-	-	-	-	10,054	119,701	-	-	5,108,631
Student services	3,333,860	739,340	1,872,647	-	-	-	369,539	-	-	-	-	-	-	6,315,386
General institutional support	2,904,550	947,325	1,542,191	1,227	-	-	-	-	50,000	-	-	-	187,521	5,632,814
Student financial aid	-	54,049	-	-	6,698,209	-	-	-	-	-	-	-	-	6,752,258
Operation and maintenance	1,514,409	577,539	1,696,261	1,392,461	-	-	-	-	-	-	-	-	-	5,180,670
Depreciation	-	-	-	-	-	408,919	-	-	-	-	-	-	-	408,919
Loan cancellations and write-offs	-	-	-	-	-	-	-	-	-	-	-	409,014	-	409,014
TOTAL	$ 23,679,451	$ 5,810,727	$ 8,895,691	$ 1,582,646	$ 6,698,209	$ 408,919	$ 369,539	$ 3,998,234	$ 950,151	$ 98,995	$ 225,121	$ 409,014	$ 187,521	$ 53,314,218

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 65.90% as of June 30, 2014. 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 10% 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 each pay cycle 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 (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, 2014, PEIA retiree and liabilities are distributed to the component units based on funding source. However, the chargeback agreement for fiscal year 2014 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 2014, the percentages are 34.52% for the two-year institution and 65.48% for the four-year institution.

Suttle & Stalnaker PLLC
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 (the University) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the University's basic financial statements, and have issued our report thereon dated October 31, 2014.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the University'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 31, 2014