FAIRMONT STATE COLLEGE

Financial Statements for the
Years Ended June 30, 2001 and 2000 and
Independent Auditors' Reports

FAIRMONT STATE COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Fairmont State College Governing Board:

We have audited the accompanying financial statements of Fairmont State College (the "College") as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2001 and 2000, and the changes in its fund balances and the current funds revenues, expenditures, transfers and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 5, 2001, on our consideration of the College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

DELOITTE & TOUCHE LLP

October 5, 2001

FAIRMONT STATE COLLEGE

BALANCE SHEET
JUNE 30, 2001

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Plant Funds
ASSETS:				
Cash and cash equivalents	$ 15,379,944	$ 233,819	$ 174,650	$ 5,954,566
Student accounts receivable - net of allowance for doubtful accounts of $263,286	75,558			
Other accounts receivable - net of allowance for doubtful accounts of $75,409	244,383			
Grants and contracts receivable		510,314		
Loans receivable - net of allowance for doubtful accounts of $767,728			1,075,826	
Due from other State agencies	38,318	98,393		
Due from the Commission	54,528	3,724		361,896
Due from other fund groups	8,013	2,478		
Inventories	736,046			
Investment in plant				69,092,982
	$ 16,536,790	$ 848,728	$ 1,250,476	$ 75,409,444
LIABILITIES AND FUND BALANCES:				
Accounts payable	$ 343,766	$ 735,836		$ 255,812
Accrued liabilities	1,158,572	39,742		
Deferred revenue	300,626			
Compensated absences	3,287,878			
Due to other State agencies	50,310	6,425		
Due to the Commission	5,971	1,144		
Due to other fund groups	2,478	8,013		
Capital lease obligations				589,789
Fund balances:				
College funds	11,387,189	57,568		6,060,650
Loan funds			$ 1,250,476	
Net investment in plant				68,503,193
	$ 16,536,790	$ 848,728	$ 1,250,476	$ 75,409,444

See notes to financial statements.

FAIRMONT STATE COLLEGE

BALANCE SHEET
JUNE 30, 2000

	Current Funds Unrestricted	Current Funds Restricted	Loan Funds	Plant Funds
ASSETS:				
Cash and cash equivalents	$ 13,934,658	$ 189,980	$ 144,277	$ 5,682,681
Student accounts receivable - net of allowance for doubtful accounts of $243,253	34,560			
Other accounts receivable - net of allowance for doubtful accounts of $43,404	164,009			
Grants and contracts receivable		58,206		
Loans receivable - net of allowance for doubtful accounts of $768,383			1,063,874	
Due from other State agencies	19,176	77,658		
Due from the Board	192,390	82,560		219,486
Due from other fund groups	24,653			
Inventories	710,926			
Investment in plant				68,139,344
	$ 15,080,372	$ 408,404	$ 1,208,151	$ 74,041,511
LIABILITIES AND FUND BALANCES:				
Accounts payable	$ 508,840	$ 373,143		$ 125,992
Accrued liabilities	1,139,155	39,817		
Deferred revenue	287,288			
Compensated absences	3,088,297			
Due to other State agencies	35,742	4,627		
Due to the Board	24,432	3,887		
Due to other fund groups		24,653		
Capital lease obligations				1,074,707
Fund balances (deficit):				
College funds	9,996,618	(37,723)		5,776,175
Loan funds			$ 1,208,151	
Net investment in plant				67,064,637
	$ 15,080,372	$ 408,404	$ 1,208,151	$ 74,041,511

See notes to financial statements.

FAIRMONT STATE COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2001

	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	$ 9,996,618	$ (37,723)	$ 1,208,151	$ 72,840,812
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	34,681,387			
Auxiliary enterprise revenues	6,490,583			
Contracts and grants - restricted:				
Federal	27,234	18,395,476		
State	16,106	2,848,398		482,500
Local		1,028,964		70,000
Investment income	989,537	21,437		220,860
Interest on loans receivable			21,344	
Other sources			14,674	138,752
Expended for plant facilities - net of disposals				953,638
Retirement of indebtedness				484,918
Miscellaneous income			32,824	
Total revenues and other additions	42,204,847	22,294,275	68,842	2,350,668
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	30,702,321	21,980,464		
Auxiliary enterprise expenditures	6,567,522	126,836		
Indirect costs recovered	49,497	289,059		
Loan cancellations, write-offs and bad debt expense			25,955	
Net tuition and fees retained by the Commission	1,817,668			
Expended for plant facilities				1,520,218
Retirement of indebtedness				484,918
Interest on indebtedness				48,187
Administrative and collection fees			5,454	
Refunds to grantors		49,315		
Total expenditures and other deductions	39,137,008	22,445,674	31,409	2,053,323
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS:				
Mandatory transfers:				
Principal and interest	(533,105)			533,105
Other - SEOG and workstudy matching	(199,582)	194,690	4,892	
Nonmandatory transfers	(944,581)	52,000		892,581
Total transfers	(1,677,268)	246,690	4,892	1,425,686
NET INCREASE	1,390,571	95,291	42,325	1,723,031
FUND BALANCE, END OF YEAR	$ 11,387,189	$ 57,568	$ 1,250,476	$ 74,563,843

See notes to financial statements.

FAIRMONT STATE COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2000

	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
FUND BALANCE, BEGINNING OF YEAR	$ 9,434,510	$ 170,164	$ 1,194,594	$ 71,122,457
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	32,415,222			
Auxiliary enterprise revenues	6,250,649			
Contracts and grants - restricted:				
Federal		14,461,089		
State		2,567,439		100,000
Local		894,310		170,000
Investment income	640,934	24,043		191,057
Interest on loans receivable			22,130	
Other sources			6,561	423,185
Expended for plant facilities - net of disposals				2,176,361
Retirement of indebtedness				364,792
Miscellaneous income			31,862	
Total revenues and other additions	39,306,805	17,946,881	60,553	3,425,395
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	29,172,570	18,091,312		
Auxiliary enterprise expenditures	6,053,119	95,992		
Indirect costs recovered		71,350		
Loan cancellations, write-offs and bad debt expense			42,210	
Net tuition and fees retained by the Board	1,495,646			
Expended for plant facilities				3,188,535
Retirement of indebtedness				364,792
Interest of indebtedness				55,298
Administrative and collection fees			7,000	
Refunds to grantors	15,084	593		
Total expenditures and other deductions	36,736,419	18,259,247	49,210	3,608,625
TRANSFERS AMONG FUNDS - (DEDUCTIONS) ADDITIONS:				
Mandatory transfers:				
Principal and interest	(420,091)			420,091
Other - SEOG and workstudy matching	(175,278)	173,064	2,214	
Nonmandatory transfers	(1,412,909)	(68,585)		1,481,494
Total transfers	(2,008,278)	104,479	2,214	1,901,585
NET INCREASE (DECREASE)	562,108	(207,887)	13,557	1,718,355
FUND BALANCE (DEFICIT), END OF YEAR	$ 9,996,618	$ (37,723)	$ 1,208,151	$ 72,840,812

See notes to financial statements.

FAIRMONT STATE COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 13,332,383		$ 13,332,383
State government appropriations	20,437,044		20,437,044
Government contracts and grants:			
Federal	264,679	$ 18,464,609	18,729,288
State	71,062	2,904,418	2,975,480
Local			
Private gifts, grants and contracts		1,027,332	1,027,332
Investment income	989,537		989,537
Auxiliary enterprise revenues	6,490,583		6,490,583
Sales and services of educational activities	2,200		2,200
Other sources	617,359		617,359
TOTAL REVENUES	42,204,847	22,396,359	64,601,206
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	15,405,262	932,241	16,337,503
Research	14,833	55,200	70,033
Public service	428,184	3,760,560	4,188,744
Academic support	3,416,533	320,420	3,736,953
Student services	2,604,102	110,060	2,714,162
Operations and maintenance of plant	3,072,757	7,072	3,079,829
General institutional support	5,284,984	242,582	5,527,566
Scholarships and fellowships	475,666	16,552,329	17,027,995
Total educational and general expenditures	30,702,321	21,980,464	52,682,785
Transfers and other deductions (additions):			
Mandatory transfers - principal and interest	533,105		533,105
Mandatory transfers - other	199,582	(194,690)	4,892
Net tuition and fees retained by the Commission	1,817,668		1,817,668
Nonmandatory transfers	944,581	(52,000)	892,581
Refunds to grantors		49,315	49,315
Indirect costs recovered	49,497	289,059	338,556
Total transfers and other deductions	3,544,433	91,684	3,636,117
Total educational and general, transfers and other deductions	34,246,754	22,072,148	56,318,902
Auxiliary enterprises - expenditures	6,567,522	126,836	6,694,358
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	40,814,276	22,198,984	63,013,260
OTHER RESTRICTED RECEIPTS - Less recognized revenues		(102,084)	(102,084)
NET INCREASE IN FUND BALANCE	$ 1,390,571	$ 95,291	$ 1,485,862

See notes to financial statements.

FAIRMONT STATE COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	$ 12,896,563		$ 12,896,563
State government appropriations	18,908,655		18,908,655
Government contracts and grants:			
Federal	61,757	$ 14,880,517	14,942,274
State	31,972	2,509,046	2,541,018
Local		3,056	3,056
Private gifts, grants and contracts		866,035	866,035
Investment income	640,934		640,934
Auxiliary enterprise revenues	6,250,649		6,250,649
Sales and services of educational activities	3,353		3,353
Other sources	512,922		512,922
TOTAL REVENUES	39,306,805	18,258,654	57,565,459
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	15,543,286	514,890	16,058,176
Research	7,035	98,115	105,150
Public service	371,503	1,128,464	1,499,967
Academic support	3,152,470	417,435	3,569,905
Student services	2,354,609	116,703	2,471,312
Operations and maintenance of plant	2,846,987	4,764	2,851,751
General institutional support	4,492,227	223,140	4,715,367
Scholarships and fellowships	404,453	15,587,801	15,992,254
Total educational and general expenditures	29,172,570	18,091,312	47,263,882
Transfers and other deductions (additions):			
Mandatory transfers - other	175,278	(173,064)	2,214
Mandatory transfers - principal and interest	420,091		420,091
Net tuition and fees retained by the Board	1,495,646		1,495,646
Nonmandatory transfers	1,412,909	68,585	1,481,494
Refunds to grantors	15,084	593	15,677
Indirect costs recovered		71,350	71,350
Total transfers and other deductions (additions)	3,519,008	(32,536)	3,486,472
Total educational and general, transfers and other deductions	32,691,578	18,058,776	50,750,354
Auxiliary enterprises - expenditures	6,053,119	95,992	6,149,111
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	38,744,697	18,154,768	56,899,465
OTHER RESTRICTED RECEIPTS - Less recognized revenues		(311,773)	(311,773)
NET INCREASE (DECREASE) IN FUND BALANCE	$ 562,108	$ (207,887)	$ 354,221

See notes to financial statements.

1. ORGANIZATION

Fairmont State College (the "College") was governed by the Board of Directors of the State College System of West Virginia (the "Board"). The Board was an agency of the State of West Virginia (the "State") and was responsible for the general determination, control, supervision and management of the financial, business and educational policies and affairs of the State's higher education institutions within the State College System of West Virginia, of which the College was one.

Effective July 1, 2000, the West Virginia Legislature made changes to the governance and structure of West Virginia higher education. On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 ("S.B. 653"), which restructured public higher education in West Virginia. S.B. 653 abolished the Board effective June 30, 2000, and replaced it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board is granted all powers, duties, and authorities of the Board and is transferred each valid agreement and obligation previously transferred to or vested in the Board. The Interim Governing Board is comprised of nine persons appointed by the Governor with the advice and consent of the Senate.

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. Effective July 1, 2001, certain powers transferred to the Interim Governing Board will be transferred to the newly created Governing Boards of each of the institutions of higher education.

Each Governing Board shall have certain powers and duties including but not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution(s) under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution's budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the accounting pronouncements issued by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants Industry Audit Guide, *Audits of Colleges and Universities* and the *College and University Business Administration*, published by the National Association of College and University Business Officers. The College follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

a. *Reporting Entity* - The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The College is a separate entity which, along with all State institutions of higher education, the Higher Education Central Office and the West Virginia Network for Educational Telecomputing ("WVNET"), form the Higher Education Fund of the State. The Higher Education Fund of the State is considered a component unit of the State, and is discretely presented in the State's comprehensive annual financial report.

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

b. *Basis of Accounting* - The financial statements of the College have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures are reported when materials or services are received. The statement of current funds' revenues, expenditures, transfers and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the year as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of library books and moveable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

c. *Fund Accounting* - The accounts of the College are maintained in accordance with the principles of fund accounting for educational organizations to reflect the limitations and restrictions on the use of available resources. The accounts relating to specified activities or objectives have been classified into separate funds. Similar funds have been combined for financial reporting purposes.

Within each fund group, resources restricted as to use by outside sources are distinguished from unrestricted resources allocated or designated to specific purposes by the College president or the Board. Restricted resources may only be used for the purpose established by the source of such funds. Restricted current funds are recorded in the restricted fund balance until they are reported as revenues and expenditures when expended for current operating purposes.

Loan funds are used to account for resources that may be lent to students. These funds are provided by various sources, including the U.S. government, private donors or by the transfer of College funds. Generally, student loan funds are operated on a revolving fund basis with principal and interest payments remaining in the loan funds for future lending.

Plant funds are used to account for unexpended plant funds, long-lived assets and retirement of indebtedness. Maintenance and repairs are recorded as current funds' expenditures.

d. *Cash and Cash Equivalents* - Cash and cash equivalents balances on deposit with the West Virginia Treasurer's Office (the "Treasurer") are pooled by the Treasurer with other available funds of the State for investment by the West Virginia Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the Treasurer to invest these funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, "Accounting and Financial Reporting for Certain Investments and for External Investment Pools." The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value is allocated to participants in the pool based upon the funds that have been invested. The amounts on deposit with the Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

e. *Allowance for Doubtful Accounts* - It is the College's policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying accounting and loan balances, the historical collectibility experienced by the College on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.

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

g. *Property, Plant and Equipment* - Property, plant and equipment and books and materials, which are part of a catalogued library, are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Consistent with current generally accepted accounting principles for public colleges and universities, depreciation on plant assets is not recorded. The College capitalizes items over $1,000.

h. *Deferred Revenue* - Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room and board and financial aid deposits. Such deposits are separately classified.

i. *Compensated Absences* - The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable.

   The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extends health insurance for one month of single coverage and three days extends health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage.

Certain faculty employees (generally those contracted employees 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 extends health insurance for one year of single coverage and five years extends health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage and estimated the probability of the payment of that benefit to employees upon retirement.

The estimated liability for vacation leave, sick leave or extended health or life insurance retirement payments are recorded principally within the College's current funds.

j. *Risk Management* - The State's Board of Risk and Insurance Management ("BRIM") provides general, property and casualty and medical malpractice liability coverage to the College and its employees. Such coverage may be provided to the College by BRIM through self-insurance programs maintained by BRIM or policies underwritten by BRIM that may involve experience related premiums or adjustments to BRIM.

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

k. *Student Aid* - The College 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 the College. The activity of this program is recorded in the accompanying financial statements as current restricted funds revenues and expenditures. Direct student loan receivables are not included in the College's balance sheet as the loans are repayable directly to the U.S. Department of Education. The College received and disbursed approximately $8,980,000 in 2001 and $8,580,000 in 2000 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Education Opportunity Grant and Federal Work Study Programs. The activity of these programs is also recorded in the accompanying financial statements as current restricted funds revenues and expenditures. In 2001 and 2000, the College received and disbursed approximately $5,274,000 and $5,042,000, respectively, under these other federal student aid programs.

l. *Government Grants and Contracts* - Government grants and contracts normally provide for the recovery of direct and indirect costs, subject to audit. The College 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 three years.

m. *Income Taxes* - The College 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.

n. *Use of Estimates* - The preparation of financial statements in conformity with generally accepted 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.

o. *Recent Issued Statements* - The colleges and universities of the West Virginia Higher Education Fund adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB No. 36, in the year ended June 30, 2001. The effect of the adoption of these statements did not have a material impact on the College's financial statements. GASB has also issued Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," and Statement No. 35, "Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities." These statements are effective for periods beginning after June 15, 2001. The College has not completed the process of evaluating the impact that will result from adopting Statements No. 34 and No. 35. These statements, when adopted, will substantially alter the appearance of the College's financial statements.

p. *Reclassifications* - Certain amounts in the 2000 financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2001 and 2000:

	2001			
	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
Cash on deposit with the Treasurer:				
College	$ 15,290,488	$ 18,469		$ 3,282,576
Municipal Bond Commission				2,671,990
Cash in bank	89,456	215,350	$ 174,650	
	$ 15,379,944	$ 233,819	$ 174,650	$ 5,954,566

	2000			
	Current Funds		Loan	Plant
	Unrestricted	Restricted	Funds	Funds
Cash on deposit with the Treasurer:				
College	$ 13,838,377	$ 48,921		$ 3,164,421
Municipal Bond Commission				2,518,260
Cash in bank	96,281	141,059	$ 144,277	
	$ 13,934,658	$ 189,980	$ 144,277	$ 5,682,681

Cash on deposit with the Municipal Bond Commission is used by the College as needed to finance capital projects.

The combined carrying amounts of cash in the bank at June 30, 2001 and 2000, were $479,456 and $381,617, respectively, as compared with the combined bank balances of $592,213 and $520,829, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Cash on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3.

4. INVESTMENT IN PLANT

The composition of investment in plant was as follows at June 30, 2001 and 2000:

	2001	2000
Land	$ 1,035,395	$ 1,035,395
Buildings and improvements	44,960,958	43,695,633
Equipment	6,520,876	6,891,087
Library books	5,778,527	5,590,117
Capital leases	1,569,855	1,569,855
Construction in progress	9,227,371	9,357,257
	$69,092,982	$68,139,344

5. CAPITAL LEASE OBLIGATIONS

The College leases various equipment. These obligations are accounted for as capital leases. The following is a schedule by year of future annual minimum payments required under the lease obligations existing at June 30, 2001:

Year Ending June 30.	
2002	$ 371,145
2003	114,437
2004	79,221
2005	43,139
2006 and Thereafter	25,098
Total	633,040
Less portion representing interest	(43,251)
	$ 589,789

6. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education, and the College 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 the College's operations, its tuition and fee structure, its personnel policies and its administrative practices.

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

Students of the State's universities and colleges, including students of the College are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Boards. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed.

The amounts of tuition and fees remitted by the College to the Commission and the amounts returned or due back from the Commission to the College are summarized as follows for the years ended June 30, 2001 and 2000:

	2001	2000
Tuition and fees contractually required to be remitted by the College to the Commission (Mandatory transfers)	$ 2,710,249	$ 2,723,641
Less amounts returned or due back from the Commission to the College for plant renewal and maintenance purposes	(892,581)	(1,227,995)
Net amount retained by the Commission	$ 1,817,668	$ 1,495,646

The tuition and fees earned by the College from its students are recorded as unrestricted current fund revenues of the College. The net amount retained by the Commission is recorded as an unrestricted current fund deduction to the College.

Plant Renewal and Capital Improvement funds remitted or due back from the Commission to the College are transferred to the plant fund for future plant fund purposes (i.e., plant additions and debt retirement). Amounts due from the Commission at year end are so unexpended and, accordingly, transferred to and recorded as an asset of the College's plant fund at year end.

The Commission's debt information cannot be extracted so as to present the College's portion of the Commission's bond indebtedness outstanding. It cannot be assumed that the amount of the tuition and fees contractually assessed and collected from College students, or that the net amount retained by the Commission, bears any relationship to the College's portion of the Commission's debt service.

7. RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "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 College employees have not been significant to date.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College 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, 2001 and 2000. Required employee contributions were at the rate of 6% of total annual salary in both 2001 and 2000. 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.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2001, 2000 and 1999, were $724,111, $758,020 and $765,584, respectively, which consisted of $504,234, $526,526 and $533,755 from the College in 2001, 2000 and 1999, respectively, and $219,877, $231,494 and $231,829 from the covered employees in 2001, 2000 and 1999, respectively.

The contribution rate is set by the State Legislature on an overall basis, and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. 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, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2001, 2000 and 1999, were $1,711,418, $1,584,520 and $1,481,172, respectively, which consisted of equal contributions from the College and covered employees in 2001, 2000 and 1999 of $855,709, $792,260 and $740,586, respectively.

The College's total payroll for the years ended June 30, 2001 and 2000, was $21,081,887 and $20,039,261, respectively; total covered employees' salaries in the STRS and TIAA-CREF were $3,735,069 and $14,364,296, respectively, in 2001 and $3,900,195 and $13,204,744 respectively, in 2000.

8. COMPENSATED ABSENCES LIABILITY

The composition of the compensated absences liability was as follows at June 30, 2001 and 2000:

	2001	2000
Health or life insurance benefits	$ 2,378,125	$ 2,295,048
Accrued vacation leave	909,753	793,249
	$ 3,287,878	$ 3,088,297

For the years ended June 30, 2001 and 2000, the College's liability for extended health or life insurance coverage retirement benefits totaled $450,577 and $398,621, respectively. As of June 30, 2001 and 2000, there were 48 and 53 retirees, respectively, currently eligible for these benefits.

9. FOUNDATION (Unaudited)

The Foundation is a separate nonprofit organization incorporated in the State and has as it purpose, ". . . to aid, strengthen and further the work and services of the College; to develop and utilize the ties of interest, sympathy and affection existing between the College and its affiliated nonprofit organizations. . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. 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. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

The Foundation's fund balances, all of which are principally restricted, totaled $9,476,634 and $9,318,823 at June 30, 2001 and 2000, respectively. The restricted fund balance includes amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Contributions to the Foundation, which are not reflected in the accompanying financial statements, totaled $1,048,948 and $852,031 for the years ended June 30, 2001 and 2000, respectively.

During the years ended June 30, 2001 and 2000, the Foundation contributed $800,505 and $722,221, respectively, to the College for scholarships and grants.

10. AFFILIATED ORGANIZATION

The College has a separately incorporated affiliated organization, the Fairmont State College Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying financial statements.

11. CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not impact seriously on the financial status of the College.

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

The College owns various buildings which are known to contain asbestos. The College is not required by Federal, State or Local Law to remove the asbestos from its buildings. The College is required by Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College 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 condition becomes known. The College 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.

12. NONMANDATORY TRANSFERS

During the year ended June 30, 2001, the College made a nonmandatory transfer of $52,000 to the restricted fund. The Athletic Department at the College authorized such transfer in December 2000. The purpose of the transfer was to provide funds for student scholarships.

During the year ended June 30, 2001, the College also had a nonmandatory transfer required by the source of funds as follows:	
Plant Renewal and Capital Improvement Funds	$ 892,581

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

To the Fairmont State College Governing Board:

We have audited the financial statements of Fairmont State College (the "College") as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. We conducted our audit 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.

Compliance

As part of obtaining reasonable assurance about whether the College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the College's internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Fairmont State College Governing Board, and managements of Fairmont State College and the West Virginia Higher Education Policy Commission, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

DELOITTE & TOUCHE LLP

October 5, 2001