Fairmont State College

Financial Statements and Additional Information
for the Year Ended June 30, 2002 and
Independent Auditors' Reports

FAIRMONT STATE COLLEGE

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FAIRMONT STATE COLLEGE

(Which includes Fairmont State College and Fairmont State Community and Technical College)

Management's Discussion and Analysis
Fiscal Year Ending June 30, 2002

Overview

In June 1999, the Governmental Accounting Standards Board (GASB) released Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, which established a new reporting format for annual financial statements. In November 1999, GASB released Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities*, which extends the applicability of the new reporting standards to include public colleges and universities. Fairmont State College (Which includes Fairmont State College and Fairmont State Community and Technical College) ("Fairmont State") was required by the West Virginia Higher Education Policy Commission (the "Commission") to implement these new standards July 1, 2001. The *Management's Discussion and Analysis* is required supplementary information and has been prepared in accordance with the requirements of GASB Statement No. 35.

This section of the annual financial report provides an overview of the Fairmont State's financial performance during the fiscal year ended June 30, 2002. GASB Statement No. 35 does not require restatement of prior year's financial statements during the implementation year. Therefore only current year (fiscal year 2002) information is presented in the audited financial statements.

As required by the new reporting standards, the Fairmont State annual report consists of three basic financial statements: the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets (SRECNA); and the Statement of Cash Flows. These statements focus on the financial condition of Fairmont State, the results of operations, and cash flows of Fairmont State as a whole. Each of these statements is discussed below.

Financial Highlights

The new accounting GASB standards resulted in the following Restatement of Beginning Net Assets:

Asset Adjustment:	
Accumulated Depreciation thru June 30, 2001	$(26,053,035)
Buildings & CIP Adjustment	503,925
Subtotal of Asset Adjustment	(25,549,110)
Liability Adjustment	
Reclassification of Perkins Loan Program	(1,091,138)
Total Net Asset Adjustment	$(26,640,248)

At June 30, 2002, Fairmont State's total net assets decreased from previous year by ($9,388,695), due mainly to a transfer of bond debt from the state Higher Education Policy Commission to Fairmont State and the implementation of an early retirement severance plan.

Statement of Net Assets

The Statement of Net Assets presents the assets (current and non-current), liabilities (current and non-current), and net assets (assets minus liabilities) of Fairmont State as of the end of the year June 30, 2002. Assets denote the resources available to continue the operations of Fairmont State. Liabilities indicate how much the Fairmont State owes vendors, and lending institutions. Net assets provide a way to measure the financial position of Fairmont State.

Net assets are displayed in three major categories:

1. ***Invested in capital assets, net of related debt***. This category represents Fairmont State's total investment in capital assets, net of 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 assets***. This category includes net assets whose use is restricted either due to externally imposed constraints or because of restrictions imposed by law. They are further divided into two additional components -- expendable and non-expendable. **Expendable restricted net assets** include resources for which Fairmont State is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties. **Non-expendable restricted net assets** include 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.

3. ***Unrestricted net assets***. 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 assets are 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.

Statement of Net Assets
As of June 30, 2002

Assets	
Current Assets	$24,263,212
Non-Current Assets	45,645,626
Total Assets	**$69,908,838**
Liabilities	
Current Liabilities	$ 5,805,265
Non-Current Liabilities	12,873,440
Total Liabilities	**$18,678,705**
Net Assets	
Invested in Capital Assets, Net of Related Debt	$35,662,286
Restricted for:	
Expendable:	
Loans	221,503
Scholarships	34,456
Specific purposes by State Code	6,368,507
Sponsored projects	28,951
Capital projects	5,538,923
Debt service	299,696
Total Restricted	12,492,036
Unrestricted	3,075,811
Total Net Assets	**$51,230,133**

The decrease in Net Assets is primarily due to the transfer of debt from the Commission in the amount of $8,317,576. Additionally, Fairmont State offered an early retirement severance plan that increased liabilities as of June 30, 2002 by adding a severance payable of $1,286,201 and increased the compensated absences liability (primarily from health benefits for early retirees) by $560,378.

Cash and cash equivalents increased by $786,770. Inventories decreased by $406,606 due to the removal of Bookstore inventories from Fairmont State's accounting system (the Bookstore and Dining Services became contracted services during the Fiscal Year 2002).

Statement of Revenues, Expenses, and Changes in Net Assets

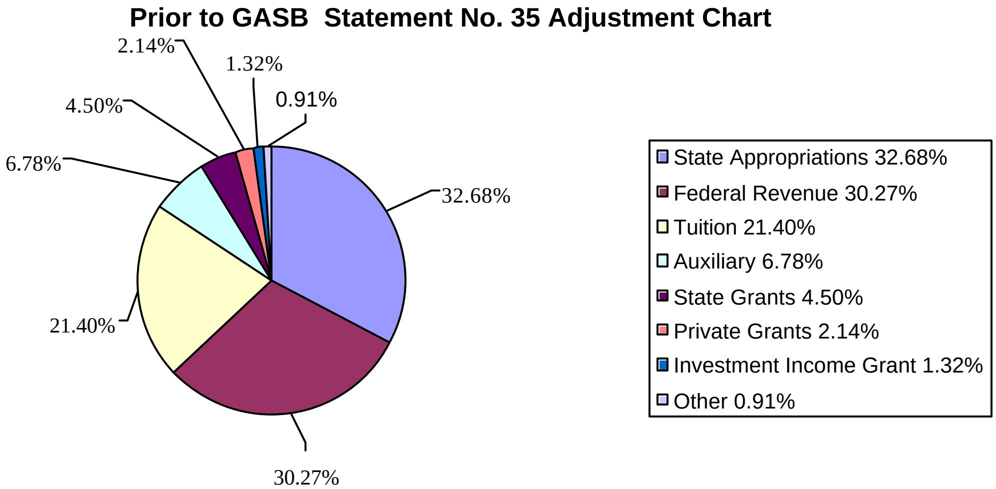
The Statement of Revenues, Expenses, and Changes in Net Assets presents the operating results of Fairmont State for the fiscal year. The purpose of the statement is to present the revenues received by Fairmont State (operating and non-operating), the expenses paid by Fairmont State (operating and non-operating), and any other revenues, expenses, gains, and losses received or spent by Fairmont State.

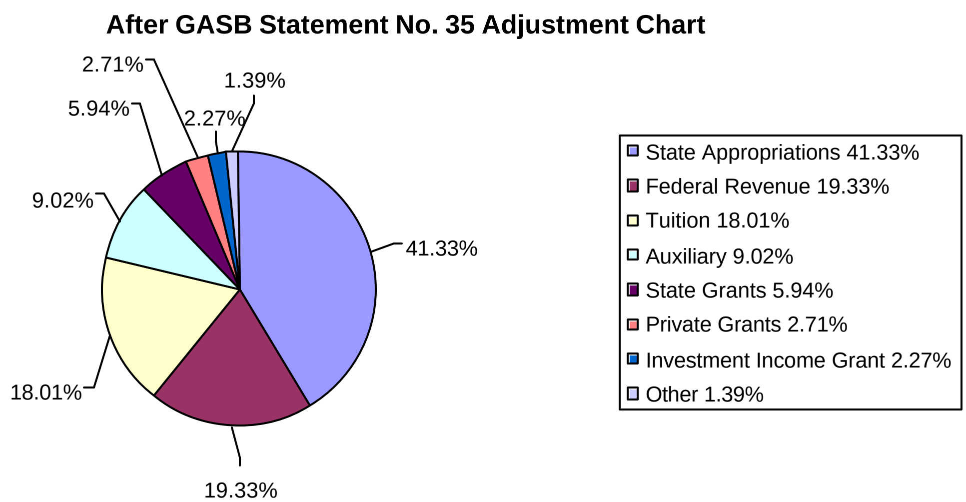
State appropriations, while budgeted for operations, are considered and reported as non-operating revenues. This is because State appropriations are provided by the Legislature to Fairmont State, without the West Virginia State Legislature directly receiving commensurate goods and services for those revenues. 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.

Statement of Revenues, Expenses, and Changes in Net Assets
for the Fiscal Year Ended June 30, 2002

Operating Revenue	$29,736,260
Operating Expenses	52,615,160
Operating Loss	**(22,878,900)**
Total Net Non-operating Revenues	21,571,531
Income Before Other Revenues, Expenses, Gains or Losses	(1,307,369)
Capital Projects Bond Proceeds from the Commission	236,250
Decrease in Net Assets before Transfers	**(1,071,119)**
Transfer of Liability from Policy Commission	(8,317,576)
Decrease in Net Assets	**(9,388,695)**
Net Assets at Beginning of FY 2002 Restated	**60,618,828**
Net Assets at End of FY 2002	**$51,230,133**

Revenues:
The following is a graphic illustration of revenues by source.





The total revenues for FY 2002 prior to adjustments and GASB restatement were $66,592,127. This amount was reduced/adjusted for scholarship allowance in the amount of $4,677,024 and direct loans in the amount of $9,470,158. Total revenues for FY 2002 after adjustments and GASB restatement is $52,612,475.

	Prior to GASB Restatement	GASB Restatement
Tuition and Fees	$14,251,603	$ 9,485,834
Federal Revenues	$20,157,936	$10,182,552

Some highlights of the information presented on the statement of revenues, expenses, and changes in net assets are as follows:

- Tuition and fees revenue increased by $919,220 or 6.9%, when compared to prior year and before the adjustment for scholarship allowance.

- Federal Financial Aid and GEAR-UP revenues increased by $1,428,648 or 7.6% when compared to prior year and before the adjustment for direct loans and indirect costs recovered.

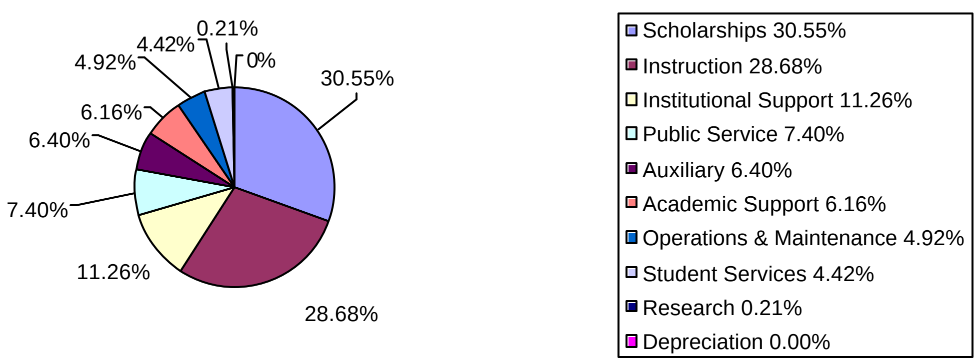
- Auxiliary enterprises revenue decreased by $1,742,098 or (26.8%). This decrease is a result of Fairmont State contracting services for the Bookstore and Dining Services for the FY 2002.

- State appropriations increased by $1,328,022 or 6.5%. A portion of this appropriation ($622,553) was provided as special one-time project allocations. The State appropriation increase less one-time special project allocations was $705,469 or a 3.45% increase.

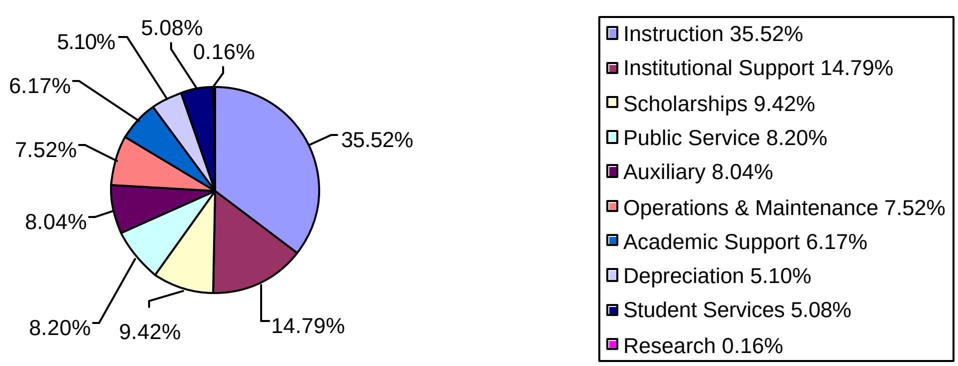
FUNCTIONAL CLASSIFICATION CHART

Expenses:
The following is a graphic illustration of operating expenses.

Prior to Adjustments for GASB Statement No. 35



After Adjustments for GASB Statement No. 35

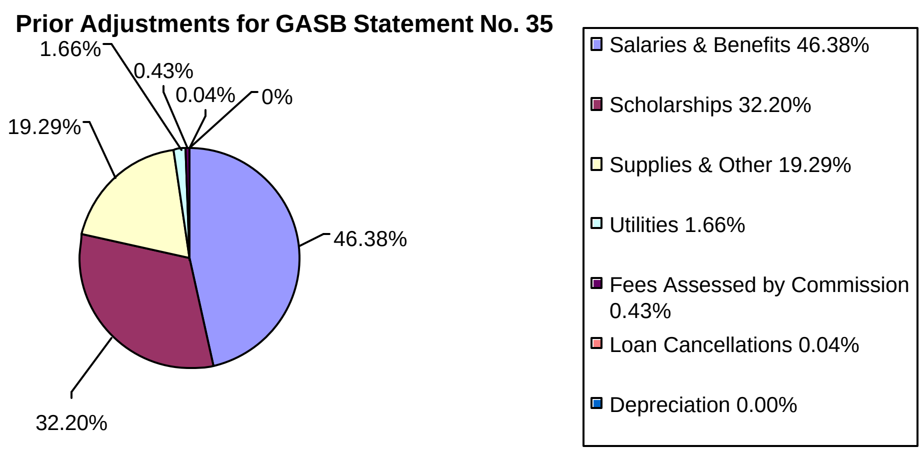


Functional Classification Breakdown:

Operating expenses for Fairmont State for FY 2002 total $52,615,160. The following reflects the amounts and percentage for these expenses:

	Amount	Percent
Instruction	$18,689,580	35.52%
Institutional Support	7,779,855	14.79%
Scholarships	4,958,025	9.42%
Public Service	4,313,912	8.20%
Auxiliary	4,231,624	8.04%
Operations & Maintenance	3,953,637	7.52%
Academic Support	3,243,474	6.17%
Student Services	2,670,960	5.08%
Depreciation	2,687,572	5.10%
Research	86,521	.16%
Total	$52,615,160	100%

NATURAL CLASSIFICATION CHARTS



Natural Classification Breakdown:

Operating expenses for Fairmont State for FY 2002 total $52,615,160. A major portion 56.31% of the total operating expenses is for salaries, wages, and benefits amounting to $29,627,922.

Supplies and other services are $13,758,130 or 26.15%.

Scholarships are $5,283,266 or 10.04%.

Depreciation is $2,659,988 or 5.06%.

Utilities are $979,887 or 1.86%.

Fee Assessed by Commission is $257,402 or 0.49%.

Loan Cancellations are $20,981 or 0.04%.

Loss on Disposal is $27,584 or 0.05%.

Statement 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 non-capital financing activities***. This section reflects the cash received and paid for non-operating, non-investing, and non-capital 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 (used) to operating income (loss.)*** This part provides a schedule that reconciles the accrual-based operating loss and net cash flow used in operating activities.

Statement of Cash Flows
For the Fiscal Year Ended June 30, 2002

Cash Provided (Used) by:	
Operating Activities	$(17,906,496)
Non-capital Financing Activities	21,577,792
Investing Activities	1,139,785
Capital and Financing Related Activities	(4,024,311)
Net Change in Cash and Cash Equivalents	786,770
Cash, Beginning of Year	21,742,979
Cash, End of Year	**$ 22,529,749**

Major sources of funds included in operating activities consist of tuition and fees ($9,589,823), contracts and grants ($14,905,712) and auxiliary enterprise charges ($4,500,870). The largest payments in this group were made to employees ($27,564,549) and to suppliers ($13,717,890).

The largest inflow of cash in the non-capital financing activities section is State appropriations at $21,495,696. Cash used by capital financing activities is primarily for the purchase of capital assets.

Additional Administrative Notes

During FY 2002, changes to the 2002 and 2003 budgeting process occurred to redefine the institution into three parts comprising the total institution known as Fairmont State. The components are the Baccalaureate College (four-year), the Community and Technical College (two-year), and the Central Support Component. Based on the requirement of State Senate Bills 653 and 703, the Legislature mandated that all colleges supporting both four-year and two-year degrees must be able to attain independent accreditation for both colleges.

In order to achieve accreditation, Fairmont State has restructured its budgets to separate four-year and two-year budgets, and all revenue streams are directed appropriately to each college. Full-time faculty are specifically funded by the college, for which they teach and faculty salary and benefit costs are being charged back based on the enrollment breakdown in each class. Adjunct faculty costs are assigned to the college that hires that faculty member and a charge-back process similar to the full-time faculty charge-back process will be in place during FY 2003. All other central shared costs will be borne equally based on the percentage of FTE enrollment, except for those areas that are defined as central support not to be distributed (an example of this is auxiliary enterprise and plant and loan fund activity). Fairmont State will continuously review services provided by central support areas to insure that they are delivered and priced appropriately to both academic units.

Fairmont State's accounting system is capable of producing the statement of net assets and the SRECNA at the component levels mentioned above comprising to a total institutional report.

The above work was completed to meet separate budgetary status for both colleges and to meet the requirement of the Commission and the North Central Accrediting Association to provide financial statements that reflect each component. While there is no requirement to issue separate financials, in the future an independent auditor will be required to review and report on the Fairmont State's ability to provide distinct reporting for both the Baccalaureate and Community and Technical Colleges.

In addition to the above noted change to the budget structures and financial statements, dozens of new reports have been designed and are being developed to provide better financial data to Fairmont State's Board of Governors. These reports will provide information for the three components and for the total institution level as well.

Additional reports were also developed to allow for enhanced analytical work to assess the changes occurring from fiscal year to fiscal year in both natural and functional classification. These reports will support the future audits of Fairmont State.

Finally, a statement of cash flows (using both the direct method and indirect method) has been developed to be produced from the system. Automation of this product is substantially complete with the need to put finishing touches on this product during FY 2003.

Capital Asset and Long-Term Debt Activity

Fairmont State is moving forward with the campus facilities Master Plan. The first phase of the plan includes building a 923-car parking garage, a new student activities center, a new 400-suite style residence hall, acquiring a 113-unit apartment complex, and major renovations to Fairmont State's infrastructure. The major sources of funding for these projects will be fee based revenue bonds. While no bonds were sold during the FY 2002, some infrastructure work (road renovation) was started and approximately $2,000,000 in property acquisitions was made during the FY 2002.

Bonds sold on August 28, 2002, were for:	
Acquiring a 113 unit apartment complex and building a 923 car parking garage	$ 18,430,987
Renovation to Fairmont State's Infrastructure	9,342,331
Bonds to be sold in 2003 will be for:	
Building a new 115,000 square foot student activities center	23,490,000
Building a new 400 suite-style dormitory	13,690,000
Total Bonds sold and planning to be sold	**$ 64,953,318**

During FY 2002 the Commission transferred debt from bonds sold in previous years to the state colleges and universities. The debt assigned to Fairmont State as of June 30, 2002was $8,317,576. The bonds payable were posted to the financials in two parts, current payable FY 2003 of $562,840 and long-term payable of $7,754,736. This debt is presented on Fairmont State's financial statements for the first time in 2002.

Fairmont State's Leadership

Effective July 2001, Fairmont State came under the leadership of a governor-appointed Board of Governors. This leadership was sworn in on July 12, 2001, and this governing board has played a very active role working with President Daniel J. Bradley in the supervision of Fairmont State. The Governing Board Members for FY 2002 are:

Name	Position Held	End of 2002 Status
Janet Albert	Student Representative	Outgoing Member-Student
Stephen Brooks	Chair & Lay Member	Member
Janice Denison	Lay Member	Member
James Estep	Lay Member	Member
James Griffin	Lay Member	Member
Robert Kittle	Lay Member	Member
Ann Lester	Classified Staff Representative	Member
Dick Martin	Lay Member	Member
Larry Mazza	Lay Member	Member
Connie Moore	Faculty Representative	Member
Phil Reale	Secretary/ Lay Member	Member
Josh Schrader	Student Representative	Member
Michael Vetere	Lay Member	Member
Patty Vingle	Classified Staff Representative	Retired

Most of this leadership served as a Board of Advisors during the FY 2001.

The Governing Board receives a financial report at each meeting, and it has challenged fiscal operations to be in continuous motion to improve the reporting capabilities and to provide succinct, but informative financial data. Financial reports for FY 2002 were presented in revised formats at least twice, and due to the new GASB Statement No. 35 formats, these financial reports are being prepared to meet new expectations of the Governing Board as well as conform with GASB Statement No. 35. The Governing Board takes its role seriously as it relates to the financial well being of Fairmont State. Some of the decisions made by the Governing Board that impact the economic condition of Fairmont State and the North Central Area it serves are:

- Approved FY 2002 pay raises of 4 percent to faculty and non-classified staff and 1/6 step to new mercer pay scale for classified staff.
- Reduced 2002-Fairmont State budget by $2,000,000.
- Deferred employee pay raises for Fiscal Years 2002 and 2003 until October each year.
- Authorized Fairmont State to use $2,000,000 of Housing Fund Capital Reserves to begin acquiring properties for the campus Master Plan. A resolution authorized reimbursement of these funds from bond proceeds when sold.
- Were informed of the service contract awarded to Aladdin Food Service. Note: Fairmont State profits for the FY 2002 were approximately $130,000. This is an improvement over the FY 2001 when the Dining Service (operated in-house) reported a deficit of $69,000.
- Were informed of the service contract awarded to Barnes & Noble Bookstores. The Bookstore fund received a $200,000 guarantee for FY 2002.
- Approved the first employee severance plan of $1,646,081. The cash paid for severance during FY 2002 was $359,880 for wages. Fringe benefit costs related to this were $29,924.04, for a grand total of $389,804.
- Were informed of the progress of the Banner Systems Implementation (approved prior to 2002). Banner Finance went live January 2002. Banner Student received

attention during 2002 and is scheduled to go live during 2003. Banner Human Resources/Payroll will begin work in 2003 and go live in 2004. Banner web products go live in 2003 and 2004.

- Approved the change of status from classified or faculty to non-classified for certain Fairmont State employees and directed the president to take necessary actions to effect these changes on January 1, 2002.
- Accepted the Deloitte & Touche Auditor's Report for FY 2001.
- Approved the acquisition of properties for the Master Plan.
- Requested the transfer of real property associated with Fairmont State from the Commission to the Governing Board.
- Approved the Fairmont State ten-year campus Master Plan.
- Approved sale of Fairmont State property known as the Shaw House, but was not sold in FY 2002.
- Approved a Fairmont State Phased Retirement Plan. No action on this plan occurred in FY 2002.
- Approved a two-phase expansion of the Robert C. Byrd National Aerospace Education Center. Work will begin on a hangar addition in 2003.
- Approved the sale of revenue bonds in the aggregate principal amount of not more than $69,500,000. Student/staff user fees will be assessed for these bonds.
- Approved the increase of fees for the 2003 academic year. (Baccalaureate fee increased by 9.5 percent and Community and Technical College by 2.7 percent).
- Approved the acquisition of 214 Merchant Street, Fairmont, property for utilization by the College to house the GEAR-UP staff and for a service-learning site. Purchase of the building will occur in FY 2003.
- Approved the Fairmont State budget for the FY 2003.
- Were informed of a possible 2004 State General Fund Appropriation reduction of $110,000,000 to the Commission. This has the potential of reducing Fairmont State's appropriations by approximately $2,183,000 (10 percent).

Economic Outlook

The statement of net assets for fiscal year 2002 presents our financial position. Summarizing this financial condition is as follows:

Current assets	$24,263,212
Non-current assets	45,645,626
Total assets equal	**69,908,838**
Current liabilities	5,805,265
Non-current liabilities	12,873,440
Total liabilities equal	**18,678,705**
Total net assets equal	**$51,230,133**

Fairmont State is moving forward from a stable financial position and is aggressively investing in its future. As noted in the previous section of this report, Fairmont State is going to invest $69,500,000 in new capital projects and take on the responsibility for this new debt. While Fairmont State is taking on this major initiative, it is fiscally prepared in its plan for paying this debt. The bonds sold in August of 2002 received an A3 rating for Fairmont State's Series 2002A Revenue Bonds and a rating of A2 for Fairmont State's Series 2002B.

As noted by the Moody's rating agency, " I wish to inform you that Moody's Rating Committee has assigned a rating of A3 with a stable outlook to Fairmont State's Series 2002A Revenue Bonds and a rating of A2 with a stable outlook to Fairmont State's 2002B Revenue Bonds. These ratings are based on stable enrollment and student demand; adequate financial resource levels and growing but manageable debt burden; positive operating performance in uncertain state funding environment; and stronger bondholder security from pledged revenues for the Series 2002B bonds."

Fairmont State's enrollment for the Fall 2002 academic period is up 141 student Full Time Equivalents (2.64 percent).

Fairmont State is working on its 2004 budget plan, and in anticipation of a possible 10 percent reduction of State Appropriations, is looking at staff needs as well as service opportunities that will allow Fairmont State to absorb this reduction in appropriation without slowing movement toward campus growth and a revitalization. Fairmont State will continue to be mindful of its fiscal responsibilities.

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, 2002, and for the year 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 audit.

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. 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 audit provides 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, 2002, and the changes in net assets and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management's Discussion and Analysis (MD&A) on pages 1 to 13 is not a required part of the financial statements but is supplemental information required by the Governmental Accounting Standards Board. Supplemental information has been reviewed in accordance with standards established by the American Institute of Certified Public Accountants. Such a review, however, is substantially less in scope than an audit in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion on the MD&A information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2002, 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.

October 11, 2002

FAIRMONT STATE COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS:	
Current assets:	
Cash and cash equivalents	$ 22,529,749
Appropriations due from Primary Government	269,370
Accounts receivable, net	836,785
Loans to students, current portion	297,868
Inventories	329,440
Total current assets	24,263,212
Noncurrent assets:	
Loans to students, net of allowance of $740,830	801,414
Investment in plant, net	44,844,212
Total noncurrent assets	45,645,626
TOTAL ASSETS	$ 69,908,838

(Continued)

FAIRMONT STATE COLLEGE

STATEMENT OF NET ASSETS
JUNE 30, 2002

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 1,659,127
Accrued liabilities	1,236,031
Severance payable	808,886
Deferred revenue	362,137
Compensated absences, current portion	847,244
Capital lease, current portion	329,000
Payable to the Commission, current portion	562,840
Total current liabilities	5,805,265
Noncurrent liabilities:	
Capital lease	535,349
Compensated absences	3,001,012
Advances from Federal Sponsors	1,105,028
Severance payable	477,315
Debt obligation to Commission	7,754,736
Total noncurrent liabilities	12,873,440
TOTAL LIABILITIES	18,678,705
NET ASSETS:	
Invested in capital assets, net of related debt	35,662,286
Restricted for:	
Expendable:	
Loans	221,503
Scholarships	34,456
Specific purposes by State Code	6,368,507
Sponsored projects	28,951
Capital projects	5,538,923
Debt service	299,696
Total restricted	12,492,036
Unrestricted	3,075,811
Total net assets	51,230,133
TOTAL LIABILITIES AND NET ASSETS	$ 69,908,838

See notes to financial statements

(Concluded)

FAIRMONT STATE COLLEGE

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

OPERATING REVENUES:	
Student tuition and fees (net of scholarship allowance of $4,677,024)	$ 9,485,834
Contracts and grants:	
Federal	10,182,552
State	3,127,086
Private	1,425,246
Interest on student loans receivable	30,592
Auxiliary enterprise revenue	4,748,485
Miscellaneous - net	736,465
Total operating revenues	29,736,260
OPERATING EXPENSES:	
Salaries and wages	23,922,304
Benefits	5,705,618
Supplies and other services	13,758,130
Utilities	979,887
Student financial aid - scholarships and fellowships	5,283,266
Depreciation	2,659,988
Loan cancellations and write-offs	20,981
Fees assessed by the Commission for operations	257,402
Loss on disposal of fixed assets	27,584
Total operating expenses	52,615,160
OPERATING LOSS	(22,878,900)

(Continued)

FAIRMONT STATE COLLEGE

STATEMENT OF REVENUES, EXPENSES AN CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2002

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 21,765,066
Gifts	45,000
Investment income	1,195,781
Interest on indebtedness	(29,752)
Fees assessed by the Commission for debt service	(1,404,564)
Net nonoperating revenues	21,571,531
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	(1,307,369)
CAPITAL PROJECTS BOND PROCEEDS FROM THE COMMISSION	236,250
DECREASE IN NET ASSETS BEFORE TRANSFERS	(1,071,119)
TRANSFER OF LIABILITY FROM THE COMMISSION	(8,317,576)
DECREASE IN NET ASSETS	(9,388,695)
NET ASSETS - BEGINNING OF YEAR (AS RESTATED)	60,618,828
NET ASSETS - END OF YEAR	$ 51,230,133

See notes to financial statements (Concluded)

FAIRMONT STATE COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 9,589,823
Contracts and grants	14,905,712
Payments to and on behalf of employees	(27,564,549)
Payments to suppliers	(13,717,890)
Payments to utilities	(944,733)
Payments for scholarships and fellowships	(5,290,268)
Loans issued to students	(22,009)
Interest on student loans receivable	30,592
Auxiliary enterprise charges	4,500,870
Fees assessed by the Commission	(257,402)
Other receipts - net	849,467
U.S. government advances	13,891
Net cash used in operating activities	(17,906,496)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	21,495,696
Gift receipts	45,000
William D Ford direct lending receipts	9,470,158
William D Ford direct lending payments	(9,433,062)
Net cash provided by noncapital financing activities	21,577,792
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital projects funds from the Commission	598,146
Fees assessed by the Commission for debt service	(1,404,564)
Purchases of capital assets	(2,380,038)
Principal paid on leases	(407,399)
Interest paid on leases	(23,492)
Purchases of equipment	(406,964)
Net cash used in capital financing activities	(4,024,311)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	1,139,785
Cash provided by investing activities	1,139,785
INCREASE IN CASH AND CASH EQUIVALENTS	786,770
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	21,742,979
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 22,529,749

(Continued)

FAIRMONT STATE COLLEGE

STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2002

Reconciliation of net operating loss to net cash used in operating activities:	
Operating loss	$ (22,878,900)
Adjustments to reconcile net loss to net cash used in operating activities:	
Depreciation expense	2,659,988
Loss on disposal	27,584
Changes in assets and liabilities:	
Receivables, net	244,429
Loans to students, net	(23,456)
Due from other State agencies	(19,443)
Inventories	406,606
Accounts payable	(283,003)
Accrued liabilities	20,700
Payroll liability	17,018
Compensated absences	560,378
Severance payable	1,286,201
Deferred revenue	61,511
Advances from Federal Sponsors	13,891
Net cash used in operating activities:	$ (17,906,496)
Noncash transactions:	
Equipment purchased on capital lease	$ 681,959

See notes to financial statements. (Concluded)

1. ORGANIZATION

Fairmont State College (the "College") is governed by the Fairmont State College Board of Governors (the "Board"). The Board was established by Senate Bill 653 ("S.B. 653"). S.B. 653 was enacted by the West Virginia State Legislature on March 19, 2000 and restructured public higher education in West Virginia. S.B. 653 abolished the Board of Trustees of the College System of West Virginia 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 was granted all powers, duties, and authorities of the Board of Trustees and was transferred each valid agreement and obligation previously transferred to or vested in the Board of Trustees.

Effective July 1, 2001, certain powers were transferred to the newly created Governing Boards of each of the institutions of higher education. These 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 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

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which will be 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 the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"), including 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 of Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB Statements No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

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 Commission and the West Virginia Network for Educational Telecomputing ("WVNET"), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State's comprehensive annual financial report.

   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. *Financial Statement Presentation*—During fiscal 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statements No. 37, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus, and No. 38, Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as "net assets" rather than "fund balance". Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College's net assets are classified as follows:

   - *Invested in capital assets, net of related debt*—This represents the College's total investment in capital assets, net of 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 invested in capital assets, net of related debt.

   - *Restricted net assets, expendable*—This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The West Virginia State 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. These restrictions are primarily for the following: debt service; graduate or branch colleges; off campus instruction; student unions; public interest research group; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education; athletic programs; student activities; auxiliary operations; bookstore operations; and special programs. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature.

- *Restricted net assets, nonexpendable*—This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2002.

- *Unrestricted net assets*—Unrestricted net assets represent 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 the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on a combined basis. The provisions of GASB Statement No. 35 have been applied to the year presented. Following is a reconciliation of total June 30, 2001 fund balances, as previously reported, to the restated net asset balances for the same date:

	June 30, 2001
Combined fund balances, as previously reported	$ 87,259,076
Accumulated depreciation	(26,053,035)
Infrastructure capitalization	503,925
Reclassification of federal loan programs (Perkins)	(1,091,138)
Combined fund balances, restated as net assets	$ 60,618,828

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

d. *Cash and Cash Equivalents*—For purposes of the statement of net assets, the College considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

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 Investment Management Board (the "IMB"). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the 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 for External Investment Pools.* The IMB 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 with the State 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, contracts, grants and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectibility experienced by the College on such balances and such other factors which, in the College's judgment, require consideration in estimating doubtful accounts.

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

g. *Noncurrent Cash and Cash Equivalents*—Cash, that is (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds, and (2) to purchase capital or other noncurrent assets, is classified as a noncurrent asset in the statement of net assets.

h. *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 fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment.

i. *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. Financial aid and other deposits are separately classified as deposits.

j. *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 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, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

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 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 expense and expense incurred for the vacation leave, sick leave or extended health or life insurance benefits are recorded as a component of benefits expense on the statement of revenues, expenses and changes in net assets.

k. *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 the change in estimate becomes known.

l. *Classification of Revenues*—The College has classified its revenues as either operating or non-operating 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, (4) Federal appropriations, and (5) sales and services of educational activities.

- *Nonoperating revenues*—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities*

That Use Proprietary Fund Accounting and GASB Statement No. 34, such as state appropriations and investment income.

m. *Use of Restricted Net Assets*—The College 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 assets are available. Generally, the College attempts to utilize restricted net assets first when practicable.

n. *Federal Financial Assistance Programs*—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 universities like the College. Direct student loan receivables are not included in the College's balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2002, the College received and disbursed approximately $9,470,158 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statement of revenues, expenses and changes in net assets.

   The College 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 combined financial statements. In 2002, the College received and disbursed approximately $6,070,174 under these federal student aid programs.

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

   Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and College Business Officers (NACUBO). 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.

p. *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 five years.

q. *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.

r. *Cash Flows*—Any cash and cash equivalents escrowed, restricted for noncurrent assets or in funded reserves have not been included as cash and cash equivalents for the purpose of the statement of cash flows.

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

t. *Recent Statements Issued By the Government Accounting Standards Board*—The GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, an amendment of GASB Statement 14. This statement is effective for periods beginning after June 15, 2003. The College has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 39. This statement, when adopted, could result in additional entities being included in the College's financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2002:

Cash on deposit with the State Treasurer:	
College - unrestricted	$ 14,141,364
College - restricted	6,816,824
Municipal Bond Commission for the College	1,241,967
Cash in bank	328,759
Cash on hand	835
	$ 22,529,749

Cash on deposit with the Municipal Bond Commission is used by the College as needed to finance capital projects. Other cash held by the State Treasurer includes $6,816,824 of restricted cash for West Virginia State Code purposes.

The combined carrying amount of cash in the bank at June 30, 2002 was $328,759, as compared with the combined bank balance of $733,063. The difference is primarily caused by outstanding checks and 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, *Deposits With Financial Institutions*, *Investments (including Repurchase Agreements) and Reverse Repurchase Agreements.*

4. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2002:

Student tuition and fees, net of allowance for doubtful accounts of $285,715	$ 90,473
Grants and contracts receivable	85,970
Due from the Commission	115,093
Due from other State agencies	253,835
Other accounts receivable	291,414
	$ 836,785

5. CAPITAL ASSETS

The following is a summary of capital asset transactions for the College for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 1,545,719	$ 238,250	$ -	$ 1,783,969
Construction in progress	1,230,876	1,837,211	(1,188,622)	1,879,465
Total capital assets not being depreciated	$ 2,776,595	$ 2,075,461	$ (1,188,622)	$ 3,663,434
Other capital assets:				
Land improvements	$ 1,649,513	$ -	$ -	$ 1,649,513
Infrastructure	2,185,197	137,978		2,323,175
Buildings	49,199,616	968,295		50,167,911
Equipment	8,090,731	1,534,111	(563,197)	9,061,645
Computer software		172,864		172,864
Library books	5,778,527	274,633	(70,080)	5,983,080
Total other capital assets	66,903,584	3,087,881	(633,277)	69,358,188
Less accumulated depreciation for:				
Land improvements	223,920	109,968	-	333,888
Infrastructure	289,004	154,112		443,116
Buildings	15,556,702	968,050		16,524,752
Equipment	4,622,793	1,244,601	(535,613)	5,331,781
Computer software	6,878	42,670		49,548
Library books	5,353,738	140,587		5,494,325
Total accumulated depreciation	26,053,035	2,659,988	(535,613)	28,177,410
Other capital assets, net	$ 40,850,549	$ 427,893	$ (97,644)	$ 43,365,975
Capital asset summary:				
Capital assets not being depreciated	$ 2,776,595	$ 2,075,461	$ (1,188,622)	$ 3,663,434
Other capital assets	66,903,584	3,087,881	(633,277)	69,358,188
Total cost of capital assets	69,092,982	5,163,342	(1,821,899)	73,021,622
Less accumulated depreciation	26,053,035	2,659,988	(535,613)	28,177,410
Capital assets, net	$ 43,039,947	$ 2,503,354	$ (1,286,286)	$ 44,844,212

The College maintains various collections of inexhaustible assets to which no value can be determined. 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. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Title for certain real property is with the Commission, but as of June 30, 2002 the process to transfer title has been initiated.

6. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the year ended June 30, 2002:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Capital leases payable	$ 589,789	$ 681,959	$ 407,399	$ 864,349	$ 329,000
Other long-term liabilities:					
Accrued compensated absences	3,287,878	1,430,425	870,047	3,848,256	847,244
Advances from Federal Sponsors	1,091,137	13,891		1,105,028	
Severance Payable		1,646,081	359,880	1,286,201	808,886
Payable to the Commission		8,317,576		8,317,576	562,840
Total long-term liabilities	$ 4,968,804	$ 12,089,932	$ 1,637,326	$ 15,421,410	$ 2,547,970

Additional information regarding leases payable is included in Note 7.

7. 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, 2002:

Year Ending June 30	Principal	Interest	Total
2003	$ 329,000	$ 26,012	$ 355,012
2004	287,054	15,135	302,189
2005	223,999	4,946	228,945
2006	24,296	801	25,097
			911,243
Less interest			46,894
			$ 864,349

8. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2002:

	Current	Noncurrent	Total
Health or life insurance benefits	$ 502,004	$ 2,360,271	$ 2,862,275
Accrued vacation leave	345,240	640,741	985,981
	$ 847,244	$ 3,001,012	$ 3,848,256

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the year ended June 30, 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately $119,776. As of June 30, 2002, there were 75 retirees currently receiving these benefits.

9. 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 College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The 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. Although the bonds remain as 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, effective as of June 30, 2002. The amount allocated to the College during fiscal 2002 was $8,317,576.

Additionally, the Board of Governors approved the sale of Fairmont State revenue bonds not to exceed $69,500,000 in total.

10. 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 West Virginia 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 year ended June 30, 2002. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2002. 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, 2002, 2001 and 2000, were $679,621, $724,111, and $758,020, respectively, which consisted of $485,680, $504,234, and $526,526 from the College in 2002, 2001 and 2000, respectively, and $193,941, $219,877, and $231,494 from the covered employees in 2002, 2001 and 2000, respectively.

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 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, 2002, 2001 and 2000, were $1,869,626, $1,711,418, and $1,584,520, respectively, which consisted of equal contributions from the College and covered employees in 2002, 2001 and 2000 of $934,813, $855,709, and $792,260, respectively.

The College's total payroll for the year ended June 30, 2002 $22,234,239; total covered employees' salaries in the STRS and TIAA-CREF were $3,237,868 and $15,580,196, respectively, in 2002.

11. 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 net assets, all of which are principally restricted, totaled $7,839,464 at June 30, 2002. The restricted net assets 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 $743,733 for the year ended June 30, 2002.

During the year ended June 30, 2002, the Foundation contributed $997,957 to the College for scholarships and grants.

12. 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.

13. 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.

14. SUBSEQUENT EVENT

On August 28, 2002, the College sold $9,310,000 and $18,170,000 of revenue bonds which bear interest at rates from 3.3% to 5.09% and mature commencing 2003 through 2032.

15. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the year ended June 30, 2002, the following table represents operating expenses within both natural and functional classifications:

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Retained by the Board	Loss on Disposal	Total
Auxiliary enterprises	$ 1,186,675	$ 183,553	$ 2,683,095	$ 169,051	$ 9,250	$ -	$ -	$ -	$ -	$ 4,231,624
Instruction	13,204,048	3,035,864	2,414,840	46,868	(34,469)		22,429			18,689,580
Research	42,486	5,707	30,328		8,000					86,521
Public service	1,290,560	259,051	2,419,309	179	344,813					4,313,912
Academic support	2,143,121	274,911	731,952	93,490						3,243,474
Student services	1,444,614	218,842	1,005,889	1,315	300					2,670,960
General institutional support	3,449,391	1,068,147	3,004,075	840				257,402		7,779,855
Scholarship and Fellowhip			4,101		4,955,372		(1,448)			4,958,025
Operation and Maintenance	1,161,409	659,543	1,464,541	668,144						3,953,637
Depreciation						2,659,988			27,584	2,687,572
Total	$ 23,922,304	$ 5,705,618	$ 13,758,130	$ 979,887	$ 5,283,266	$ 2,659,988	$ 20,981	$ 257,402	$ 27,584	$ 52,615,160

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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, 2002, and have issued our report thereon dated October 11, 2002, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. 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.

October 11, 2002