# *Fairmont State University*
## *(Formerly Fairmont State College)*

*Financial Statements and Additional Information*
*for the Years Ended June 30, 2004 and 2003 and*
*Independent Auditors' Reports*

# FAIRMONT STATE UNIVERSITY
**(Formerly Fairmont State College)**

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## INDEPENDENT AUDITORS' REPORT

Governing Board
Fairmont State University

We have audited the accompanying financial statements of the business-type authorities and discretely presented component unit of Fairmont State University (formerly Fairmont State College) ("Fairmont State") as of June 30, 2004 and 2003, and for the years then ended, which collectively comprise Fairmont State's basic financial statements, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of Fairmont State. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the discretely presented financial statements of the Fairmont State Foundation, Inc. (a component unit of Fairmont State College). Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of Fairmont State Foundation, Inc., is based solely on the report of such other auditors.

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. The Fairmont State Foundation, Inc.'s financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. 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, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business—type activities and the discretely presented component unit of Fairmont State as of June 30, 2004 and 2003, and the respective changes in net assets and cash flows thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, Fairmont State changed its financial statement presentation to adopt the provisions of GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, as an amendment to GASB Statement No. 14 as of July 1, 2003.

The Management's Discussion and Analysis ("MD&A") on pages 3 to 16 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of Fairmont State's management. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit such information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information listed in the Table of Contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. This additional information is the responsibility of Fairmont State's management. Such information has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 22, 2004, on our consideration of Fairmont State's internal control over financial reporting and our tests of its compliance and other matters. The purpose of that report is to describe the scope of our testing, and not to provide an opinion on the internal control over financial reporting or on compliance. 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 audits.

Deloitte & Touche LLP

October 22, 2004

# <u>FAIRMONT STATE UNIVERSITY</u>– "Fairmont State"

**(Which includes Fairmont State University, Fairmont State Community and Technical College, and Fairmont State Central which are component parts of Fairmont State)**

## Management's Discussion and Analysis
## Fiscal Year Ended June 30, 2004

### 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 (Which includes Fairmont State University ("FSU"), Fairmont State Community and Technical College ("FSC&TC"), and Fairmont State Central which are component parts of Fairmont State) is in its third year of presentation of the financials under the new standards. The *Management's Discussion and Analysis* requires supplementary information and has been prepared in accordance with the requirements of GASB Statement No. 35, and the Higher Education Policy Commission as it relates to reporting of the financial condition of all components.

For the 2004 Financial Statements we are including in our presentation financial information provided by the Fairmont State Foundation. This presentation is being made to comply GASB released statement No. 39.

This section of the annual financial report provides an overview of Fairmont State's financial performance during the fiscal year ended June 30, 2004.

As required by GASB No. 35 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 Fairmont State's financial condition it's the results of operations, and cash flows as a whole. Each of these statements is discussed below.

In addition, the Fairmont State Foundation statements consist of two basic financial statements – Statement of Net Assets, and Statement of Revenues, Expenses, and Changes in Net Assets. The Fairmont State Foundation Assets are controlled by a separate Board of Directors and its historical purpose has been in support of student scholarships to Fairmont State students. More information about the accounting and reporting aspects of the Foundation can be found in footnote 12.

### Financial Highlights

- Continued significant construction activity.
- Total net assets increased by $1,547,477 or approximately 3% compared to a 5% increase in 2003.

**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 fiscal year end. Assets denote the resources available to continue the operations of Fairmont State. Liabilities indicate how much the Fairmont State owes its vendors, employees, and lenders. Net assets provide a way to measure the financial position of Fairmont State.

Net assets are divided into 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 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.

**Net Assets**

| | JUNE 30 | | |
|---|---|---|---|
| **Assets** | **2004** | **2003** | **2002** |
| Current Assets | $35,824,223 | $30,366,378 | $24,035,846 |
| Non-Current Assets | 108,451,209 | 109,788,429 | 45,872,992 |
| **Total Assets** | 144,275,432 | 140,154,807 | 69,908,838 |
| | | | |
| **Liabilities** | | | |
| Current Liabilities | 14,420,289 | 10,344,975 | 5,805,265 |
| Non-Current Liabilities | 74,481,145 | 75,983,311 | 12,873,440 |
| **Total Liabilities** | 88,901,434 | 86,328,286 | 18,678,705 |
| | | | |
| **Net Assets** | | | |
| Invested in capital assets, net of related debt | 30,587,954 | 28,988,322 | 35,662,286 |
| Restricted for: | | | |
| Expendable: | | | |
| Loans | 353,055 | 272,798 | 221,503 |
| Scholarships | 0 | 186,790 | 34,456 |
| Specific purposes by State Code | 0 | 4,454,434 | 6,368,507 |
| Sponsored projects | 278,024 | 0 | 28,951 |
| Capital projects | 9,512,205 | 5,351,000 | 5,838,619 |
| Debt service | 3,931,811 | 5,779,783 | 0 |
| Total Restricted | 14,075,095 | 16,044,805 | 12,492,036 |
| | | | |
| Unrestricted | 10,710,949 | 8,793,394 | 3,075,811 |
| | | | |
| Total Net Assets | $55,373,998 | $53,826,521 | $51,230,133 |

- Total current assets increased by $5,457,845 or approximately 18% resulting primarily from an increase in bond construction fund current cash balance. This is due to an increase in bond construction fund accounts payable of $1,560,488 and retainages payable of $1,952,173. Also, cash with the State Treasurer increased by $1,760,678. This increase is primarily in building renewal funds of $687,158 and indirect cost recoveries of $317,442. The remainder is attributed to various increases. At June 30, 2003, current assets increased by 26%

- Total non-current assets decreased by $1,337,220 or approximately 1%. Although this is a small decrease, non-current cash decreased by over $30 million which was offset by an increase in construction in progress of $30,016,175. At June 30, 2003, non and current assets increased by approximately 139% due to bond issuances and construction projects undertaken during the year.

- Total current liabilities increased by $4,075,314 or approximately 39% due to an increase in accounts payable of $2,707,584. This includes an increase of $1,560,488 in construction accounts payable. Also, retainages payable increased by $1,952,173. For fiscal year 2003, current liabilities increased by 78% primarily due to scheduled repayments on new bond issues and the related construction activity as well as the severance accrual.

- Total non-current liabilities decreased by $1,502,166 or approximately 2% due primarily to scheduled payments on existing debts for bonds, obligation to commission, and capital leases. Three new leases for equipment were executed during the year totaling $377,120. For 2003, non-current liabilities increased by 490% due to the non-current portion of bonds payable amounting to $63,508,925 at June 30, 2003.

- The total assets of Fairmont State exceeded its liabilities at the close of the most recent fiscal year by $55,373,998 (net assets). Of this amount, $10,710,949 (unrestricted net assets) may be used to meet the educational and general operations of Fairmont State.

- A major change in fiscal year 2004 was House Bill 101, which caused $4,454,434, as of June 30, 2003, of restricted net assets to no longer be restricted, therefore, increasing unrestricted net assets.

**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 Fairmont State's revenues (operating and non-operating), expenses (operating and non-operating), and any other revenues, expenses, gains, and losses. 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. 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.

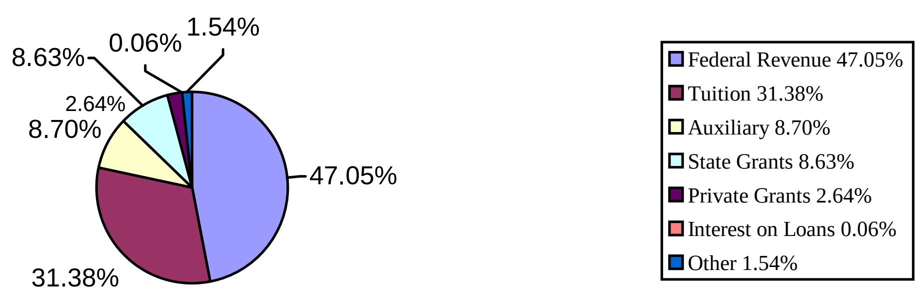
**Revenues, Expenses, and Changes in Net Assets**
**For the Fiscal Year Ended June 30:**

| | 2004 | 2003 | 2,002 |
|---|---|---|---|
| Operating Revenue | $39,519,769 | $34,262,347 | 29,736,260 |
| Operating Expenses | 55,312,382 | 51,900,264 | 52,587,576 |
| **Operating Loss** | (15,792,613) | (17,637,917) | (22,851,316) |
| Total Net Nonoperating Revenues | 17,414,787 | 19,369,545 | 21,543,947 |
| Income (Loss) Before Other Revenues, Expenses, Gains or Losses | 1,622,174 | 1,731,628 | (1,307,369) |
| Capital Projects Proceeds from the Commission | 0 | 864,760 | 236,250 |
| **Increase (Decrease) in Net Assets before Transfers** | 1,622,174 | 2,596,388 | (1,071,119) |
| Transfer of Liability from Policy Commission | (74,697) | 0 | (8,317,576) |
| **Increase (Decrease) in Net Assets** | **1,547,477** | **2,596,388** | **(9,388,695)** |
| **Net Assets – Beginning Year** | **53,826,521** | **51,230,133** | **60,618,828** |
| Net Assets – End of Year | $55,373,998 | $53,826,521 | 51,230,133 |

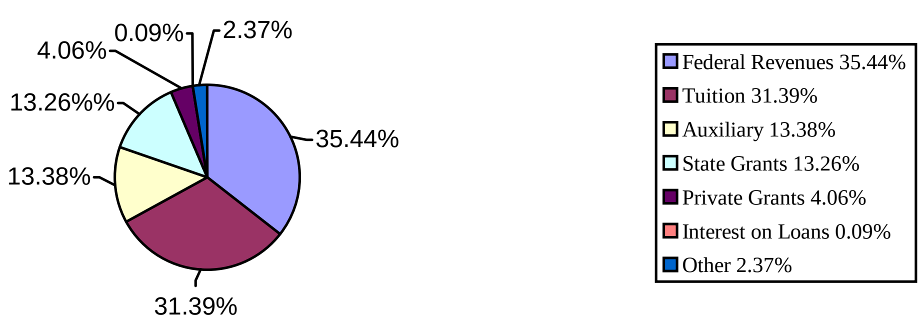
*Revenues:*

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

**Prior to GASB Statement No. 35 Adjustment Chart**




**After GASB Statement No. 35 Adjustment Chart**



The total gross operating revenues for fiscal year 2004 prior to GASB Statement No. 35 adjustments and reclassification were $60,757,971. This amount was reduced/adjusted for scholarship allowance in the amount of $6,656,000 and direct loans in the amount of $14,582,202. Total operating revenues for fiscal year 2004 after GASB No. 35 adjustments and reclassification is $39,519,769. This is an increase from the 2003 operating revenues of $34,262,347, which was an increase from the 2002 revenues of $29,736,260.

| | Prior to GASB No. 35 Changes | After GASB No. 35 Changes |
|---|---|---|
| Tuition and Fees | $19,063,005 | $12,407,005 |
| Federal Revenues | $28,587,874 | $14,005,672 |

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

- Tuition and fees revenue, after adjustment for scholarship allowance, increased by $1,326,532 or 12% compared to a 16.8% increase in fiscal year 2003.

- Federal Financial Aid and GEAR-UP revenues after the adjustment for Direct Loans increased by $1,844,962 or 15% compared to a 19% increase in fiscal year 2003.

- State contracts and grants increased by $1,156,666 or 28%. This is due primarily to an increase in state funded Promise and West Virginia Higher Education Grant Scholarships of $607,320 and $377,881, respectively.

- Auxiliary enterprises revenue increased by $748,053 or 16% compared to a 4.4% decrease in fiscal year 2003. This increase was a result of an increase in both fees and rental income. Athletic fees increased by $204,377, parking increased by $174,324 and student union fees by $98,652. Rents from dormitories increased by $132,765 and apartment rent increased by $88,508.

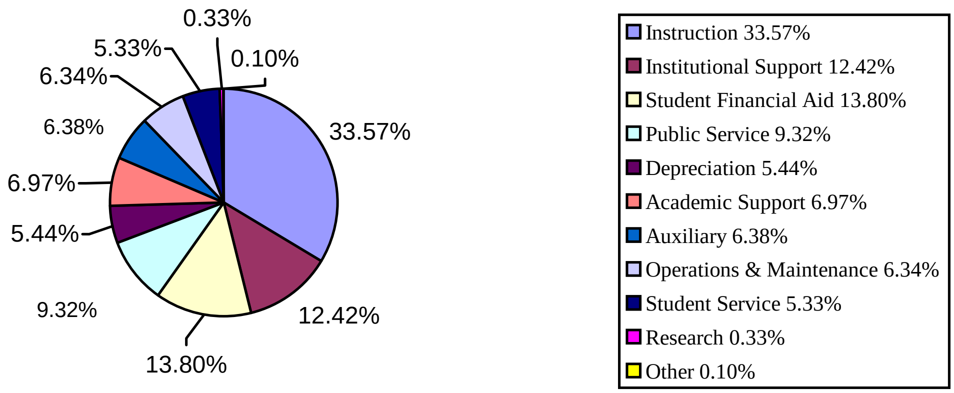
- State appropriations decreased by $1,187,599 or 5.6% compared to a 2.5% decrease in fiscal year 2003.

## FUNCTIONAL CLASSIFICATION CHART

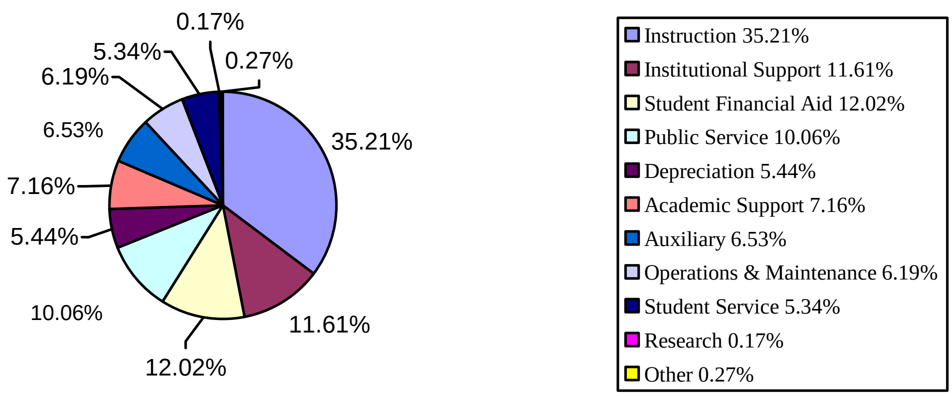
*Operating Expenses:*

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

## 2004




## 2003




Breakdown of Expense by Function:

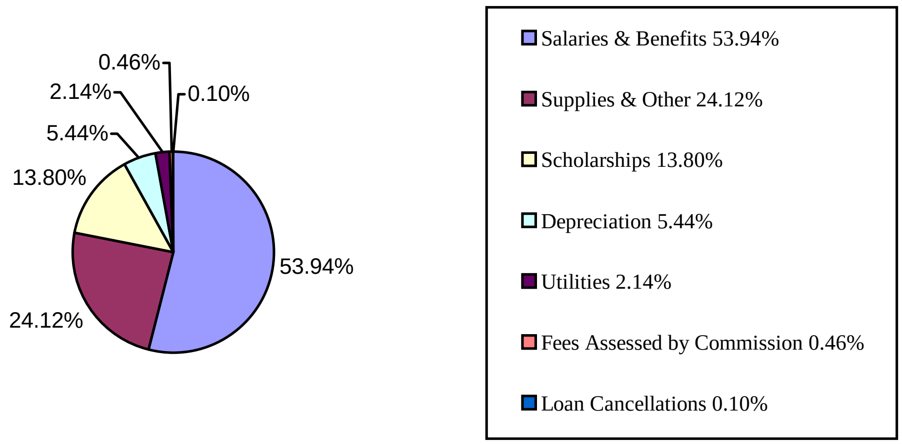
For fiscal year 2004, Fairmont State's total operating expenses were $53,312,382, which was an increase of $3,412,118. This increase was in contrast to a decrease of $687,312 for fiscal year 2003. The following reflects the amounts and percentage for these expenses:

| | 2004 | % | 2003 | % | 2002 | % |
|---|---|---|---|---|---|---|
| Instruction | $18,570,768 | 33.57% | $18,275,017 | 35.21% | $18,701,620 | 35.56% |
| General Institutional Support | 6,870,825 | 12.42% | 6,027,722 | 11.61% | 7,783,956 | 14.80% |
| Student Financial Aid | 7,635,156 | 13.80% | 6,239,965 | 12.02% | 5,283,266 | 10.05% |
| Public Service | 5,156,068 | 9.32% | 5,219,583 | 10.06% | 3,969,099 | 7.55% |
| Auxiliary | 3,527,969 | 6.38% | 3,386,592 | 6.53% | 4,222,374 | 8.03% |
| Operation & Maintenance | 3,504,942 | 6.34% | 3,212,869 | 6.19% | 3,953,637 | 7.52% |
| Academic Support | 3,852,929 | 6.97% | 3,717,019 | 7.16% | 3,243,474 | 6.17% |
| Student Services | 2,950,090 | 5.33% | 2,772,297 | 5.34% | 2,670,660 | 5.08% |
| Depreciation | 3,007,088 | 5.44% | 2,824,952 | 5.44% | 2,659,988 | 5.06% |
| Research | 182,702 | 0.33% | 86,228 | 0.17% | 78,521 | 0.15% |
| Other | 53,845 | 0.10% | 138,020 | 0.27% | 20,981 | 0.04% |
| Total | $55,312,382 | 100% | $51,900,264 | 100% | $52,587,576 | 100% |

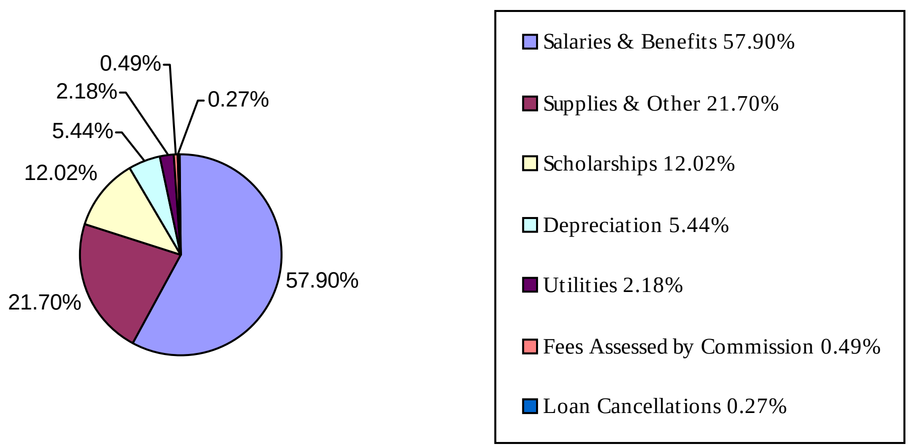
## NATURAL CLASSIFICATION CHARTS

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

**2004**




**2003**




Breakdown of Expenses by Natural Classification:

For fiscal year 2004, Fairmont State's total operating expenses were $55,312,382. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $29,152,661 or 54.4%. The following reflects the amounts and percentages for the expense.

| | 2004 | % | 2003 | % | 2002 | % |
|---|---|---|---|---|---|---|
| Salaries, Wages, and Benefits | $29,835,469 | 53.94% | $30,050,515 | 57.90% | $29,627,922 | 56.34% |
| Supplies and Other Services | 13,342,017 | 24.12% | 11,261,917 | 21.70% | 13,758,130 | 26.16% |
| Utilities | 1,186,308 | 2.14% | 1,132,396 | 2.18% | 979,887 | 1.86% |
| Scholarships and Fellowships | 7,635,156 | 13.80% | 6,239,965 | 12.02% | 5,283,266 | 10.05% |
| Depreciation | 3,007,088 | 5.44% | 2,824,952 | 5.44% | 2,659,988 | 5.06% |
| Fees Assessed by the Commission | 252,499 | 0.46% | 252,499 | 0.49% | 257,402 | 0.49% |
| Loan Cancellations & Write Offs | 53,845 | 0.10% | 138,020 | 0.27% | 20,981 | 0.04% |
| Total | $55,312,382 | 100% | $51,900,264 | 100% | $52,587,576 | 100% |

Salaries, Wages, and Benefits: No pay raises occurred for fiscal year 2004 in an effort to reduce operating costs in response to reductions in state appropriations. Salaries increased by $342,824 (or 1.5%) and benefits decreased by $557,870 (or 8.6%) resulting in a decrease of $215,046 or less than 1% compared to a 10% increase for fiscal year 2003. The decrease in benefits expense is attributed to an increase in compensated absence liabilities at June 30, 2003 that caused an increase in fiscal year 2003 benefits expense of $718,305, which was primarily the severance liability in fiscal year 2003 of $915,225.

Supplies and Other Services: Expenses in this area increased by $1,395,191 or 22%. Effective July 1, 2003 Fairmont State's capitalization limit for equipment increased from $1,000 to $5,000. Equipment costs for items ranging in price from $1,000 - $4,999 totaled approximately $1,370,000. Expenses were reduced by a 10% budget reduction in fiscal year 2003.

Scholarships: Expenses in this area increased primarily due to increased awards for federally funded Pell and State funded Promise and West Virginia Higher Education grants.

Loan Cancellation and Write-offs: Loan cancellations decreased by $84,175 partially due to a decrease in the allowance adjustment for student accounts receivable between 2003 and 2004. The 2003 allowance was $726,799 compared to $740,830 in 2002. The 2004 allowance is $701,536.

**Statements of Cash Flows**

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

The Statement of Cash Flows is divided into five parts:

1. ***Cash flows from operating activities***. This section shows the net cash used by the operating activities.

2. ***Cash flows from 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 by (used) in operating activities.*** This section provides a schedule that reconciles the accrual-based operating income (loss) and net cash used in operating activities.

**Cash Flows**
**For the Fiscal Year Ended June 30:**

| **Cash Provided By (Used in)** | **2004** | **2003** | **2002** |
|---|---|---|---|
| Operating Activities | $(12,749,112) | $(14,943,557) | $(17,906,496) |
| Non-Capital Financing Activities | 20,066,760 | 21,410,341 | 21,577,792 |
| Capital and Financing Related Activities | (32,370,103) | 46,277,565 | (4,024,311) |
| Investing Activities | 230,134 | 949,176 | 1,139,785 |
| Net Change in Cash and Cash Equivalents | (24,822,321) | 53,693,525 | 786,770 |
| Cash, Beginning of Year | 76,223,274 | 22,529,749 | 21,742,979 |
| Cash, End of Year | $51,400,953 | $76,223,274 | $22,529,749 |

Major sources of funds included in operating activities consist of tuition and fees $18,212,878, contracts and grants $21,200,516 and auxiliary enterprise charges $5,092,063. Major users of funds under this category were payments made to employees for salaries and benefits amounting $30,139,594 and to suppliers amounting $12,994,589.

The major cash flow provided from non-capital financing activities section is State appropriations amounting to $20,068,214.

The major cash flow used in capital financing activity was for construction project expenditures of $26,676,743.

**Additional Administrative Notes**

During fiscal year 2004, separate budgets were maintained and reported on the three component parts of Fairmont State. These component parts are: 1) FSU, 2) FSC&TC, and 3) Central. The Higher Education Policy Commission has mandated that starting fiscal year 2003 supplemental schedules representing the FSU and FSC&TC be included with the audit report. Fairmont State management has included the Central Component which reports student activity, auxiliary, grants and capital funds that support both academic institutions, as a separate reporting entity. The following supplemental schedules were developed to show the component parts of Fairmont State along with a combined column:

1. The Schedule of Revenues, Expenses, and Changes in Net Assets.
2. The Schedule of Net Assets
3. The Schedule of Natural Classification vs. Functional Classification.

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

The development of the component reporting structure for Fairmont State has allowed for the Governing Board of the University and Community and Technical College to recognize separate budgeted entities for FSU, FSC&TC, and Central. These reports allow the administration and the Governing Board the ability to manage the components separately.

## Capital Asset and Long-Term Debt Activity

The most important financial activity that occurred during fiscal year 2004 was the construction projects funded by four revenue bond issuances. Details are as follows:

| Series | Name | Purpose | Bond Amount | Spent -to date | Spent in FY 2004 |
|---|---|---|---|---|---|
| 2002A | College Facilities | Acquisition of College apartments and construction of parking garages | $18,170,000 | $16,767,463 | $7,772,687 |
| 2002B | Infrastructure | Acquisition of land, construction of new roads, electric, water, and sewage system, and improvement of campus infrastructures | 9,310,000 | 7,554,421 | 5,012,050 |
| 2003A | College Facilities | Construction of 400 suite dormitory | 13,320,000 | 6,857,619 | 6,033,414 |
| 2003B | Student Activity | Construction of 100,000 square foot student activity center | 22,925,000 | 7,467,816 | 6,713,216 |
| | | Total Revenue Bonds | $63,725,000 | $38,647,319 | $25,531,367 |

The bonds are payable over thirty years. Total principal repayment made during the fiscal years 2004 and 2003 amounted to $520,000, and $100,000, respectively. The current portion of bonds payable due in fiscal year 2005 is $530,000 and the long term portion of bonds payable is to $62,965,251.

All four bonds issuances were audited for the year ended June 30, 2004 with unqualified opinions on the modified cash basis of accounting. Fairmont State also complied with the debt service coverage ratio requirements of the bonds.

During the year, the Commission was paid for debt incurred from bonds sold in previous years for the State's colleges and universities. The remaining debt obligation assigned to Fairmont State as of June 30, 2004 was $7,150,157. As of June 30, 2004, the portion of current amount due to Commission is $473,609 and long-term portion is $6,676,548.

These four bond issues are supported by Auxiliary Fund student and user fees. The Auxiliary Fund budget (which includes interest and principal debt service payments) for fiscal year 2005 currently projects a transfer of excess revenues to plant reserves of $1,219,960.

Fairmont State just completed its second full year of major building improvements to the campus. A new 944 space parking garage is almost complete, as well half of the 400 new suite style housing units. Construction is progressing rapidly on the 100,000 square foot state-of-the-art student activity center. Roads and other infrastructure improvements to the main campus are on-going as well. New construction commitments have occurred for a new Technology education building, Library, and inner campus improvements (funded by Legislatively Approved Lottery Funded bonds).

**Fairmont State's Leadership**

The Governing Board Members for fiscal year 2004:

| Name | Position Held | End of 2004 Status |
|---|---|---|
| Janice Denison | Lay Member | Secretary |
| James Estep | Lay Member | Member |
| Carl Friebel, Jr. | Lay Member | Member |
| Heather Garrison | Lay Member | Member |
| James Griffin | Lay Member | Chairman |
| Robert Kittle | Lay Member | Member |
| J. Richard Martin | Lay Member | Vice-Chairman |
| Larry Mazza | Lay Member | Member |
| Connie Moore | Faculty Representative | Member |
| Diana Phillips | Classified Staff Representative | Member |
| Jason Raimey | Student Representative | Member - Student |
| Phil Reale | Lay Member | Member |

The Governing Board receives a financial report at each meeting, and has challenged fiscal operations to improve its reporting capabilities and provide succinct, but informative financial data. Some of the decisions made by the Governing Board that impact the economic condition of Fairmont State and the North Central Area are:

- August 14, 2003 meeting:
  -Approved the curriculum proposal to establish an A.S. degree in safety Engineering Technology. This initiative will afford traditional and non-traditional students the opportunity to earn this degree and provide an avenue for workforce development efforts for local industry.

  -Approved to offer a new major in computer security within the computer science degree program. The program will strengthen North Central West Virginia's position as a center of excellence for computer security, forensics, biometrics, and other related high technology computer areas.

- October 2, 2003 meeting:
  -Approved a resolution that instructed the President to submit a letter of request to the Higher Education Policy Commission for University status. Note: Legislative action which occurred in the spring of 2004 provided University status to Fairmont State College.

  -Approved a graduate emphasis in special education as part of the existing master of education degree. This approval provides permanent teaching certificates in special education to hundreds of teachers in RESA VII and VIII.

  -Approved that management begin condemnation proceedings on two properties on Locust Avenue. This action allowed for the beginning of development of the Locust Avenue project which will improve the water drainage problems in the area and add parking close to the campus.

-Approved the addition of the Braxton County Center to the Fairmont State 10 year facilities master plan. This facility will provide 10,000 square feet of space for use by the Fairmont State Community and Technical College. The initiative is designed to increase the college going rate in Braxton County and to allow some high school students to complete or make substantial progress on an Associate's Degree prior to graduating. The project cost to Fairmont State is estimated at one million dollars ($1,000,000).

- November 13, 2003 meeting:
  -Report from the Audit Committee on the Fairmont State annual audit was made at this meeting. The report was positive as well the financial position of Fairmont State.

  -Approved the request to establish an Associate of Arts – Paraprofessional in Education. This program provides graduates the opportunity for employment as teacher's aides in both elementary and early childhood classrooms.

- February 12, 2004 meeting:
  -A presentation of the Lewis County Center which provides educational services to over three hundred (300) students was made to the Governing Board.

  -Approved a policy regarding the evaluation of administrators.

- March 16, 2004 meeting:
  -Report on student recruitment was made to the Governing Board.

  -Report on the Capital Campaign was made to the Governing Board.

- April 8, 2004 meeting:
  -Approved a Board of Governor's Policy titled Funding of Intercollegiate Athletics.

  -Approved the 2004-2005 Academic Year Fee Proposals so this could be submitted to the Higher Education Policy Commission and the Community and Technical College Council. Fee request increases were 9.49% and 4.42%, respectively.

  -A presentation of the classified staff was made to the Governing Board.

  -Report on student recruitment was made to the Governing Board.

- June 10, 2004 meeting:
  -Approved program reviews for Mathematics B.S., Business Administration B.S., Political Science B.S., Sociology B.S., and History B.S/B.

-Approved the joint operating agreement for academic programs between FSU and FSC&TC. This agreement is intended to divide the areas of overlap of mission and help both institutions focus resources, minimize duplication and allow for economies of scale. The goal of this agreement is to better provide cost effective and high quality service to the citizens of North Central West Virginia.

-Approved an additional 1.5% fee increase, allowed by HB101 Legislative Action, for Fairmont State University resident students.

-Approved the FSU and FSC&TC chargeback agreement. This agreement was required by SB448 and was necessary to comply with new business process requirements of the State.

Note: Financial reports were made at each of the Governing Board meetings during the 2004 fiscal year with the exception of the November 13, 2003 meeting. The annual financial audit report was made by the Audit Committee during this meeting.

**Economic Outlook**

Fairmont State's enrollment for the fall 2004 semester is up by 305 students (headcount) or 4.2%.

Fairmont State continues to deal with reductions in State Appropriations. In fiscal year 2005, appropriations were reduced by 4.42% for the University and 2.57% for the Community and Technical College. Tuition and Fees as a result were increased by the University by 11.0% and the Community and Technical College by 4.42%. Additional budget reduction actions were taken by Fairmont State to make room in the budget to provide an average pay raise of approximately 3% effective November 1, 2004. It has been announced by the State Government Budget Office that we should prepare for a 5.5% reduction to our State appropriations in fiscal year 2006. Our efforts to prepare for this reduction and to assure minimal impact to our Unrestricted Current Fund will require us to look at ways to adjust our budgets once again.

Fairmont State, consisting of the University, Community and Technical College, and Central each maintain a stable Unrestricted Current fund balance and it is our goal to be in this stable position for years into the future. Cash reserves in the Central Component Auxiliary and Capital Funds will be reduced substantially in the next year or two. The obvious reason for this is our investment in our new facilities planning for future growth in student population, which is already occurring.

Fairmont State University and Fairmont State Community and Technical College with the support from the Fairmont State Governing Board and Fairmont State Central have added to its facilities and infrastructure and the student population is growing. We are in better position to serve the students and economic development in the North Central region of West Virginia.

## FAIRMONT STATE UNIVERSITY
### (Formerly Fairmont State College)

### STATEMENTS OF NET ASSETS
### JUNE 30, 2004 AND 2003

| ASSETS | 2004 | 2003 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 33,319,000 | $ 27,992,573 |
| Appropriations due from Primary Government | 7,802 | 52,921 |
| Accounts receivable—net | 2,079,580 | 1,802,571 |
| Loans to students—current portion | 149,634 | 185,472 |
| Inventories | 268,207 | 332,841 |
| Total current assets | 35,824,223 | 30,366,378 |
| Noncurrent assets: | | |
| Cash and cash equivalents | 18,081,953 | 48,230,701 |
| Loans to students—net of allowance of $701,536 and $726,799 | 1,170,607 | 975,057 |
| Deferred charges—bond issuance costs | 1,211,263 | 1,253,833 |
| Capital assets—net | 87,987,386 | 59,328,838 |
| Total noncurrent assets | 108,451,209 | 109,788,429 |
| TOTAL ASSETS | $144,275,432 | $140,154,807 |

(Continued)

## FAIRMONT STATE UNIVERSITY
### (Formerly Fairmont State College)

### STATEMENTS OF NET ASSETS
### JUNE 30, 2004 AND 2003

| LIABILITIES AND NET ASSETS | 2004 | 2003 |
|---|---|---|
| LIABILITIES: | | |
| Current liabilities: | | |
| Accounts payable | $ 7,411,062 | $ 4,703,478 |
| Accrued liabilities | 1,404,894 | 1,519,199 |
| Accrued interest payable | 245,540 | 246,407 |
| Retainages payable | 2,513,701 | 520,866 |
| Severance payable | 191,190 | 724,035 |
| Deferred revenue | 254,675 | 176,682 |
| Compensated absences—current portion | 993,074 | 957,334 |
| Capital leases—current portion | 402,544 | 389,261 |
| Debt obligation to Commission—current portion | 473,609 | 587,713 |
| Bonds payable—current portion | 530,000 | 520,000 |
| Total current liabilities | 14,420,289 | 10,344,975 |
| Noncurrent liabilities: | | |
| Capital leases | 293,135 | 387,464 |
| Compensated absences | 3,411,198 | 3,609,227 |
| Advances from federal sponsors | 1,135,013 | 1,119,482 |
| Severance payable | | 191,190 |
| Debt obligation to Commission | 6,676,548 | 7,167,023 |
| Bonds payable | 62,965,251 | 63,508,925 |
| Total noncurrent liabilities | 74,481,145 | 75,983,311 |
| Total liabilities | 88,901,434 | 86,328,286 |
| NET ASSETS: | | |
| Invested in capital assets—net of related debt | 30,587,954 | 28,988,322 |
| Restricted for— | | |
| Expendable: | | |
| Loans | 353,055 | 272,798 |
| Scholarships | | 186,790 |
| Specific purposes by State Code | | 4,454,434 |
| Sponsored projects | 278,024 | |
| Capital projects | 9,512,205 | 5,351,000 |
| Debt service | 3,931,811 | 5,779,783 |
| Total restricted | 14,075,095 | 16,044,805 |
| Unrestricted | 10,710,949 | 8,793,394 |
| Total net assets | 55,373,998 | 53,826,521 |
| TOTAL | $144,275,432 | $140,154,807 |

See notes to financial statements (Concluded)

## FAIRMONT STATE FOUNDATION, INC.

### COMPONENT UNIT—STATEMENTS OF NET ASSETS
### JUNE 30, 2004 AND 2003

| ASSETS | 2004 | 2003 |
|---|---|---|
| ASSETS: | | |
| Current assets: | | |
| Cash and cash equivalents | $ 101,671 | $ 101,197 |
| Accounts receivable—FSU | 12,916 | 700 |
| Promises to give receivable—net | 15,674 | |
| Interest and dividends receivable | 24,492 | 13,640 |
| Total current assets | 154,753 | 115,537 |
| Noncurrent assets: | | |
| Investments—trust holdings | 8,327,932 | 7,629,074 |
| Investments—gift annuities | 213,437 | 114,624 |
| Investments—coal reserves | 120,000 | 120,000 |
| Investments—other | 108,050 | 91,459 |
| Promises to give receivable—net | 365,767 | |
| Total non-current assets | 9,135,186 | 7,955,157 |
| TOTAL ASSETS | $9,289,939 | $8,070,694 |
| LIABILITES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | $ 15,000 | $ - |
| Scholarships payable | 10,602 | |
| Lifetime annuities | 17,167 | 10,305 |
| Total current liabilities | 42,769 | 10,305 |
| Non-current liabilities— | | |
| Lifetime annuities | 75,047 | 49,471 |
| Total liabilities | 117,816 | 59,776 |
| Net assets: | | |
| Unrestricted | 1,964,824 | 1,500,570 |
| Temporarily restricted | 6,823,608 | 6,510,348 |
| Permanently restricted | 383,691 | |
| Total net assets | 9,172,123 | 8,010,918 |
| TOTAL LIABILITIES AND NET ASSETS | $9,289,939 | $8,070,694 |

See notes to financial statements.

## FAIRMONT STATE UNIVERSITY
### (Formerly Fairmont State College)

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### YEARS ENDED JUNE 30, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| OPERATING REVENUES: | | |
| Student tuition and fees (net of scholarship allowance of $6,656,000 in 2004 and $5,687,341 in 2003) | $ 12,407,005 | $ 11,080,473 |
| Contracts and grants: | | |
| Federal | 14,005,672 | 12,160,710 |
| State | 5,242,070 | 4,085,404 |
| Private | 1,603,712 | 1,551,760 |
| Interest on student loans receivable | 34,405 | 31,182 |
| Auxiliary enterprise revenue | 5,288,492 | 4,540,439 |
| Miscellaneous—net | 938,413 | 812,379 |
| Total operating revenues | 39,519,769 | 34,262,347 |
| OPERATING EXPENSES: | | |
| Salaries and wages | 23,933,623 | 23,590,799 |
| Benefits | 5,901,846 | 6,459,716 |
| Supplies and other services | 13,342,017 | 11,261,917 |
| Utilities | 1,186,308 | 1,132,396 |
| Student financial aid—scholarships and fellowships | 7,635,156 | 6,239,965 |
| Depreciation | 3,007,088 | 2,824,952 |
| Loan cancellations and write-offs | 53,845 | 138,020 |
| Fees assessed by the Commission for operations | 252,499 | 252,499 |
| Total operating expenses | 55,312,382 | 51,900,264 |
| OPERATING LOSS | (15,792,613) | (17,637,917) |

(Continued)

## FAIRMONT STATE UNIVERSITY
### (Formerly Fairmont State College)

### STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
### YEARS ENDED JUNE 30, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| NONOPERATING REVENUES (EXPENSES): | | |
| State appropriations | $ 20,023,095 | $ 21,210,694 |
| Gifts | 908 | 21,000 |
| Investment income | 1,088,519 | 1,125,421 |
| Interest on indebtedness | (2,963,076) | (1,537,962) |
| Loss on disposal of fixed assets | (33,991) | (593,394) |
| Fees assessed by the Commission for debt service | (658,011) | (830,412) |
| Amortization of bond issuance costs | (42,657) | (25,802) |
| Net nonoperating revenues | 17,414,787 | 19,369,545 |
| INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES | 1,622,174 | 1,731,628 |
| CAPITAL PROJECTS PROCEEDS FROM THE COMMISSION | | 864,760 |
| INCREASE IN NET ASSETS BEFORE TRANSFERS | 1,622,174 | 2,596,388 |
| TRANSFER OF LIABILITY FROM POLICY COMMISSION | (74,697) | |
| INCREASE IN NET ASSETS | 1,547,477 | 2,596,388 |
| NET ASSETS—Beginning of year | 53,826,521 | 51,230,133 |
| NET ASSETS—End of year | $ 55,373,998 | $ 53,826,521 |

See notes to financial statements

(Concluded)

## FAIRMONT STATE FOUNDATION, INC.

**COMPONENT UNIT—STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2004**

| | Unresticted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| SUPPORT, REVENUE AND RECLASSIFICATION: | | | | |
| Support: | | | | |
| Gifts and donations | $ 239,165 | $ 604,406 | $383,691 | $1,227,262 |
| Fundraising activities | 12,930 | | | 12,930 |
| Total support | 252,095 | 604,406 | 383,691 | 1,240,192 |
| Revenue: | | | | |
| Investment income including net gains | 172,532 | 274,725 | | 447,257 |
| Royalty income | 51,699 | | | 51,699 |
| Net appreciation in fair value of investments | 500,106 | | | 500,106 |
| Total revenue | 724,337 | 274,725 | - | 999,062 |
| Reclassifications: | | | | |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by payments | 581,025 | (581,025) | | |
| Net assets restricted by donor | (15,154) | 15,154 | | |
| Total reclassifications | 565,871 | (565,871) | - | - |
| TOTAL SUPPORT, REVENUE, AND RECLASSIFICATIONS | 1,542,303 | 313,260 | 383,691 | 2,239,254 |
| EXPENSES— | | | | |
| Program services: | | | | |
| Scholarships | 805,594 | | | 805,594 |
| Educational services | 17,197 | | | 17,197 |
| Other | 113,771 | | | 113,771 |
| Total program services | 936,562 | - | - | 936,562 |
| SUPPORTING SERVICES: | | | | |
| Fund-raising | 44,527 | | | 44,527 |
| General administration | 96,960 | | | 96,960 |
| Total supporting services | 141,487 | - | - | 141,487 |
| Total expenses | 1,078,049 | - | - | 1,078,049 |
| EXCESS OF SUPPORT AND REVENUE OVER EXPENSES | 464,254 | 313,260 | 383,691 | 1,161,205 |
| NET ASSETS—Beginning of year | 1,500,570 | 6,510,348 | | 8,010,918 |
| NET ASSETS—End of year | $1,964,824 | $6,823,608 | $383,691 | $9,172,123 |

(Continued)

## FAIRMONT STATE FOUNDATION, INC.

**COMPONENT UNIT—STATEMENT OF ACTIVITIES**
**YEAR ENDED JUNE 30, 2003**

| | Unresticted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| SUPPORT, REVENUE AND RECLASSIFICATION: | | | | |
| Support: | | | | |
| Gifts and donations | $ 110,810 | $ 774,361 | $ - | $ 885,171 |
| Fundraising activities | 52,509 | | | 52,509 |
| Total support | 163,319 | 774,361 | - | 937,680 |
| Revenue: | | | | |
| Investment income including net gains | 78,804 | 120,247 | | 199,051 |
| Royalty income | 59,935 | | | 59,935 |
| Net appreciation in fair value of investments | 304,428 | | | 304,428 |
| Total revenue | 443,167 | 120,247 | - | 563,414 |
| Reclassifications: | | | | |
| Net assets released from restrictions | | | | |
| Restrictions satisfied by payments | 629,498 | (629,498) | | |
| Net assets restricted by donor | (56,550) | 56,550 | | |
| Total reclassifications | 572,948 | (572,948) | - | - |
| TOTAL SUPPORT, REVENUE, AND RECLASSIFICATIONS | 1,179,434 | 321,660 | - | 1,501,094 |
| EXPENSES— | | | | |
| Program services: | | | | |
| Scholarships | 950,981 | | | 950,981 |
| Educational services | 71,017 | | | 71,017 |
| Other | 179,262 | | | 179,262 |
| Total program services | 1,201,260 | - | - | 1,201,260 |
| SUPPORTING SERVICES: | | | | |
| Fund-raising | 53,081 | | | 53,081 |
| General administration | 75,299 | | | 75,299 |
| Total supporting services | 128,380 | - | - | 128,380 |
| Total expenses | 1,329,640 | - | - | 1,329,640 |
| EXCESS OF SUPPORT AND REVENUE OVER EXPENSES | (150,206) | 321,660 | | 171,454 |
| NET ASSETS—Beginning of year | 1,650,776 | 6,188,688 | | 7,839,464 |
| NET ASSETS—End of year | $ 1,500,570 | $ 6,510,348 | $ - | $ 8,010,918 |

See notes to financial statements.

(Concluded)

## FAIRMONT STATE UNIVERSITY
**(Formerly Fairmont State College)**

### STATEMENTS OF CASH FLOWS
### YEARS ENDED JUNE 30, 2004 AND 2003

| | 2004 | 2003 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Student tuition and fees | $ 18,212,878 | $ 15,844,856 |
| Contracts and grants | 21,200,516 | 16,869,192 |
| Payments to and on behalf of employees | (30,139,594) | (29,405,086) |
| Payments to suppliers | (12,994,589) | (10,976,955) |
| Payments to utilities | (1,174,966) | (1,132,981) |
| Payments for scholarships and fellowships | (13,721,352) | (11,451,589) |
| Loans issued to students | (147,473) | (64,024) |
| Interest on student loans receivable | 34,405 | 31,182 |
| Auxiliary enterprise charges | 5,092,063 | 4,537,853 |
| Fees assessed by the Commission | (252,499) | (252,499) |
| Other receipts—net | 1,141,499 | 1,042,040 |
| U.S. Government advances | | 14,454 |
| Net cash used in operating activities | (12,749,112) | (14,943,557) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| State appropriations | 20,068,214 | 21,427,144 |
| Gift receipts | 908 | 21,000 |
| William D. Ford direct lending receipts | 14,582,202 | 10,410,697 |
| William D. Ford direct lending payments | (14,584,564) | (10,448,500) |
| Net cash provided by noncapital financing activities | 20,066,760 | 21,410,341 |
| CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES: | | |
| Capital projects funds from the Commission | | 864,760 |
| Fees assessed by the Commission | (658,012) | (830,412) |
| Purchases of capital assets | (26,676,743) | (13,973,364) |
| Proceeds from sale of fixed assets | 18,795 | 225,000 |
| Principal paid on leases | (414,412) | (396,574) |
| Interest paid on leases | (20,967) | (31,360) |
| Purchases of equipment | (1,326,373) | (1,983,973) |
| Payments to the Commission on debt obligation | (679,276) | (562,840) |
| Proceeds from bond issuances | | 62,855,563 |
| Principal paid on bonds | (520,000) | (100,000) |
| Interest paid on bonds | (2,956,896) | (1,266,467) |
| Payments into debt service reserves | | 1,203,750 |
| Bond interest income | 863,781 | 273,482 |
| Net cash (used in) provided by capital financing activities | (32,370,103) | 46,277,565 |
| CASH FLOW FROM INVESTING ACTIVITY— | | |
| Interest on investments | 230,134 | 949,176 |
| (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (24,822,321) | 53,693,525 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 76,223,274 | 22,529,749 |
| CASH AND CASH EQUIVALENTS—End of year | $ 51,400,953 | $ 76,223,274 |

(Continued)

## FAIRMONT STATE UNIVERSITY

### (Formerly Fairmont State College)

**STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2004 AND 2003**

| | 2004 | 2003 |
|---|---|---|
| RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES: | | |
| Operating loss | $ (15,792,613) | $ (17,637,917) |
| Adjustments to reconcile net operating loss to net cash used in operating activities: | | |
| Depreciation expense | 3,007,088 | 2,824,952 |
| Changes in assets and liabilities: | | |
| Receivables—net | (244,330) | (933,160) |
| Loans to students—net | (159,711) | (61,247) |
| Inventories | 64,633 | (3,401) |
| Accounts payable | 1,282,927 | 407,720 |
| Accrued liabilities | (46,374) | 263 |
| Payroll liability | (32,542) | 282,905 |
| Compensated absences | (162,290) | 718,305 |
| Severance payable | (724,035) | (370,976) |
| Deferred revenue | 19,020 | (185,455) |
| Advances from Federal Sponsors | 15,531 | 14,454 |
| Undistributed Receipts | 23,584 | |
| Net cash used in operating activities: | $ (12,749,112) | $ (14,943,557) |
| NONCASH TRANSACTIONS: | | |
| Equipment purchased on capital lease | $ 377,121 | $ 308,950 |
| Construction in progress additions in accounts payable | $ 4,407,345 | $ 2,846,858 |
| Construction in progress additions in retainage payable | $ 2,513,701 | $ 520,866 |
| Amortization of bond issuance costs, premiums and discounts | $ 29,984 | $ 19,529 |
| RECONCILATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS: | | |
| Cash and cash equivalents classified at current | 33,319,000 | 27,992,573 |
| Cash and cash equivalents classified at noncurrent | 18,081,953 | 48,230,701 |
| | $ 51,400,953 | $ 76,223,274 |

See notes to financial statements. (Concluded)

### 1. ORGANIZATION

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

The Board's powers and duties include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of 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 is responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda.

During fiscal year 2004, Senate Bill 448 ("S.B. 448") was passed. Beginning for fiscal year ending June 30, 2005, S.B. 448 requires the transfer of certain net assets from Fairmont State to its related community and technical college. The exact amounts to be transferred have not yet been determined. As Fairmont State had previously met the criteria for university status and had been granted that status by the Commission, S.B. 448 also made effective Fairmont State's designation as a university.

The additional information schedules are included to comply with the requirements of the West Virginia Higher Education Policy Commission to provide financial information for all component parts of Fairmont State. This presentation provides financial information for Fairmont State, Fairmont State Community and Technical College, and Fairmont State Central. The Fairmont State Central component consists of auxiliary enterprises and student activities that support both Fairmont State and Fairmont State Community and Technical College, capital funds for all bonding and plant repairs and replacements, plant and other capitalized assets, and grants not specific to either Fairmont State or Fairmont State Community and Technical College.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Fairmont State have been prepared in accordance with generally accepted accounting principles as prescribed by 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—for 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 Fairmont State's assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows.

Fairmont State 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.

***Reporting Entity***—Fairmont State is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State of West Virginia (the "State") that are not included in the State's general fund. Fairmont State is a separate entity which, along with all State institutions of higher education and the Commission (which includes West Virginia Network for Educational Telecomputing), 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 Fairmont State. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from Fairmont State's ability to significantly influence operations and accountability for fiscal matters of related entities. Fairmont State Foundation, Inc. (the "Foundation") and the Fairmont State Alumni Association are not part of Fairmont State's reporting entity and are not included in the accompanying financial statements as Fairmont State has no ability to designate management, cannot significantly influence operations and is not accountable for the fiscal matters of the Foundation under GASB Statement No. 14, *The Financial Reporting Entity.*

As of July 1, 2003, Fairmont State University adopted GASB Statement No 39, *Determining Whether Certain Organizations Are Component Units,* as an amendment to GASB Statement No. 14. As a result, the audited financial statements of the Foundation are discretely presented here as a discrete component unit with the Fairmont State financial statements for the fiscal years ended June 30, 2004 and 2003. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations.* As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's significant audited financial information as it is presented herein (see also Note 12).

***Financial Statement Presentation***—During fiscal 2002, Fairmont State 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 Fairmont State as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Fairmont State's obligations. Fairmont State's net assets are classified as follows:

- *Invested in capital assets, net of related debt*—This 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 invested in capital assets, net of related debt.

- *Restricted net assets, expendable*—This includes resources in which Fairmont State 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. House Bill 101 passed in March 2004 simplified the tuition and fee restrictions. For 2004, these restrictions are for auxiliaries and capital items. For 2003, these restrictions were for the following: off campus instruction; public interest research group; libraries, library supplies, and improvement in student services; faculty improvement; health education student loan fund; health sciences education; 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. Fairmont State does not have any restricted nonexpendable net assets at June 30, 2004 and 2003.

- *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 Fairmont State, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose.

***Basis of Accounting***—For financial reporting purposes, Fairmont State is considered a special-purpose government engaged only in business-type activities. Accordingly, Fairmont State'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 are incurred when goods or services are received. All intercompany accounts and transactions have been eliminated.

***Cash and Cash Equivalents***—For purposes of the statements of net assets, Fairmont State 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.

***Allowance for Doubtful Accounts***—It is Fairmont State's policy to provide for future losses on uncollectible accounts, contracts, grants and loans receivable based on an evaluation of the underlying account, contract, grant and loan balances, the historical collectibility experienced by Fairmont State on such balances and such other factors which, in Fairmont State's judgment, require consideration in estimating doubtful accounts.

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

***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 statements of net assets.

***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, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment.

***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.

***Compensated Absences***—Fairmont State 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.

Fairmont State's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 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, Fairmont State 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 Fairmont State 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 statements of revenues, expenses and changes in net assets.

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

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

***Classification of Revenues***—Fairmont State 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, and (4) 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.

***Use of Restricted Net Assets***—Fairmont State has not adopted a formal policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. Generally, Fairmont State attempts to utilize restricted net assets first when practicable.

***Federal Financial Assistance Programs***—Fairmont State makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like Fairmont State. Direct student loan receivables are not included in Fairmont State's balance sheets as the loans are repayable directly to the U.S. Department of Education. Fairmont State received $14,582,202 in 2004 and $10,410,697 in 2003 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 statements of revenues, expenses and changes in net assets.

Fairmont State also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying combined financial statements. Fairmont State received and disbursed $8,282,370 in 2004 and $7,076,016 in 2003 under these federal student aid programs.

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

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

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

***Interest Expense***—Fairmont State accounts for interest on debt as an expense of the period in which it is incurred. Fairmont State does not capitalize interest on debt as part of the cost of the asset.

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

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

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

***Reclassifications***—Certain reclassifications have been made to the 2003 financial statements to conform to the current year presentation.

***Recent Statements Issued By the Government Accounting Standards Board***—The GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. This statement is effective for periods beginning after June 15, 2004. Fairmont State has not completed the process of evaluating the impact, if any, that will result from adopting GASB Statement No. 40. The statement, when adopted, could result in additional disclosure in Fairmont State's financial statements regarding custodial credit risk, concentration of credit risk, and interest rate risk related to deposits and investments.

The GASB has also issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, effective for fiscal years beginning after December 15, 2004. This statement requires Fairmont State University to evaluate prominent events or changes in circumstances affecting capital assets to determine whether impairment of a capital asset has occurred and record impaired assets and impairment losses accordingly. This statement also addresses the appropriate recording of an insurance recovery associated with events or changes in circumstances resulting in impairment of capital asset. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 42 may have on the financial statements.

The GASB has also issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 45 may have on the financial statements.

## 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2004 and 2003 are as follows:

| 2004 | Current | Noncurrent | Total |
|---|---|---|---|
| Cash on deposit with the State Treasurer: | | | |
| College—unrestricted | $24,996,458 | $ - | $24,996,458 |
| Municipal Bond Commission for the College | 1,273,041 | | 1,273,041 |
| Cash in bank with Trustee | 6,880,384 | 17,914,126 | 24,794,510 |
| Cash in bank | 165,981 | 167,827 | 333,808 |
| Cash on hand | 3,136 | | 3,136 |
| | $33,319,000 | $18,081,953 | $51,400,953 |

| 2003 | Current | Noncurrent | Total |
|---|---|---|---|
| Cash on deposit with the State Treasurer: | | | |
| College—unrestricted | $ 16,347,072 | $ - | $ 16,347,072 |
| College—restricted | 6,888,708 | | 6,888,708 |
| Municipal Bond Commission for the College | 1,260,705 | | 1,260,705 |
| Cash in bank with Trustee | 3,367,724 | 47,999,653 | 51,367,377 |
| Cash in bank | 125,328 | 231,048 | 356,376 |
| Cash on hand | 3,036 | | 3,036 |
| | $ 27,992,573 | $ 48,230,701 | $ 76,223,274 |

Cash on deposit with the Municipal Bond Commission is used by Fairmont State as needed to finance capital projects. Cash on deposit with the Trustee as of June 30, 2004 and 2003 includes $24,794,510 and $51,367,377, respectively, invested in a money market fund sponsored by an investment company, the underlying assets of which are securities of the U.S. government, its agencies, authorities, and instrumentalities. Other cash held by the State Treasurer includes restricted cash for West Virginia State Code purposes amounting to $0 in 2004 and $6,888,708 in 2003.

The combined carrying amount of cash in the bank at June 30, 2004 and 2003 were $333,808 and $356,376, respectively, as compared with the combined bank balances of $460,876 and $459,220, respectively. The difference is primarily caused by outstanding checks and items in transit. The bank balances were covered by federal depository insurance or were collateralized by securities held 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 at June 30, 2004 and 2003 are as follows:

| | 2004 | 2003 |
|---|---|---|
| Student tuition and fees, net of allowance for doubtful accounts of $487,042 in 2004 and $420,959 in 2003 | $ 450,089 | $ 179,698 |
| Grants and contracts receivable | 1,281,707 | 988,448 |
| Due from federal government | 17,133 | 14,771 |
| Due from the Commission | 12,460 | 17,855 |
| Due from other State agencies | 65,398 | 344,741 |
| Other accounts receivable | 252,793 | 257,058 |
| | $ 2,079,580 | $ 1,802,571 |

## 5. CAPITAL ASSETS

Capital asset activities for the years ended June 30, 2004 and 2003 are as follows:

| | 2004 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land | $ 1,783,969 | $ - | $ - | $ 1,783,969 |
| Construction in progress | 12,510,517 | 30,016,175 | (114,582) | 42,412,110 |
| Total capital assets not being depreciated | $ 14,294,486 | $ 30,016,175 | $ (114,582) | $ 44,196,079 |
| Other capital assets: | | | | |
| Land improvements | $ 1,649,513 | $ 86,216 | $ - | $ 1,735,729 |
| Infrastructure | 2,329,575 | 94,809 | | 2,424,384 |
| Buildings | 54,628,791 | 207,530 | | 54,836,321 |
| Equipment | 10,035,121 | 918,897 | (706,240) | 10,247,778 |
| Computer software | 457,263 | 289,633 | | 746,896 |
| Library books | 6,127,084 | 219,744 | (40,102) | 6,306,726 |
| Total other capital assets | 75,227,347 | 1,816,829 | (746,342) | 76,297,834 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 483,327 | 75,016 | | 558,343 |
| Infrastructure | 624,991 | 133,611 | | 758,602 |
| Buildings | 17,001,506 | 1,083,800 | | 18,085,306 |
| Equipment | 6,248,568 | 1,165,501 | (653,454) | 6,760,615 |
| Computer software | 187,592 | 224,149 | | 411,741 |
| Library books | 5,647,011 | 325,011 | (40,102) | 5,931,920 |
| Total accumulated depreciation | 30,192,995 | 3,007,088 | (693,556) | 32,506,527 |
| Other capital assets—net | $ 45,034,352 | $ (1,190,259) | $ (52,786) | $ 43,791,307 |
| Capital asset summary: | | | | |
| Capital assets not being depreciated | $ 14,294,486 | $ 30,016,175 | $ (114,582) | $ 44,196,079 |
| Other capital assets | 75,227,347 | 1,816,829 | (746,342) | 76,297,834 |
| Total cost of capital assets | 89,521,833 | 31,833,004 | (860,924) | 120,493,913 |
| Less accumulated depreciation | 30,192,995 | 3,007,088 | (693,556) | 32,506,527 |
| Capital assets—net | $ 59,328,838 | $ 28,825,916 | $ (167,368) | $ 87,987,386 |

| | 2003 | | | |
|---|---|---|---|---|
| | Beginning Balance | Additions | Reductions | Ending Balance |
| Capital assets not being depreciated: | | | | |
| Land | $ 1,783,969 | $ - | $ - | $ 1,783,969 |
| Construction in progress | 1,879,465 | 12,029,527 | (1,398,475) | 12,510,517 |
| Total capital assets not being depreciated | $ 3,663,434 | $12,029,527 | $(1,398,475) | $ 14,294,486 |
| Other capital assets: | | | | |
| Land improvements | $ 1,649,513 | $ - | $ - | $ 1,649,513 |
| Infrastructure | 2,323,175 | 6,400 | | 2,329,575 |
| Buildings | 50,167,911 | 5,824,460 | (1,363,580) | 54,628,791 |
| Equipment | 8,964,075 | 1,334,907 | (263,861) | 10,035,121 |
| Computer software | 270,434 | 186,829 | | 457,263 |
| Library books | 5,983,080 | 190,024 | (46,020) | 6,127,084 |
| Total other capital assets | 69,358,188 | 7,542,620 | (1,673,461) | 75,227,347 |
| Less accumulated depreciation for: | | | | |
| Land improvements | 309,124 | 174,203 | | 483,327 |
| Infrastructure | 467,880 | 157,111 | | 624,991 |
| Buildings | 16,524,752 | 1,030,283 | (553,529) | 17,001,506 |
| Equipment | 5,331,781 | 1,172,625 | (255,838) | 6,248,568 |
| Computer software | 49,548 | 138,044 | | 187,592 |
| Library books | 5,494,325 | 152,686 | | 5,647,011 |
| Total accumulated depreciation | 28,177,410 | 2,824,952 | (809,367) | 30,192,995 |
| Other capital assets—net | $41,180,778 | $ 4,717,668 | $ (864,094) | $ 45,034,352 |
| Capital asset summary: | | | | |
| Capital assets not being depreciated | $ 3,663,434 | $12,029,527 | $(1,398,475) | $ 14,294,486 |
| Other capital assets | 69,358,188 | 7,542,620 | (1,673,461) | 75,227,347 |
| Total cost of capital assets | 73,021,622 | 19,572,147 | (3,071,936) | 89,521,833 |
| Less accumulated depreciation | 28,177,410 | 2,824,952 | (809,367) | 30,192,995 |
| Capital assets—net | $44,844,212 | $16,747,195 | $(2,262,569) | $ 59,328,838 |

Fairmont State 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.

Fairmont State has construction commitments of approximately $24,100,000 as of June 30, 2004.

## 6. LONG-TERM LIABILITIES

Long-term obligation activities for the years ended June 30, 2004 and 2003 are as follows:

| | 2004 | | | | |
|---|---|---|---|---|---|
| | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** | **Current Portion** |
| Bonds payable | $63,625,000 | $ - | $ (520,000) | $63,105,000 | $ 530,000 |
| Add (less) deferred amounts: | | | | | |
| Premium on issuance | 506,711 | | (17,208) | 489,503 | |
| Discount on issuance | (102,786) | | 3,534 | (99,252) | |
| Total Bonds payable—net | 64,028,925 | - | (533,674) | 63,495,251 | 530,000 |
| Capital leases payable | 776,725 | 377,121 | (458,167) | 695,679 | 402,544 |
| Other long-term liabilities: | | | | | |
| Accrued compensated absences | 4,566,561 | 1,079,216 | (1,241,505) | 4,404,272 | 993,074 |
| Advances from federal sponsors | 1,119,482 | 15,531 | | 1,135,013 | |
| Severance payable | 915,225 | | (724,035) | 191,190 | |
| Payable to Commission | 7,754,736 | 74,697 | (679,276) | 7,150,157 | 473,609 |
| Total long-term liabilities | $79,161,654 | $ 1,546,565 | $(3,636,657) | $77,071,562 | $2,399,227 |

| | 2003 | | | | |
|---|---|---|---|---|---|
| | **Beginning Balance** | **Additions** | **Reductions** | **Ending Balance** | **Current Portion** |
| Bonds payable | $ - | $63,725,000 | $ (100,000) | $63,625,000 | $ 520,000 |
| Add (less) deferred amounts: | | | | | |
| Premium on issuance | | 516,224 | (9,513) | 506,711 | |
| Discount on issuance | | (106,025) | 3,239 | (102,786) | |
| Total Bonds payable—net | - | 64,135,199 | (106,274) | 64,028,925 | 520,000 |
| Capital leases payable | 864,349 | 308,950 | (396,574) | 776,725 | 389,261 |
| Other long-term liabilities: | | | | | |
| Accrued compensated absences | 3,848,256 | 1,914,603 | (1,196,298) | 4,566,561 | 957,334 |
| Advances from federal sponsors | 1,105,028 | 14,454 | | 1,119,482 | |
| Severance payable | 1,286,201 | 9,361 | (380,337) | 915,225 | 724,035 |
| Payable to Commission | 8,317,576 | | (562,840) | 7,754,736 | 587,713 |
| Total long-term liabilities | $15,421,410 | $66,382,567 | $(2,642,323) | $79,161,654 | $3,178,343 |

## 7. BONDS PAYABLE

Bonds payable at June 30, 2004 are summarized as follows:

| | Interest Rates | Annual Principal Installments (in thousands) | 2004 Principal Outstanding (in thousands) | 2003 Principal Outstanding (in thousands) |
|---|---|---|---|---|
| College Facilities Revenue Bonds 2002, Series A, due through 2032 | 2.00%—5.375% | $340-$1,145 | $ 17,830 | $ 18,170 |
| Infrastructure Revenue Bonds 2002, Series B, due through 2032 | 2.00%—5.00% | $180-565 | 9,030 | 9,210 |
| College Facilities Revenue Bonds 2003, Series A, due through 2032 | 2.00%—5.25% | $280-860 | 13,320 | 13,320 |
| Student Activity Revenue Bonds 2003, Series B, due through 2032 | 2.00%—5.25% | $485-1,475 | 22,925 | 22,925 |
| Total outstanding principal | | | 63,105 | 63,625 |
| Add: Unamortized bond premium | | | 489 | 507 |
| Less: Unamortized bond discount | | | (99) | (103) |
| | | | $ 63,495 | $ 64,029 |

During fiscal 2003, Fairmont State issued the following revenue bonds:

a. *College Facilities Revenue Bonds 2002, Series A*

On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the "2002A Bonds") amounting to $18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facility, (3) establish a debt service reserve fund for the 2002A Bonds, (4) capitalize interest on the 2002A Bonds, and (5) pay the cost of issuance of the 2002A Bonds and related costs.

b. *Infrastructure Revenue Bonds 2002, Series B*

On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the "2002B Bonds") amounting to $9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) pay the costs of issuance of the 2002B Bonds and related costs.

c. *College Facilities Revenue Bonds 2003, Series A*

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the “2003A Bonds”) amounting to $13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) make a deposit to the debt service reserve fund for the 2003A Bonds, (3) capitalize interest on the 2003A Bonds, and (4) pay the costs of issuance of the 2003A Bonds and related costs.

d. *Student Activity Revenue Bonds 2003, Series B*

On March 1, 2003, Fairmont State issued Student Activity Revenue Bonds (the “2003B Bonds”) amounting to $22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) capitalize interest on the 2003B Bonds during reasonable time after the construction of the Project, and (3) pay the costs of issuance of the 2003B Bonds and related costs.

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

Future debt service requirements to maturity for the revenue bonds at June 30, 2004 are as follows:

| Fiscal Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 530,000 | $ 2,946,496 | $ 3,476,496 |
| 2006 | 1,310,000 | 2,935,102 | 4,245,102 |
| 2007 | 1,335,000 | 2,906,177 | 4,241,177 |
| 2008 | 1,370,000 | 2,873,087 | 4,243,087 |
| 2009 | 1,415,000 | 2,834,274 | 4,249,274 |
| 2010-2014 | 7,805,000 | 13,411,342 | 21,216,342 |
| 2015-2019 | 9,585,000 | 11,615,708 | 21,200,708 |
| 2020-2024 | 12,340,000 | 8,869,176 | 21,209,176 |
| 2025-2029 | 15,850,000 | 5,366,675 | 21,216,675 |
| 2030-2032 | 11,565,000 | 1,175,250 | 12,740,250 |
| | $63,105,000 | $54,933,287 | $118,038,287 |

## 8. LEASES

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

Future annual minimum lease payments on operating leases for years subsequent to June 30, 2004 are as follows:

| Year Ending June 30 | |
|---|---|
| 2005 | $ 554,853 |
| 2006 | 546,979 |
| 2007 | 558,273 |
| 2008 | 557,530 |
| 2009 | 459,490 |
| 2010-2014 | 780,234 |
| 2015 | 28,548 |
| | $3,485,907 |

Total lease expense for the years ended June 30, 2004 and 2003 was $683,645 and $227,144, respectively.

***Capital Leases***—Fairmont State leases a parking lot and various equipment which are accounted for as capital leases.

Future annual minimum payments required under the lease obligations existing at June 30, 2004 are as follows:

| Year Ending June 30 | Principal | Interest | Total |
|---|---|---|---|
| 2005 | $ 402,544 | $ 11,685 | $ 414,229 |
| 2006 | 176,395 | 3,684 | 180,079 |
| 2007 | 66,240 | 479 | 66,719 |
| 2008 | 2,000 | | 2,000 |
| 2009 | 2,000 | | 2,000 |
| 2010-2014 | 10,000 | | 10,000 |
| 2015-2019 | 10,000 | | 10,000 |
| 2020-2024 | 10,000 | | 10,000 |
| 2025-2029 | 10,000 | | 10,000 |
| 2030-2032 | 6,500 | | 6,500 |
| Less interest | | | 15,848 |
| Total | | | $ 695,679 |

## 9. COMPENSATED ABSENCES

Compensated absences liability at June 30, 2004 and 2003 is as follows:

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Current | Noncurrent | Total | Current | Noncurrent | Total |
| Health or life insurance benefits | $ 229,172 | $ 3,030,794 | $ 3,259,966 | $ 254,655 | $ 3,246,388 | $ 3,501,043 |
| Accrued vacation leave | 763,902 | 380,404 | 1,144,306 | 702,679 | 362,839 | 1,065,518 |
| | $ 993,074 | $ 3,411,198 | $ 4,404,272 | $ 957,334 | $ 3,609,227 | $ 4,566,561 |

The cost of health and life insurance benefits paid by Fairmont State is based on a combination of years of service and age. For the years ended June 30, 2004 and 2003, the amounts paid by Fairmont State for extended health or life insurance coverage retirement benefits totaled $211,217 and $211,293, respectively. As of June 30, 2004 and 2003, there are 78 and 88 retirees, respectively, currently receiving these benefits.

## 10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of Fairmont State. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of Fairmont State 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. During 2004 and 2003, Fairmont State paid $679,276 and $562,840, respectively, to the Commission against the debt obligation. The amount due to Commission at June 30, 2004 is $7,150,157.

## 11. RETIREMENT PLANS

Substantially all full-time employees of Fairmont State 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 Fairmont State employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the Great West Retirement Services 401(a) basic retirement plan. New hires have the choice of either plan. As of June 30, 2004, four employees were enrolled in the Great West Retirement Services 401(a) basic retirement plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the West Virginia State Legislature. Fairmont State accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2004 and 2003. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2004 and 2003. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with

35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2004, 2003 and 2002, were $597,341, $632,452 and $679,621, respectively, which consisted of $426,672, $451,751 and $485,680 from Fairmont State in 2004, 2003 and 2002, respectively, and $170,669, $180,701 and $193,941 from the covered employees in 2004, 2003 and 2002, 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 Fairmont State. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

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. Fairmont State matches the employees' 6% contribution. Contributions are immediately and fully vested. In addition, employees may elect to make additional contributions to TIAA-CREF which are not matched by Fairmont State.

Total contributions to the TIAA-CREF for the years ended June 30, 2004, 2003 and 2002 were $1,983,582, $1,969,642 and $1,869,626, respectively, which consisted of equal contributions from Fairmont State and covered employees of $991,791, $984,821 and $934,813 in 2004, 2003 and 2002, respectively.

Fairmont State's total payroll for the years ended June 30, 2004 and 2003 was $23,493,318 and $23,399,623, respectively; total covered employees' salaries in the STRS and TIAA-CREF were $2,844,478 and $16,529,827, respectively, in 2004, and $3,011,674 and $16,419,755, respectively, in 2003.

## 12. FOUNDATION

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 Fairmont State; to develop and utilize the ties of interest, sympathy and affection existing between Fairmont State 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 Fairmont State. 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. Although Fairmont State does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of Fairmont State by donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, Fairmont State, the Foundation is considered a component unit of Fairmont State and is therefore discretely presented with Fairmont State's financial statements in accordance with GASB Statement No. 39. Based on the Foundation's audited financial statements as of June 30, 2004 and 2003, the Foundation's net assets (including unrealized gains) totaled $9,172,123, and $8,010,918, respectively. Complete financial statements for the Foundation can be obtained from Fairmont State Foundation, Inc., Erickson Alumni Center, 1201 Locust Avenue, Fairmont, WV 26554.

During the years ended June 30, 2004 and 2003, the Foundation contributed $822,791 and $1,021,998, respectively, to Fairmont State for scholarships and grants.

The following are the significant footnote disclosures of the Foundation:

## 12-1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Purpose

The Foundation provides support for Fairmont State University students and faculty in providing scholarships and loans.

The statement of financial position includes all assets under the control of the Foundation's Board of Directors.

### Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards Board in its Statement of Financial Accounting Standards ("SFAS") No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117 the Foundation is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

### Cash Equivalents

Cash equivalents consist of cash in bank.

### Support and Revenue

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Unconditional promises to give are recorded as received. Unconditional promises to give due in the next year are reflected as current promises to give. Unconditional promises to give due in subsequent years are reflected as non-current unconditional promises to give and are recorded at the present value of their estimated future cash flows, using risk-free interest rates applicable to the years in which the promises are expected to be received to discount the amounts. Management provides for probably uncollectible amounts through a provision for bad debt expense and an adjustment to a valuation allowance based on its assessment of the current status of individual accounts.

Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes. When a temporary restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Policies concerning donated materials and services are described in Note 12-8.

### Income Taxes

The organization operates as a nonprofit organization and has received exempt status under Code Section 501(c) (3) of the Internal Revenue Code.

### Use of Estimates

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

## 12-2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

| | 2004 | 2003 |
|---|---|---|
| WesBanco— | | |
| Checking | $ 101,671 | $ 101,197 |

## 12-3. INVESTMENTS

Investments are presented in the financial statements at their quoted market values (fair value)at June 30, 2004 and 2003. A summary of investments is as follows:

| | 2004 | 2003 |
|---|---|---|
| Trust Holdings: | | |
| US Treasury cash equivalents | $ 420,841 | $ 1,407,582 |
| Corporate bonds and notes | 2,412,790 | 1,074,980 |
| Mutual funds | 246,353 | 383,697 |
| Common stocks | 5,247,948 | 4,762,815 |
| | 8,327,932 | 7,629,074 |
| Gift Annuites: | | |
| US Treasury cash equivalents | 22,168 | |
| Mutual funds | 191,269 | 114,624 |
| | 213,437 | 114,624 |
| Coal reserves | 120,000 | 120,000 |
| Other | 108,050 | 91,459 |
| | 228,050 | 211,459 |
| Total investments | $ 8,769,419 | $ 7,955,157 |

During fiscal years 2003-2004 and 2002-2003 the Foundation’s investments appreciated in value by $500,106 and $304,428, respectively.

## 12-4. PROMISES TO GIVE RECEIVABLE

Unconditional promises to give at June 30, are as follows:

| | 2004 | 2003 |
|---|---|---|
| Receivable in less than one year | $ 15,973 | $ - |
| Receivable in one to five years | 397,514 | |
| Total unconditional promises to give | 413,487 | - |
| Less discounts to net present value | (24,632) | |
| Less allowance for uncollectible promises to give | (7,414) | |
| Net unconditional promises to give at June 30, | $ 381,441 | $ - |

Discounts rates used on non-current promises to give ranged from 1.60% to 3.98% in 2004.

## 12-5. INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, are as follows:

**2004**

| | Due From Other Funds | Due to Other Funds |
|---|---|---|
| Operating fund | $ - | $ 7,034,058 |
| School fund | 2,160,051 | |
| Scholarship fund | 4,651,312 | |
| Restricted operating fund | 222,695 | |
| | $ 7,034,058 | $ 7,034,058 |

**2003**

| | Due From Other Funds | Due to Other Funds |
|---|---|---|
| Operating fund | $ - | $ 6,570,124 |
| School fund | 1,974,292 | |
| Scholarship fund | 4,376,310 | |
| Restricted operating fund | 219,522 | |
| | $ 6,570,124 | $ 6,570,124 |

## 12-6. CHARITABLE GIFT ANNUITIES

The Foundation has entered into thirteen charitable gift annuity agreements with three of its donors. These agreements require the Foundation to pay the donor a rate of return on his/her contribution until his/her death. The present value of the estimated future payments is computed by WesBanco at the origination of the annuity. The present value of those estimated future payments are recorded in the restricted operating fund.

### 12-7. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, are available for the following purposes:

| | 2004 | 2003 |
|---|---|---|
| School fund | $ 2,204,510 | $ 1,974,292 |
| Scholarship fund | 4,488,617 | 4,376,310 |
| Restricted operating fund | 130,481 | 159,746 |
| | $ 6,823,608 | $ 6,510,348 |

Net assets were permanently restricted for the following purposes at June 30,:

| | 2004 | 2003 |
|---|---|---|
| Scholarship fund | $ 383,691 | $ - |

### 12-8. DONATED MATERIALS AND SERVICES

Donated assets are reflected as contributions in the accompanying statements at their estimated value at date of receipt. No amounts have been reflected in the statement for donated services in as much as no objective basis is available to measure the value of such services; however, volunteers have donated significant amounts of their time to the organization's programs.

### 12-9. RECLASSIFICATIONS

Prior year investments were reclassified from current assets to non-current assets and a portion of prior year lifetime annuities was reclassified from non-current liabilities to current liabilities for comparison purposes.

### 12-10. SUBSEQUENT EVENT

The Foundation is in negations with Fairmont State University to provide funding for a deferred compensation program in the form of a variable life annuity or similar arrangement for the University's President, Dr. Daniel J. Bradley. The estimated funding is not expected to exceed $150,000 over a five year period.

## 13. AFFILIATED ORGANIZATION

Fairmont State has a separately incorporated affiliated organization, the Fairmont State Alumni Association. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with Fairmont State. Accordingly, the financial statements of this organization are not included in Fairmont State's accompanying financial statements under GASB No. 14. They are not included in Fairmont State's accompanying financial statements under GASB No. 39 because they are not significant.

## 14. CONTINGENCIES

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

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

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

## 15. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors of Fairmont State, Fairmont State issued revenue bonds to finance certain of its auxiliary enterprise activities. Investors in those bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment.

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

a. *Board of Governors of Fairmont State College, College Facilities Revenue Bonds 2002, Series A*

On August 1, 2002, Fairmont State issued College Facilities Revenue Bonds 2002, Series A (the "2002A Bonds") amounting $18,170,000. The 2002A Bonds were issued to (1) finance the costs of acquisition of student housing facilities, consisting of an existing 113-unit apartment complex, (2) finance the costs of design, acquisition and construction of a new, approximately 1,000 space motor vehicle parking facility, (3) establish a debt service reserve fund for the 2002A Bonds, (4) capitalize interest on the 2002A Bonds during the construction of the parking facilities, and (5) pay the cost of issuance of the 2002A Bonds and related costs.

The 2002A Bonds consist of $4,815,000 Serial Bonds with varying interest rates from 2.0% to 4.2%, and mature serially from June 1, 2004 to June 1, 2015 and Term Bonds as follows:

| Principal Amount | Maturity Date | Interest Date |
|---|---|---|
| $ 4,125,000 | June 1, 2022 | 5.38 % |
| 4,030,000 | June 1, 2027 | 5.38 |
| 5,200,000 | June 1, 2032 | 5.00 |

The Term Bonds maturing June 1, 2022, June 1, 2027 and June 1, 2032 are subject to mandatory redemption prior to maturity commencing June 1, 2016, June 1, 2023 and June 1, 2028, respectively.

Fairmont State has fixed and will maintain just and equitable rules, regulations, rents, charges and fees for the use and occupancy of apartment and parking facilities (collectively, the "Facilities"). Fairmont State must fix rents, charges and fees to produce revenues from Facilities sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created under the Indenture, and that such schedule of rents, charges and fees shall be revised from time to time to provide for all reasonable operating expenses, and leave net revenues, when combined with other moneys legally available to be used for such purposes, each fiscal year equal to at least 110% of maximum annual debt service.

b. *Board Of Governors of Fairmont State College, Infrastructure Revenue Bonds 2002, Series B*

On August 1, 2002, Fairmont State issued Infrastructure Revenue Bonds 2002, Series B (the "2002B Bonds") amounting $9,310,000. The 2002B Bonds were issued to (1) finance the costs of acquisition and construction of improvements to the campus infrastructure and utilities, including the entranceways to Fairmont State and the roads surrounding Fairmont State, and electrical, water and sewerage systems, and (2) pay the costs of issuance of the 2002B Bonds and related costs.

The 2002B Bonds consist of $2,615,000 Serial Bonds with varying interest rates from 2.0% to 4.2%, and mature serially from June 1, 2004 to June 1, 2015 and Term Bonds as follows:

| **Principal Amount** | **Maturity Date** | **Interest Date** |
|---|---|---|
| $ 2,115,000 | June 1, 2022 | 4.80 % |
| 4,580,000 | June 1, 2032 | 5.00 |

The Term Bonds maturing June 1, 2022 and June 1, 2032 are subject to mandatory redemption prior to maturity commencing June 1, 2016 and June 1, 2023, respectively.

Fairmont State has fixed and will assess and maintain just and equitable fees which shall at all times be adequate to produce revenues sufficient to make the prescribed payments into funds and accounts created under the Indenture. The amount of fees shall be revised from time to time to provide revenues each fiscal year equal to at least 100% of maximum annual debt service. For the year ended June 30, 2004 and for the period ended June 30, 2003, the University had revenues, as defined in the Indenture, that approximated 133% and 116%, respectively, of the maximum annual debt service.

c. *Board of Governors of Fairmont State College, College Facilities Revenue Bonds 2003, Series A*

On March 1, 2003, Fairmont State issued College Facilities Revenue Bonds 2003, Series A (the "2003A Bonds") amounting to $13,320,000. The 2003A Bonds were issued to (1) finance the costs of design, acquisition, construction and equipping of a new dormitory facility anticipated to include approximately 400 units, (2) make a deposit to the debt service reserve fund for the 2003A Bonds, (3) capitalize interest on the 2003A Bonds during and for a reasonable time after the construction of the dormitory, and (4) pay the costs of issuance of the 2003A Bonds and related costs.

The 2003A Bonds consist of $3,195,000 Serial Bonds with varying interest rates from 2.0% to 4.1%, and mature serially from June 1, 2006 to June 1, 2015 and Term Bonds as follows:

| Principal Amount | Maturity Date | Interest Date |
|---|---|---|
| $ 3,170,000 | June 1, 2022 | 5.25 % |
| 6,995,000 | June 1, 2032 | 5.00 |

The Term Bonds maturing June 1, 2022 and June 1, 2032 are subject to mandatory redemption prior to maturity commencing June 1, 2016 and June 1, 2023, respectively.

Fairmont State has fixed and will maintain just and equitable rules, regulations, rents, charges and fees for the use and occupancy of apartment and parking facilities (collectively, the “Facilities”). Fairmont State must fix rents, charges and fees to produce revenues from Facilities sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created under the Indenture, and that such schedule of rents, charges and fees shall be revised from time to time to provide for all reasonable operating expenses, and leave net revenues, when combined with other moneys legally available to be used for such purposes, each fiscal year equal to at least 110% of maximum annual debt service.

For the year ended June 30, 2004 and for the period ended June 30, 2003, the University’s combined 2002A and 2002B Bonds had net revenues, when combined with other monies legally available, as defined in the Indentures, that approximated 196% and 117%, respectively, of the maximum debt service.

d. *Board of Governors of Fairmont State College, Student Activity Revenue Bonds 2003, Series B*

On March 1, 2003, Fairmont State issued Student Activity Revenue Bonds (the “2003B Bonds”) amounting $22,925,000. The 2003B Bonds were issued to (1) finance the costs of designing, acquisition, construction and equipping a new student activities center (including demolition of an existing dining facility) to be located on the campus of Fairmont State, (2) capitalize interest on the 2003B Bonds during and for a reasonable time after the construction of the student activities center, and (3) pay the costs of issuance of the 2003B Bonds and related costs.

The 2003B Bonds consist of $5,505,000 Serial Bonds with varying interest rates from 2.0% to 4.1%, and mature serially from June 1, 2006 to June 1, 2015 and Term Bonds as follows:

| Principal Amount | Maturity Date | Interest Date |
|---|---|---|
| $ 5,130,000 | June 1, 2022 | 5.25 % |
| 325,000 | June 1, 2022 | 4.75 |
| 11,965,000 | June 1, 2032 | 5.00 |

The Term Bonds maturing June 1, 2022 and June 1, 2032 are subject to mandatory redemption prior to maturity commencing June 1, 2016 and June 1, 2023, respectively.

Fairmont State shall maintain the fees and operating fees and operate the student activities center such that net revenues available for debt service are at all times equal to at least 100% of maximum annual debt service. For the year ended June 30, 2004 and for the period ended June 30, 2003, the University had pledged revenues, as defined in the Indenture, that approximated 329% and 105%, respectively, of the maximum annual debt service.

Condensed financial information for each of Fairmont State's segments:

| | College Facilities Bonds 2002 and 2003, Series A As of/Year Ended June 30, | | Intrastructure Bonds 2002, Series B As of/Year Ended June 30, | | Student Activity Bonds 2003, Series B As of/Year Ended June 30, | |
|---|---|---|---|---|---|---|
| | 2004 | 2003 | 2004 | 2003 | 2004 | 2003 |
| **CONDENSED STATEMENT OF NET ASSETS** | | | | | | |
| Assets: | | | | | | |
| Current assets | $ 6,534,593 | $ 3,971,324 | $ 872,061 | $ 1,203,669 | $ 13,415,579 | $ 3,197,493 |
| Noncurrent and capital assets | 33,032,015 | 33,572,638 | 9,917,932 | 9,291,968 | 13,795,034 | 23,325,270 |
| Total assets | 39,566,608 | 37,543,962 | 10,789,993 | 10,495,637 | 27,210,613 | 26,522,763 |
| Liabilities: | | | | | | |
| Current liabilities | 5,183,005 | (2,712,659) | (602,726) | (1,138,261) | (1,884,340) | (307,236) |
| Long-term liabilities | 31,104,955 | (31,460,550) | (8,745,749) | 8,927,215 | (23,114,548) | (23,121,160) |
| Total liabilities | 36,287,960 | (34,173,209) | (9,348,475) | 7,788,954 | (24,998,888) | (23,428,396) |
| Net Assets: | | | | | | |
| Invested in capital assets—net of related debt | (3,262,548) | (2,110,088) | 586,717 | (7,480) | (2,832,856) | (2,415,097) |
| Restricted | 6,541,196 | 5,480,841 | 854,802 | 437,641 | 5,439,973 | 5,509,464 |
| Total net assets | $ 3,278,648 | $ 3,370,753 | $ 1,441,519 | $ 430,161 | $ 2,607,117 | $ 3,094,367 |
| **CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS** | | | | | | |
| Operating revenues | $ 2,293,350 | $ 1,879,405 | $ 800,857 | $ 699,733 | $ 767,676 | $ 440,964 |
| Operating expenses | (1,267,192) | (757,685) | 567,609 | (6,079) | (614,519) | (340,444) |
| Operating income | 1,026,158 | 1,121,720 | 1,368,466 | 693,654 | 153,157 | 100,520 |
| Nonoperating Revenue (Expense): | | | | | | |
| Investment income | 413,523 | 245,092 | 66,411 | 94,345 | 430,606 | 29,392 |
| Interest expense | (1,466,659) | (875,871) | (416,923) | (351,790) | (1,058,774) | (278,940) |
| Amortization of bond issuance costs | (23,821) | (15,674) | (6,598) | (6,048) | (12,239) | (4,080) |
| Increase (decrease) in net assets | (50,799) | 475,267 | 1,011,356 | 430,161 | (487,250) | (153,108) |
| Contribution from Fairmont State | (41,306) | 2,895,486 | | | | 3,247,475 |
| Net Assets—Beginning of year | 3,370,753 | | 430,163 | | 3,094,367 | |
| Net Assets—End of year | $ 3,278,648 | $ 3,370,753 | $ 1,441,519 | $ 430,161 | $ 2,607,117 | $ 3,094,367 |
| **CONDENSED STATEMENT OF CASH FLOWS** | | | | | | |
| Net cash provided by (used in) operating activities | $ 1,035,883 | $ 1,089,204 | $ 791,820 | $ 687,808 | $ 269,382 | $ (182,414) |
| Net cash (used in) provided by capital and related financing activities | (1,776,516) | 33,131,297 | (593,689) | 8,559,633 | (1,082,845) | 25,737,328 |
| Net cash used in investing activities | (13,430,239) | (9,520,551) | (4,945,638) | (2,415,695) | (6,425,518) | (1,047,252) |
| Net increase in cash and cash equivalents | (14,170,872) | 24,699,950 | (4,747,507) | 6,831,746 | (7,238,981) | 24,507,662 |
| Cash and cash equivalents—Beginning of Year | 24,699,950 | | 6,831,746 | | 24,507,662 | |
| Cash and cash equivalents—End of year | $ 10,529,078 | $ 24,699,950 | $ 2,084,239 | $ 6,831,746 | $ 17,268,681 | $ 24,507,662 |

## 16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The following table represents operating expenses within both natural and functional classifications for the years ended June 30, 2004 and 2003:

**2004**

| Function: | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Loan Cancellations and Write-offs | Fees Assessed by the Commission | Total |
|---|---|---|---|---|---|---|---|---|---|
| Auxiliary enterprises | $ 962,494 | $ 274,047 | $ 2,106,291 | $ 185,137 | $ - | $ - | $ - | $ - | $ 3,527,969 |
| Instruction | 12,844,526 | 2,923,198 | 2,741,454 | 61,590 | | | | | 18,570,768 |
| Research | 55,954 | 7,336 | 119,412 | | | | | | 182,702 |
| Public service | 2,152,925 | 440,809 | 2,562,334 | | | | | | 5,156,068 |
| Academic support | 2,234,626 | 586,573 | 1,004,419 | 27,311 | | | | | 3,852,929 |
| Student services | 1,495,055 | 393,578 | 1,061,298 | 159 | | | | | 2,950,090 |
| General institutional support | 3,104,791 | 898,904 | 2,606,990 | 7,641 | | | | 252,499 | 6,870,825 |
| Student financial aid | | | | | 7,635,156 | | | | 7,635,156 |
| Operation and maintenance | 1,083,252 | 377,401 | 1,139,819 | 904,470 | | | | | 3,504,942 |
| Depreciation | | | | | | 3,007,088 | | | 3,007,088 |
| Other | | | | | | | 53,845 | | 53,845 |
| Natural Total | $ 23,933,623 | $ 5,901,846 | $ 13,342,017 | $ 1,186,308 | $ 7,635,156 | $ 3,007,088 | $ 53,845 | $ 252,499 | $ 55,312,382 |

**2003**

| Function: | Salaries and Wages | Benefits | Supplies and Other Services | Utilities | Scholarships and Fellowships | Depreciation | Loan Cancellations and Write-offs | Fees Assessed by the Commission | Total |
|---|---|---|---|---|---|---|---|---|---|
| Auxiliary enterprises | $ 901,757 | $ 370,915 | $ 1,831,327 | $ 282,593 | $ - | $ - | $ - | $ - | $ 3,386,592 |
| Instruction | 13,200,204 | 3,065,244 | 1,965,493 | 44,076 | | | | | 18,275,017 |
| Research | 38,103 | 3,764 | 44,361 | | | | | | 86,228 |
| Public service | 1,590,649 | 326,950 | 3,301,984 | | | | | | 5,219,583 |
| Academic support | 2,185,431 | 623,480 | 847,583 | 60,525 | | | | | 3,717,019 |
| Student services | 1,396,376 | 418,510 | 957,411 | | | | | | 2,772,297 |
| General institutional support | 3,108,250 | 1,220,462 | 1,446,511 | | | | | 252,499 | 6,027,722 |
| Student financial aid | | | | | 6,239,965 | | | | 6,239,965 |
| Operation and maintenance | 1,170,029 | 430,391 | 867,247 | 745,202 | | | | | 3,212,869 |
| Depreciation | | | | | | 2,824,952 | | | 2,824,952 |
| Other | | | | | | | 138,020 | | 138,020 |
| Natural Total | $ 23,590,799 | $ 6,459,716 | $ 11,261,917 | $ 1,132,396 | $ 6,239,965 | $ 2,824,952 | $ 138,020 | $ 252,499 | $ 51,900,264 |

## 17. SUBSEQUENT EVENT

During August, 2004, the West Virginia Higher Education Policy Commission issued $167,260,000 of 2004 Series B Revenue Bonds (Higher Education Facilities). Fairmont State has been approved for $12,500,000 of the bond proceeds for capital projects from this bond issuance.

* * * * * *

# ADDITIONAL INFORMATION

# FAIRMONT STATE UNIVERSITY

## (Formerly Fairmont State College)

**SCHEDULE OF NET ASSETS INFORMATION**
**JUNE 30, 2004**

**ALL FUNDS**

| **ASSETS** | **Fairmont State Central** | **Fairmont State University** | **Fairmont State Community and Technical College** | **Total Institution** |
|---|---|---|---|---|
| CURRENT ASSETS: | | | | |
| Cash and cash equivalents | $ 22,502,111 | $ 6,441,776 | $ 4,375,113 | $ 33,319,000 |
| Appropriations due from Primary Government | 6,536 | 1,266 | | 7,802 |
| Accounts receivable—net | 1,593,752 | 313,275 | 172,553 | 2,079,580 |
| Loans to students—current portion | 149,634 | | | 149,634 |
| Inventories | 140,321 | 76,732 | 51,154 | 268,207 |
| Total current assets | 24,392,354 | 6,833,049 | 4,598,820 | 35,824,223 |
| NONCURRENT ASSETS: | | | | |
| Cash and cash equivalents | 18,081,953 | | | 18,081,953 |
| Loans to students—net | 1,170,607 | | | 1,170,607 |
| Deferred charges—bond issuance costs | 1,211,263 | | | 1,211,263 |
| Capital assets—net | 87,987,386 | | | 87,987,386 |
| Total noncurrent assets | 108,451,209 | - | - | 108,451,209 |
| TOTAL | $ 132,843,563 | $ 6,833,049 | $ 4,598,820 | $ 144,275,432 |
| **LIABILITIES AND NET ASSETS** | | | | |
| CURRENT LIABILITIES: | | | | |
| Accounts payable | $ 6,819,243 | $ 434,248 | $ 157,571 | $ 7,411,062 |
| Accrued liabilities | 1,221,844 | 181,847 | 1,203 | 1,404,894 |
| Accrued interest payable | 245,540 | | | 245,540 |
| Retainages payable | 2,513,701 | | | 2,513,701 |
| Severance payable | | 188,018 | 3,172 | 191,190 |
| Deferred revenue | 254,530 | | 145 | 254,675 |
| Compensated absences—current | 131,931 | 582,352 | 278,791 | 993,074 |
| Capital lease—current portion | 402,544 | | | 402,544 |
| Debt obligation payable to Commission—current | 473,609 | | | 473,609 |
| Bonds payable—current | 530,000 | | | 530,000 |
| Total current liabilities | 12,592,942 | 1,386,465 | 440,882 | 14,420,289 |
| NONCURRENT LIABILITIES: | | | | |
| Capital lease | 293,135 | | | 293,135 |
| Compensated absences | 431,491 | 2,148,651 | 831,056 | 3,411,198 |
| Advances from federal sponsors | 1,135,013 | | | 1,135,013 |
| Debt obligation to Commission | 6,676,548 | | | 6,676,548 |
| Bonds payable | 62,575,000 | | | 62,575,000 |
| Premium on bonds payable | 489,503 | | | 489,503 |
| Discount on bonds payable | (99,252) | | | (99,252) |
| Total noncurrent liabilities | 71,501,438 | 2,148,651 | 831,056 | 74,481,145 |
| | 84,094,380 | 3,535,116 | 1,271,938 | 88,901,434 |
| NET ASSETS: | | | | |
| Invested in capital assets | 30,587,954 | | | 30,587,954 |
| Restricted for— | | | | |
| Expendable: | | | | |
| Loans | 353,055 | | | 353,055 |
| Scholarships | (155,678) | 104,292 | 51,386 | |
| Auxilaries | | | | |
| Sponsored projects | (779,019) | 487,195 | 569,848 | 278,024 |
| Capital projects | 9,512,205 | | | 9,512,205 |
| Debt Service | 3,931,811 | | | 3,931,811 |
| Unrestricted | 5,298,855 | 2,706,446 | 2,705,648 | 10,710,949 |
| Total net assets | 48,749,183 | 3,297,933 | 3,326,882 | 55,373,998 |
| TOTAL | $ 132,843,563 | $ 6,833,049 | $ 4,598,820 | $ 144,275,432 |

See note to schedules.

## FAIRMONT STATE UNIVERSITY
**(Formerly Fairmont State College)**

### SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION
### YEAR ENDED JUNE 30, 2004

**ALL FUNDS**

| | Fairmont State Central | Fairmont State University | Fairmont State Community and Technical College | Total Institution |
|---|---|---|---|---|
| OPERATING REVENUES: | | | | |
| Tuition and fees—net | $ 1,351,297 | $ 6,889,997 | $ 4,165,711 | $ 12,407,005 |
| Federal grants and contracts | 5,377,010 | 5,245,477 | 3,383,185 | 14,005,672 |
| State/local grants and contracts | 74,800 | 3,328,388 | 1,838,882 | 5,242,070 |
| Private grants and contracts | | 1,292,831 | 310,881 | 1,603,712 |
| Interest on student loans receivable | 34,405 | | | 34,405 |
| Auxiliary enterprise revenue | 5,284,028 | 5,618 | (1,154) | 5,288,492 |
| Miscellaneous—net | 590,108 | 245,444 | 102,861 | 938,413 |
| Total operating revenues | 12,711,648 | 17,007,755 | 9,800,366 | 39,519,769 |
| OPERATING EXPENSES: | | | | |
| Salaries | 3,731,031 | 12,418,426 | 7,784,166 | 23,933,623 |
| Benefits | 965,682 | 3,225,724 | 1,710,440 | 5,901,846 |
| Supplies and other services | 5,937,023 | 4,851,663 | 2,553,331 | 13,342,017 |
| Utilities | 194,516 | 561,423 | 430,369 | 1,186,308 |
| Student financial aid—scholarships | 107,691 | 4,971,025 | 2,556,440 | 7,635,156 |
| Depreciation | 3,007,088 | | | 3,007,088 |
| Loan cancellations and write-offs | (44,218) | 61,334 | 36,729 | 53,845 |
| Fees assessed by the Commission | | 164,124 | 88,375 | 252,499 |
| Total operating expenses | 13,898,813 | 26,253,719 | 15,159,850 | 55,312,382 |
| OPERATING LOSS | (1,187,165) | (9,245,964) | (5,359,484) | (15,792,613) |
| NONOPERATING REVENUES (EXPENSES): | | | | |
| State appropriations | | 12,374,954 | 7,648,141 | 20,023,095 |
| Gifts | | | 908 | 908 |
| Investment income | 975,609 | 77,600 | 35,310 | 1,088,519 |
| Interest on indebtedness | (2,963,323) | 247 | | (2,963,076) |
| Loss on disposal of fixed assets | (33,991) | | | (33,991) |
| Fees assessed by the Commission for debt service | (658,011) | | | (658,011) |
| Amortization of bond issuance costs | (42,657) | | | (42,657) |
| Total nonoperating revenues (expenses) | (2,722,373) | 12,452,801 | 7,684,359 | 17,414,787 |
| INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES | (3,909,538) | 3,206,837 | 2,324,875 | 1,622,174 |
| TRANSFERS BETWEEN COMPONENT UNITS | 4,613,134 | (2,697,766) | (1,915,368) | |
| TRANSFER OF LIABLILITY FROM THE COMMISSION | (74,697) | | | (74,697) |
| INCREASE (DECREASE) IN NET ASSETS | 628,899 | 509,071 | 409,507 | 1,547,477 |
| NET ASSETS—Beginning of year | 48,120,284 | 2,788,862 | 2,917,375 | 53,826,521 |
| NET ASSETS—End of year | $48,749,183 | $ 3,297,933 | $ 3,326,882 | $ 55,373,998 |

See note to schedules.

## FAIRMONT STATE UNIVERSITY
**(Formerly Fairmont State College)**

**SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION**
**YEAR ENDED JUNE 30, 2004**

**COMPONENT: FAIRMONT STATE CENTRAL**

| Function | Salaries and Wages | Benefits | Supplies and Others | Utilities | Scholarships | Depreciation | Loan Cancellations | Fees Assessed by the Commission | Function Total |
|---|---|---|---|---|---|---|---|---|---|
| Auxiliary enterprises | $ 782,342 | $221,087 | $2,102,269 | $185,137 | $ - | $ - | $ - | $ - | $ 3,290,835 |
| Instruction | 158,207 | 18,604 | 59,473 | | | | | | 236,284 |
| Research | 4,390 | 1,067 | 14,857 | | | | | | 20,314 |
| Public service | 2,076,237 | 427,908 | 2,519,283 | | | | | | 5,023,428 |
| Academic support | 41,485 | 4,661 | 12,326 | | | | | | 58,472 |
| Student services | 457,646 | 69,129 | 432,919 | | | | | | 959,694 |
| General institutional support | 150,411 | 208,223 | 530,283 | | | | | | 888,917 |
| Student financial aid | | | | | 107,691 | | | | 107,691 |
| Operation and maintenance | 60,313 | 15,003 | 265,613 | 9,379 | | | | | 350,308 |
| Depreciation | | | | | | 3,007,088 | | | 3,007,088 |
| Other | | | | | | | (44,218) | | (44,218) |
| Natural total | $3,731,031 | $965,682 | $5,937,023 | $194,516 | $ 107,691 | $3,007,088 | $ (44,218) | $ - | $13,898,813 |

See note to schedules.

## FAIRMONT STATE UNIVERSITY
## (Formerly Fairmont State College)

### SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION
### YEAR ENDED JUNE 30, 2004

**COMPONENT: FAIRMONT STATE UNIVERSITY**

| Function | Salaries and Wages | Benefits | TRUE Benefits | Benefit Adjt | Supplies and Others | Utilities | Scholarships | Depreciation | Loan Cancellations | Fees Assessed by the Commission | Function Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Auxiliary enterprises | $ 147,129 | $ 41,014 | $ - | $ - | $ 4,022 | $ - | $ - | $ - | $ - | $ - | $ 192,165 |
| Instruction | 7,815,242 | 2,245,037 | | | 1,524,002 | 24,152 | | | | | 11,608,433 |
| Research | 51,564 | 6,269 | | | 104,555 | | | | | | 162,388 |
| Public service | 73,044 | 11,950 | | | 29,502 | | | | | | 114,496 |
| Academic support | 1,172,287 | 259,874 | | | 547,961 | 27,311 | | | | | 2,007,433 |
| Student services | 663,783 | 188,222 | | | 479,618 | 159 | | | | | 1,331,782 |
| General institutional support | 1,849,484 | 264,520 | | | 1,484,248 | 7,641 | | | | 164,124 | 3,770,017 |
| Student financial aid | | | | | | | 4,971,025 | | | | 4,971,025 |
| Operation and maintenance | 645,893 | 208,838 | | | 677,755 | 502,160 | | | | | 2,034,646 |
| Other | | | | | | | | | 61,334 | | 61,334 |
| Natural total | $12,418,426 | $3,225,724 | $ - | $ - | $4,851,663 | $561,423 | $ 4,971,025 | $ - | $ 61,334 | $ 164,124 | $ 26,253,719 |

See note to schedules.

**FAIRMONT STATE UNIVERSITY**
**(Formerly Fairmont State College)**

**SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION**
**YEAR ENDED JUNE 30, 2004**

**COMPONENT: FAIRMONT STATE COMMUNITY AND TECHNICAL COLLEGE**

| Function | Salaries and Wages | Benefits | TRUE Benefits | Benefit Adjt | Supplies and Others | Utilities | Scholarships | Depreciation | Loan Cancellations | Fees Assessed by the Commission | Function Total |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Auxiliary enterprises | $ 33,023 | $ 11,946 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 44,969 |
| Instruction | 4,871,077 | 659,557 | | | 1,157,979 | 37,438 | | | | | 6,726,051 |
| Research | | | | | | | | | | | |
| Public service | 3,644 | 951 | | | 13,549 | | | | | | 18,144 |
| Academic support | 1,020,854 | 322,038 | | | 444,132 | | | | | | 1,787,024 |
| Student services | 373,626 | 136,227 | | | 148,761 | | | | | | 658,614 |
| General institutional support | 1,104,896 | 426,161 | | | 592,459 | | | | | 88,375 | 2,211,891 |
| Student financial aid | | | | | | | 2,556,440 | | | | 2,556,440 |
| Operation and maintenance | 377,046 | 153,560 | | | 196,451 | 392,931 | | | | | 1,119,988 |
| Other | | | | | | | | | 36,729 | | 36,729 |
| Natural total | $ 7,784,166 | $ 1,710,440 | $ - | $ - | $ 2,553,331 | $ 430,369 | $ 2,556,440 | $ - | $ 36,729 | $ 88,375 | $ 15,159,850 |

See note to schedules.

## 1. COMPONENT FINANCIAL DATA

The additional information schedules are included to comply with the requirements of the West Virginia Higher Education Policy Commission to provide financial information for all component parts of Fairmont State. This presentation provides financial information for Fairmont State University, Fairmont State Community and Technical College, and Fairmont State Central. The Fairmont State Central component consists of auxiliary enterprises, student activities that support both colleges, capital funds for all bonding and plant repairs and replacements, plant and other capitalized assets, and grants not specific to either Fairmont State University or Fairmont State Community and Technical College.

The following represents additional footnotes outlining faculty teaching services shared between colleges, services that are charged to both colleges, state appropriation allocations to the colleges, and student fee distributions:

a. ***Revenues***—State appropriations are allocated by the Legislature each year. Appropriation budget cuts are being realized by the 4-year College to a greater extent than the 2-year College. The 4-year College has been allowed to increase its fees at a higher percentage over the last couple of years to partially offset the cuts in appropriations mandated by the West Virginia Legislature.

   Student fee revenues are directly credited to the appropriate 2 and 4 year college funds based on the students program major. Student enrollment in each College drives the fee revenue dollars available to each component.

b. ***Expenses***—Faculty Teaching Services are charged back between each component college using special data reports that document students being served by each faculty member (full and part time) in each college. This report is run after the fall, spring, and summer term enrollment changes are final for each term. The technical programs that support this information take into consideration where the Faculty is hired, who they teach (what the student major is), how much their teaching salary is, etc. This then creates the calculations of the value of costs that should be charged to the 4-year and 2-year Colleges for the services of each faculty member. All of this is summarized to provide charges that are billable from the 4-year College to the 2-year College and vice versa. Using this summary data the Business Office creates a net charge back between the 4-year and 2-year Colleges. Since the four year faculty are providing more services to the 2-year students than the two year faculty are serving the 4 year students, the current net effect of the transfer is charging from two year funds and crediting the four year funds.

The charging back of central support services (which include salaries of Administrators like the President, VP's for Academic Services, Advancement, Administrative and Fiscal Affairs, and support service staff), is done based on the overall enrollment of two and four year students. This has been the case for the past eight years and has seemed to be the more appropriate allocation method for Fairmont State. Fairmont State looked at the services rendered by these central support operations and noted that the populations of 2-year students are being served in a substantially equivalent manner as the 4-year students. The operating budgets of the central support units are supported by the 2-and 4-years budgets based on the proportion of overall enrollments. The enrollment percentages utilized during fiscal year 2004 were 65% for 4-year students and 35% for 2-year students. These have been the approximate overall average percentages of our student population over the past 9 years.

c. ***Compensated Absences***—As of June 30, 2004, PEIA retiree and severance costs and liabilities are distributed to the component units based on funding source. However, the change back Agreement for Fiscal Year 2005 between the institutions reads as follows: "Payout of PEIA retiree and severance costs incurred during the year will be allocated to the institutions based on the percentage defined in the charge back agreement. The percentages are 38% two-year and 62% four-year.

d. ***Financial Schedules***—The financial schedules for Fairmont State (Fairmont State University, Fairmont State Community and Technical College and Fairmont State Central) are driven by roll up of funds to fund type. Separate fund types for each component part were established in each net asset category (unrestricted, restricted, etc.). This set up has allowed Fairmont State to prepare financial statements (Net Assets, SRECNA, and Natural versus Functional Classification reports) from the system. These supplemental schedules are produced as a by-product of Fairmont State's financial reporting system.

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

Governing Board
Fairmont State University

We have audited the financial statements of Fairmont State University (formerly Fairmont State College) ("Fairmont State") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board ("GASB") Statement No. 39, *Determining Whether Certain Organizations Are Component Units* and states reliance on other auditors for the discretely presented component unit. 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.

## Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fairmont State'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 Fairmont State's internal control over financial reporting and its operation that we consider to be material weaknesses.

## Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairmont State'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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Fairmont State University Governing Board and managements of Fairmont State and the West Virginia Higher Education Policy Commission, federal and state 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 22, 2004