Fairmont State University

Financial Statements and Additional Information as of and for the Years Ended June 30, 2007 and 2006, and Independent Auditors' Reports

FAIRMONT STATE UNIVERSITY

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INDEPENDENT AUDITORS' REPORT

To the Governing Board of
Fairmont State University:

We have audited the accompanying statements of net assets of Fairmont State University ("Fairmont State") as of June 30, 2007 and 2006, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the years then ended. 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 University). 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 consideration of internal control over financial reporting as a basis for designing procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Fairmont State's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of Fairmont State as of June 30, 2007 and 2006, and the results of its operations and its cash flows, where applicable, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 21 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 4, 2007, on our consideration of Fairmont State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 considered in assessing the results of our audit.

Deloitte & Touche LLP

October 4, 2007

FAIRMONT STATE UNIVERSITY

(Includes Fairmont State University, Pierpont Community and Technical College, and Board of Governors Support Components and Fairmont State Foundation)

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2007

About Fairmont State

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

Today, Fairmont State University is two institutions in one. Students may earn an associates degree through the Pierpont Community & Technical College ("PC&TC") and then move on to pursue a bachelor's degree at Fairmont State University ("University"). The University offers 101 baccalaureate majors and graduate programs including nursing, education and criminal justice. Pierpont Community & Technical College offers 50 associates degrees, certificate degrees and skill-set certificates as a division of the University.

Total enrollment is at 7,417 with a student to faculty ratio of 17:1. Approximately 80% of our students receive some form of scholarship or financial aid. Campus activities include over 85 clubs, organizations, student publications, honoraries, sororities and fraternities and intramural sports. The University is a member of the NCAA Division II and the West Virginia Athletics Conference.

Fairmont State is governed by a 12 member Board of Governors that determines, controls, supervises and manages the financial, business and educational polices and affairs of the Institution.

Overview

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

Fairmont State (which includes Fairmont State University ("FSU"), Pierpont Community and Technical College ("PC&TC"), and Board of Governors Support ("BOG Support") which are component parts of Fairmont State) is in its sixth year of presentation of the financials under this standard. The supplementary information has been prepared in accordance with the requirements of GASB Statement No. 35, and the Higher Education Policy Commission ("Commission") as it relates to reporting of the financial condition and operations of all components.

For the fourth year we are including in our presentation financial information provided by the Fairmont State Foundation. This presentation is being made to comply with GASB Statement No. 39.

This section of the annual financial report focuses on an overview of Fairmont State's financial performance during the fiscal year ended June 30, 2007, with comparisons to the previous year.

As required by GASB No. 35 reporting standards, the Fairmont State annual report consists of three basic financial statements: the Statement of Net 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, 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 Activities. 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 13.

Financial Highlights

- On May 9, 2006, Facilities Improvement Revenue Bonds were issued in the amount of $8,500,000. The bonds are being spent for various projects on the main campus including a Technology Wing addition/renovation, elevator/HVAC, and improvements to infrastructure. At June 30, 2007 expenditures and payables from the bond fund totaled $3,780,589.

- Total net assets increased by $10,535,913 or approximately 16% compared to an approximate 6% increase in 2006.

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 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 depreciation and outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of this category.

2. ***Restricted net 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.

Condensed Statements of Net Assets

	JUNE 30		
Assets	**2007**	**2006**	**2005**
Current Assets	$25,623,762	$27,189,578	$32,739,811
Non-Current Assets	138,402,471	127,676,784	112,923,002
Total Assets	164,026,233	154,866,362	145,662,813
Liabilities			
Current Liabilities	11,021,622	10,022,650	11,180,386
Non-Current Liabilities	76,570,809	78,945,823	72,316,762
Total Liabilities	87,592,431	88,968,473	83,497,148
Net Assets			
Invested in capital assets, net of related debt	58,251,460	45,676,943	35,217,245
Restricted for:			
Expendable:			
Loans	532,125	394,171	378,994
Scholarships	451,011	357,338	180,396
Sponsored projects	636,730	588,562	859,284
Capital projects	5,288,106	7,404,220	11,178,207
Debt service	2,185,349	2,180,023	2,388,576
Total Restricted	9,093,321	10,924,314	14,985,457
Unrestricted	9,089,021	9,296,632	11,962,963
Total Net Assets	$76,433,802	$65,897,889	$62,165,665

- Total current assets decreased by $1,565,816 or 5.8% resulting primarily from a decrease in cash of $791,169 and a decrease in accounts receivable of $781,890. To adequately explain the difference in cash we believe it is necessary to describe the variances within each component unit of Fairmont State.

    - Cash within BOG Support funds decreased by $2,081,684 which included a decrease in Building Renewal funds of $1,900,228 as a result of continued campus improvements. Additionally, cash to support accrued payroll liabilities at June 30, 2007 was not transferred to the BOG Support Payroll Clearing fund as done in prior years. The accrued liability and the corresponding cash are reported within the University and Pierpont C&TC component units for fiscal year 2007. This further reduced BOG Support cash by $1,564,997. The reductions to BOG Support cash were offset by an increase in current cash of $1,634,799 for the 2006 Facilities Improvement Revenue Bonds due to an increase in accounts payable and retainages payable from the bonds as of June 30, 2007.

    - Cash within the University funds increased by $1,752,525 due primarily to cash in the University's Payroll Clearing fund of $1,306,883 which was designated to fund accrued payroll liabilities at June 30, 2007. Additionally, University restricted funds cash increased due to an additional $621,910 in

Gear-Up grant cash on hand to cover accounts payable of the grant at year end.

- Pierpont C&TC cash decreased by $462,010. The decrease was due primarily to a decreased in Community and Technical College Educational and General (E&G) fees of $763,201. This decrease was offset by an increase in cash in the Pierpont C&TC Payroll Clearing fund of $416,778 which was also designated to fund accrued payroll liabilities at June 30, 2007. Additionally, the Pierpont C&TC Aviation Flight Fee fund cash decreased by $172,429 during the year.

The decrease in accounts receivable was due to a decrease in the Gear-Up grant in the amount of $967,645. The Gear-Up grant is accounted for with the University component unit. At June 30, 2006, current assets decreased by approximately 17.0%, due to a decrease in building renewal funds cash. This decrease is a result of continued campus improvements. There was also a decrease in E&G funds cash for fiscal year 2006.

- Total non-current assets increased by $10,725,687 or 8.4%. All non-current liabilities are maintained within BOG Support funds. Non-current cash decreased by $3,674,981 due primarily from capital expenditures, accounts payable and retainages payable related to the 2006 Facilities Improvement Revenue Bonds. Capital assets increased by $14,367,452 or 12.6% to $128,832,072. Expenditures of State issued Lottery Revenue Bonds accounted for $8,609,706 of the capital expenditures. The remaining expenditures were from the 2006 Facilities Improvement Revenue Bonds and Capital Fee revenues. At June 30, 2006, non-current assets increased by 13.1% due primarily to an increase in non-current cash from the issuance of 2006 Facilities Improvement Revenue bonds.

- Total current liabilities increased by $998,972 or approximately 10.0% due primarily to increases in retainages payable of $542,231, accrued liabilities (payroll related) of $175,838 and compensated absences of $130,681. Accrued liabilities for payroll and the related cash are reported in the University and Community College components for fiscal year 2007. This accounting change resulted in a decrease in accrued liabilities in the BOG Support component of $1,595,398 and increases in the University component of $1,334,392 and Pierpont C&TC component of $436,844. For fiscal year 2006, current liabilities decreased by 10.4% due primarily to a decrease in construction account payable and retainages payable.

- Total non-current liabilities decreased by $2,375,014 or approximately 3.0%. The decrease is due primarily to payments on existing bonds and obligation to the Commission of $1,674,123 accounted for within the BOG Support funds. Compensated absences decreased by $301,032 or 8.4% of which $260,181 of the decrease was in the University component. For 2006, non-current liabilities increased by 9.2% due primarily to additional debt for new bond obligation.

- The total assets of Fairmont State exceeded its liabilities at the close of the most recent fiscal year by $76,433,802 (net assets). Of this amount, $9,089,021 (unrestricted net assets) may be used to meet the educational and general operations of Fairmont State. Unrestricted Net Assets by component unit were as follows at June 30, 2007:

* BOG Support	$5,184,131
* Fairmont State University	2,091,096
* Pierpont Community & Technical College	1,819,394
	$9,089,021

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.

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

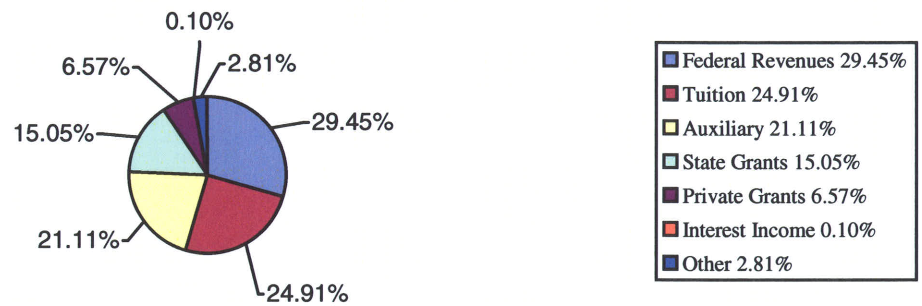
	2007	2006	2005
Operating Revenue	$54,828,204	$50,171,539	$46,273,526
Operating Expenses	71,004,646	67,469,716	59,863,706
Operating Loss	(16,176,442)	(17,298,177)	(13,590,180)
Total Net Nonoperating Revenues	18,229,000	17,635,079	18,779,105
Income Before Other Revenues, Expenses, Gains or Losses	2,052,558	336,902	5,188,925
Capital Projects & Bond Proceeds from the Commission	8,609,706	3,395,322	569,973
Increase in Net Assets before Transfers	10,662,264	3,732,224	5,758,898
Transfer of Liability from Policy Commission	(126,351)	-	-
Increase in Net Assets	**10,535,913**	**3,732,224**	**5,758,898**
Net Assets – Beginning Year	**65,897,889**	**62,165,665**	**56,406,767**
Net Assets – End of Year	$76,433,802	$65,897,889	$62,165,665

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 2007 prior to GASB Statement No. 35 adjustments and reclassification were $87,456,820. This amount was reduced/adjusted for scholarship allowance in the amount of $10,842,742 and direct loans in the amount of $21,785,874. Total operating revenues for fiscal year 2007 after GASB No. 35 adjustments and reclassification is $54,828,204. This is an increase from the 2006 operating revenues of $50,171,539, which was an increase from the 2005 revenues of $46,273,526.

	Prior to GASB No. 35 Changes	After GASB No. 35 Changes
Tuition and Fees	$24,502,535	$13,659,793
Federal Revenues	$37,932,832	$16,146,958

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 $124,774 or 0.9% compared to a 10.5% increase in fiscal year 2006. Tuition and fees increased prior to scholarship allowance by $887,812 or 3.8%. The scholarship allowance increased by $763,038 offsetting much of the tuition and fee increase. As with significant balance sheet accounts, it is necessary to explain the tuition and fee variances by component unit.
    - Tuition & fees within the BOG Support component increased by $53,204. The increase is attributed to an increase of $56,706 in late fee revenues.

- University tuition & fees increased prior to the scholarship allowance by $546,607. The scholarship allowance increased by $546,928 offsetting the entire tuition and fee increase. The increase was primarily due to an increase in Educational & General (E&G) fees of $552,594, Baccalaureate Enhancement fees of $167,711 and E-Learning course fees of $62,842. The increases were offset by decreases in Tuition and Registration fees of $184,207 and Infrastructure fees of $58,857. Tuition and fee waivers increased by $66,477.

- Pierpont C&TC tuition & fees increased prior to the scholarship allowance by $288,022. The scholarships allowance increased by $216,111 offsetting much of the tuition and fee increase. The increase was due primarily to an increase in E&G fees of $184,708, Aviation Flight fees of $71,616, Culinary Arts Italy Trip of $43,103 and E-Learning course fees of $22,409. The increases were offset by decreases in tuition and registration fees of $36,113 and course fees of $33,407. Tuition and fee waivers decreased by $3,663.

University fees increased by 7.5% while Community and Technical College fees increased by 4.0%. Additionally, enrollment for fiscal year 2007 declined by 3.9%, compared to an increase in enrollment of 3.5% for fiscal year 2006.

- Federal Financial Aid and Federal Grants revenues, including GEAR-UP, after the adjustment for Direct Loans increased by $1,875,095 or 13.1% compared to a 6.7% decrease in fiscal year 2006. Gear-Up revenues increased by $1,563,256 and the NASA Langley Aerospace grant increased federal revenues by $300,190. The Gear-Up and NASA grants are reported in the University component.

- State contracts and grants increased by $1,345,422 or 19.5% compared to an increase of 15.3% in fiscal year 2006. This is due primarily to an increase in state funded West Virginia Higher Education grants of $1,002,463.

- Private contracts and grants increased by $165,152 or 4.8% compared to an approximate increase of 67% in fiscal year 2006 due to the expanded use of alternative student loans. Alternative student loans increased in fiscal year 2007 by $370,253 which was partially offset by a decrease in Foundation awards of $155,527 and a decrease in Neighborhood Investment Program of $27,842.

- Auxiliary enterprises revenue increased by $1,106,205 or 10.6% compared to a 25.3% increase in fiscal year 2006. This increase was a result of an increase in housing, dining, and student activities center (Falcon Center) revenues. Rents from dormitories and apartments increased by $578,593. Dining revenues increased by $406,607 and vendor receipts increased by $52,339. Falcon Center revenues increased in several areas including memberships, facilities rental, and pay for print revenues for a total net increase of $96,092.

- Miscellaneous revenues increased by $18,450 or 1.2% compared to a 34.2% decrease in fiscal year 2006.

- State appropriations increased by $213,052 or 1.1% compared to a 0.6% decrease in fiscal year 2006. The increases by component unit were as follows:

    - University increased by $173,295 or 1.5%.

    - Pierpont C&TC increased by $39,757 or 0.5%.

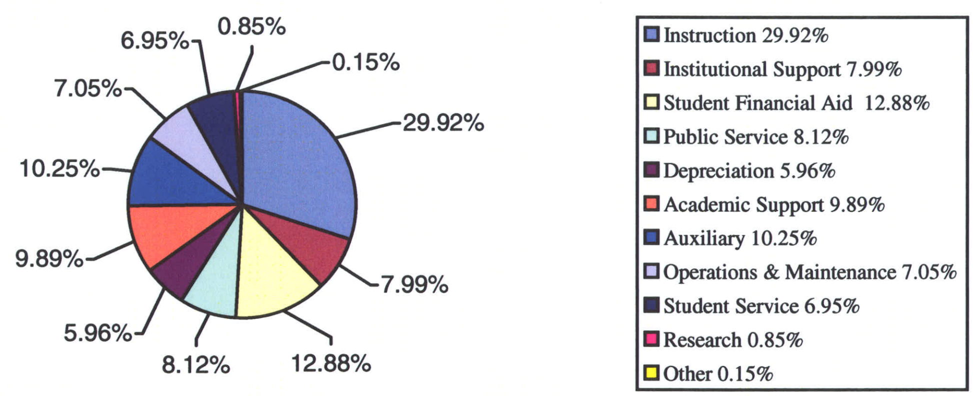
    - BOG Support does not receive any state appropriations.

FUNCTIONAL CLASSIFICATION CHART

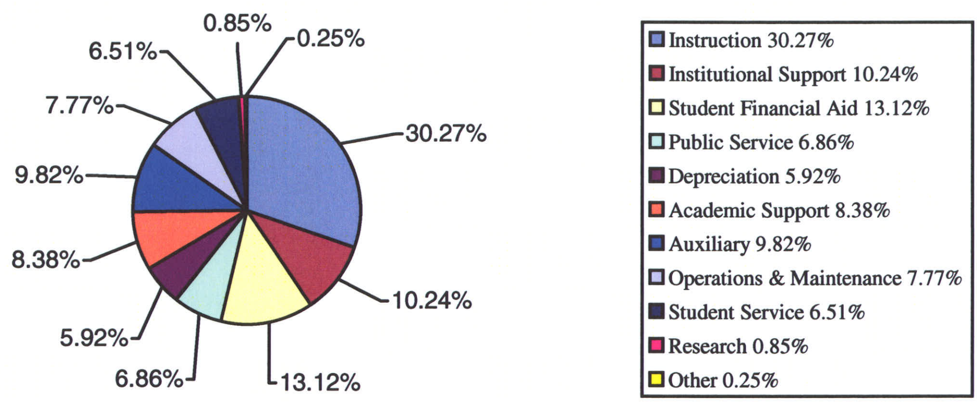
Operating Expenses:

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

2007



2006



Breakdown of Expense by Function:

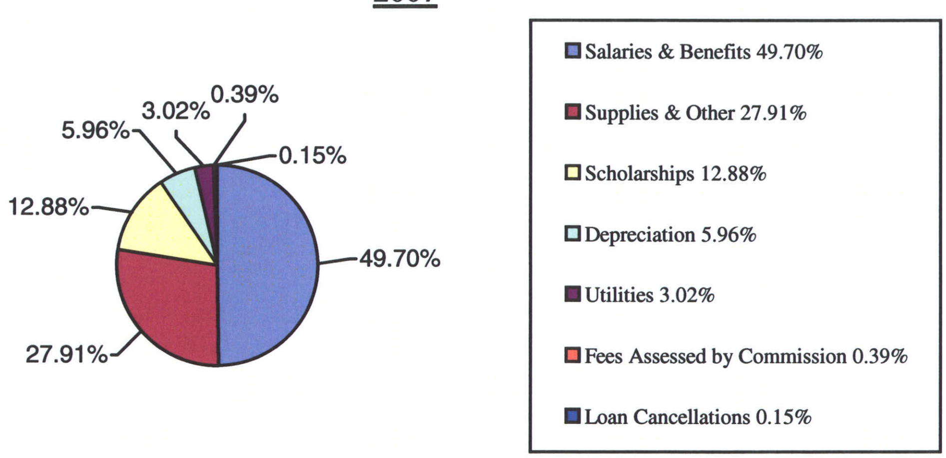
For fiscal year 2007, Fairmont State's total operating expenses were $71,004,646, which was an increase of $3,534,930. This increase for fiscal year 2006 was $7,606,010. Instruction expenses totaled $21,245,797 or 29.9% of the total operating budget. The following reflects the amounts and percentage for these expenses:

	2007	%	2006	%	2005	%
Auxiliary	7,275,381	10.25%	6,626,394	9.82%	6,487,886	10.84%
Instruction	$21,245,797	29.92%	$20,426,058	30.27%	$18,703,443	31.24%
Research	602,614	0.85%	576,666	0.85%	360,784	0.60%
Public Service	5,765,566	8.12%	4,626,124	6.86%	4,743,007	7.92%
Academic Support	7,024,147	9.89%	5,652,016	8.38%	4,529,015	7.57%
Student Services	4,938,038	6.95%	4,391,406	6.51%	3,417,775	5.71%
General Institutional Support	5,672,129	7.99%	6,908,529	10.24%	5,949,532	9.94%
Student Financial Aid	9,142,629	12.88%	8,853,263	13.12%	7,776,255	12.99%
Operation & Maintenance	5,002,499	7.05%	5,243,748	7.77%	4,596,330	7.68%
Depreciation	4,228,889	5.96%	3,994,428	5.92%	3,053,693	5.10%
Other	106,957	0.15%	171,084	0.25%	245,986	0.41%
Total	$71,004,646	100%	$67,469,716	100%	$59,863,706	100%

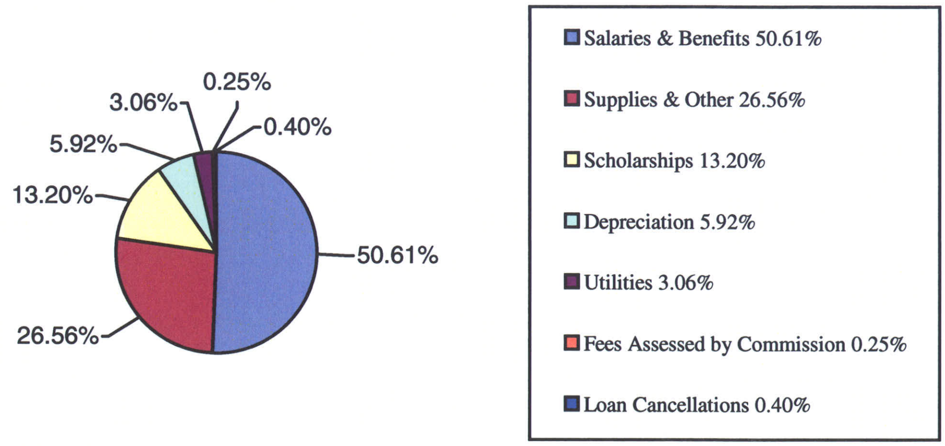
NATURAL CLASSIFICATION CHARTS

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

2007



2006



Breakdown of Expenses by Natural Classification:

For fiscal year 2007, Fairmont State's total operating expenses were $71,004,646. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $35,289,362 or 49.7%. The following reflects the amounts and percentages for the expenses.

	2007	%	2006	%	2005	%
Salaries, Wages, and Benefits	$35,289,362	49.70%	$34,143,777	50.61%	$30,709,241	51.31%
Supplies and Other Services	19,819,171	27.91%	17,917,134	26.56%	16,126,984	26.94%
Utilities	2,142,137	3.02%	2,065,995	3.06%	1,659,977	2.77%
Scholarships and Fellowships	9,142,629	12.88%	8,905,899	13.20%	7,814,699	13.05%
Depreciation	4,228,889	5.96%	3,994,428	5.92%	3,053,693	5.10%
Loan Cancellations & Write Offs	106,957	0.15%	271,399	0.40%	245,986	0.41%
Fees Assessed by the Commission	275,501	0.39%	171,084	0.25%	253,126	0.42%
Total	$71,004,646	100%	$67,469,716	100%	$59,863,706	100%

Salaries, Wages, and Benefits: Salaries increased by $1,663,851 or 6.2% and benefits decreased by $518,266 or 7.2% resulting in an increase of $1,145,585 or 3.4% compared to an 11.2% increase for fiscal year 2006. In fiscal year 2007, pay raises occurred effective December 1 with an average raise of approximately 3.5% and a salaries increase of $467,483 for fiscal year 2007. Also, the raises for fiscal year 2006 were effective November 1 so the annual costs were first realized in fiscal year 2007. This timing effect of the 2006 raises contributes to an additional salaries increase of $296,166 in fiscal year 2007. Also, payroll accrued liabilities at June 30, 2007 increased by $175,838 due primarily to an increase in the liability for arrears pay and nine month faculty paid over twelve months. The remainder of the increase, approximately $725,000, is due to new or vacant position hire commitments between fiscal years 2006 and 2007. Some of the areas that received support were Athletics, Falcon Center, Housing, Academic Services, C&TC Outreach Effectiveness, Registrar and Information Technology. The decrease in benefits is due to the fluctuation of compensated absences liability accruals between 2006 and 2007. As of June 30, 2007, the compensated absences liabilities decreased by $170,350. As of June 30, 2006, the compensated absences liabilities had increased by $498,128. For fiscal year 2007, the sick leave liability decreased by $179,173 and benefits due to retirees decreased by $234,078. These decreases were offset by an increase in annual leave liability of $132,170 and annual leave fringes of $110,731.

Supplies and Other Services: Expenses in this area increased by $1,902,037 or 10.6%. Supplies and other services for the University increased by $1,475,523. Included in this increase are contractual expenditures for the Gear-Up grant increased by $710,728. Travel expenses increased by $317,565 which were also primarily related to the Gear-Up and Governor's Honor Academy grants. Also, contractual expenses in the University's E&G funds increased by $278,662. Supplies and other services for the Pierpont C&TC increased by $573,373. This increase includes increases in various line items including contractual, travel, vehicle expense and equipment expense. Supplies and other services decreased for the BOG Support funds by $146,859 although payments to Aladdin Food Management Services for meal plan collections increased by $387,504.

Utilities: Expenses in this area increased by $76,142 or 3.7%. The increase was due primarily to an increase in water and sewage costs related to a rate increase. Utility costs are assessed to Pierpont C&TC through the operating costs chargeback process.

Scholarships: Expenses in this area increased by $236,730 or 2.6%, which is the overall increase in the scholarship allowance adjustment of $763,038 subtracted from the overall scholarships increase of $999,768. The scholarship increase includes increases in Alternative Loans of $363,473, State Higher Education grants of $1,003,284 and tuition, fee and housing waivers of $75,680. This is partially offset by a decrease in Federal Pell grants of $370,320.

Depreciation: Depreciation increased by $234,461 or 5.9%. This increase is due to an increase in capital assets placed in service of $8,185,599. Several major projects were completed during the year including the library renovations and additions, various infrastructure additions including renovations to Hardway Hall steps & terrace, addition of Falcon Center computer labs and other building improvements. Depreciation is recorded within the BOG Support component of Fairmont State.

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.

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

Cash Provided By (Used in)	**2007**	**2006**	**2005**
Operating Activities	($12,184,116)	($11,915,908)	($11,695,644)
Non-Capital Financing Activities	19,797,240	19,521,983	19,520,504
Capital and Financing Related Activitie:	(13,291,167)	(5,766,348)	(27,856,998)
Investing Activities	1,211,893	1,032,292	533,229
Net Change in Cash and Cash Equivalents	(4,466,150)	2,872,019	(19,498,909)
Cash, Beginning of Year	34,774,063	31,902,044	51,400,953
Cash, End of Year	$30,307,913	$34,774,063	$31,902,044

Major sources of funds included in operating activities consist of tuition and fees $12,634,436, contracts and grants $28,909,467 and auxiliary enterprise charges $11,640,622. Major users of funds under this category were payments made to and on behalf of employees for salaries and benefits amounting to $35,297,509, to suppliers amounting to $20,879,206, and payments for scholarships and fellowships $8,083,333.

The major cash flow provided from non-capital financing activities section is State appropriations amounting to $19,639,646.

The major cash flow used in capital financing activity was for construction project expenditures of $14,793,497. The major cash flow provided by capital financing activities was lottery bond proceeds from the Commission for $8,634,259.

Additional Administrative Notes

During fiscal year 2007, separate budgets were maintained and reported on the three component parts of Fairmont State. These component parts are: 1) FSU, 2) PC&TC, and 3) BOG Support. The Higher Education Policy Commission has mandated supplemental schedules representing the FSU and PC&TC be included with the audit report. Fairmont State management has included the Board of Governors Support component which reports student activity, auxiliary, grants and capital funds that support both academic institutions, as a separate reporting component. 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, PC&TC, and BOG Support. 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 activities that occurred during fiscal year 2007 were construction projects funded by the 2006 Facilities Improvement Revenue Bonds and the state issued lottery bonds. In addition to the 2006 Bonds from which construction is still ongoing, the University has significant outstanding debt from four bond series issued in fiscal year 2003. The bonds were issued to acquire an apartment complex and for the construction of a parking garage, 400 suite dormitory, a student activity center and infrastructure improvements.

The original bonds are payable over thirty years and the 2006 bonds are payable over twenty years from the time of issuance. Total principal repayment made during the fiscal years 2007 and 2006 amounted to $1,619,877, and $1,310,000, respectively. The current portion of bonds payable due in fiscal year 2008 is $1,660,450 and the long term portion of bonds payable is $66,833,905.

The first four Auxiliary bonds issuances were audited for the year ended June 30, 2007 with unqualified opinions on the modified cash basis of accounting as required by the Bond Indenture. Fairmont State also complied with the debt service coverage ratio requirements of the bonds.

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 2008 currently projects a transfer of excess revenues to plant reserves of approximately $1,015,600.

During 2007, 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, 2007 was $5,823,706. As of June 30, 2007, the current portion due to Commission is $526,210 and long-term portion is $5,297,496.

Fairmont State just completed its fifth full year of major building improvements to the campus. Facilities Improvement Revenue Bonds were sold for $8,500,000 in May of 2006 to pay for addition/renovation projects for the Technology Classroom Building, HVAC, elevator, and landscape projects which are on going. Expenditures and commitments for Construction from the 2006 bonds totaled $3,780,589 as of June 30, 2007. There was no separate audit required for this bond issuance.

State issued lottery bond proceeds received in fiscal year 2007 total $8,609,706. These funds were primarily used for construction of the Engineering Technology building and Library renovation capital projects.

Fairmont State's Leadership

The Governing Board Members for fiscal year 2007:

Name	Position Held	End of 2007 Status
Michele Casteel	Lay Member	Chair – Board of Advisors
Janet Crescenzi	Lay Member	Member
Carl Friebel, Jr.	Lay Member	Member
James Griffin	Lay Member	Vice Chairman
Robert Kittle	Lay Member	Chairman
Andy Kniceley	Lay Member	Secretary
Larry Mazza	Lay Member	Member
Connie Moore	Faculty Representative	Member
Michelle Nabors	Student Representative	Member - Student
Sandy Shriver	Classified Staff Representative	Member
Shirley Stanton	Lay Member	Member
H. Skip Tarasuk	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 Region of West Virginia are:

- September 7, 2006 meeting:
  - Board of Governors approved the Degree Program Reviews for B.A. in Speech Communication, B.A. in French, B.A. in Spanish, B.S. in Psychology, and B.S. in Forensic Psychology.
  - Board of Governors approved the amendment to the Policy on Policies.

- September 27, 2006 meeting:
  - Board of Governors approved the Degree Definition Policy.

- Board of Governors approved a 3.5% pay raise for all employee groups.
- Board of Governors approved a 3.5% pay raise for both President Bradley and President Montgomery.

- November 9, 2006 meeting:
  - Board of Governors approved a name change for the Department of Speech Communication and Theatre to the Department of Communication and Theatre Arts.
  - Board of Governors approved a Master of Science Degree Program in Human Services: Human and Community Service Administration.
  - Board of Governors approved the Reading Specialist Certificate Program under the Master of Education Degree.
  - Board of Governors approved a name change for the Safety/Environmental Engineering Technology program to Safety Engineering Technology.
  - Board of Governors approved the revised Travel Policies and Procedures.
  - Board of Governors approved to separate the School of Health & Human Services into School of Health Careers and School of Human Services.
  - Board of Governors elected Andy Kniceley as the Board Secretary.
  - Board of Governors moved to award an honorary doctorate to Russell F. Bonasso at the Fall 2006 Commencement.

- February 1, 2007 meeting:
  - Board of Governors moved to approve the establishment of The Center for Education in Appalachia to be housed within the School of Education.
  - Board of Governors approved the B.A. in Music.
  - Board of Governors approved the Degree Program Reviews for B.A. in Education, B.S. in Exercise Science, B.S. in Health Sciences, B.S. in Family and Consumer Science, B.S. in Allied Health Administration, and B.S. in Nursing.
  - Board of Governors moved to defer the Engineering Related Technology program reviews.

- February 27, 2007 meeting:
  - Board of Governors approved the recommendation to proceed with installing Field Turf on Duvall Rosier Field.

- April 5, 2007 meeting:
  - Board of Governors approved a name change for the Safety Engineering Technology program to Occupational Safety.
  - Board of Governors approved revisions to the Partnership Policies to reflect the 2006 merger of Fairmont State University and Pierpont Community and Technical College.
  - Board of Governors approved the fee proposal to move forward with completion of the fee planning schedules due to the Higher Education Policy Commission and the Community and Technical College Council.
  - Board of Governors approved to extend President Blair Montgomery's contract for an additional three years.

- June 14, 2007 meeting:

- Board of Governors approved the Annual Report of Graduate Studies.
- Board of Governors approved the Unrestricted and Auxiliary Fund Budgets for fiscal year 2008.
- Board of Governors approved the chargeback agreement change for fiscal year 2008.
- Board of Governors approved the revisions to the Funding of Intercollegiate Athletics policy.
- Board of Governors moved to elect the same officers for fiscal year 2008 as 2007.
- Board of Governors approved presidential salary increases, effective October 1, 2007, up to 3.5% but not to exceed the average pool salary increase for faculty.

Economic Outlook

Fairmont State continues to deal with a State appropriation that is currently at same level as seven years ago. In fiscal year 2008, appropriations were increased by 3.86% for Fairmont State as a whole to cover mandatory salary increases. Tuition and Fees as a result were increased by the University by 6.51 % while the Community and Technical College had no increase. 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 October 1, 2007.

Fairmont State, consisting of the University, Community and Technical College, and BOG Support budget units, continues to maintain a stable Unrestricted Current Net Assets and it is our goal to be in this stable position for years into the future. Cash reserves in the Auxiliary and Capital Funds have been reduced due to several capital projects occurring to improve student life on the Fairmont State campus.

Fairmont State's enrollment for the fall 2007 semester decreased by 4.7%. As it became evident that an enrollment decline was a reality, immediate adjustments were made to the revenue and expense budgets to compensate for the lost revenues. Adjustments were made to the Educational and General, Auxiliary and Capital funds so that the educational mission and the outstanding bonds are not impacted by this loss of revenue.

The budget for the fiscal year 2008 is balanced after revenue budget adjustments were made for the student enrollment decline. Fairmont State's leadership is making the necessary fiscal planning adjustments to assure stabilization of net assets in the Unrestricted and Auxiliary Enterprise fund groups. It is important to point out that all University bonds for fiscal year 2007 have met the bond coverage ratios. The specific bond coverage ratios and end of year fund balances related to each bond issue are listed below:

	Debt Coverage Ratio FY07	Debt Coverage Ratio FY06	Required Debt Coverage Ratio	FY07 Ending Fund Balance	FY06 Ending Fund Balance
Series 2002-3A Bonds	175%	148%	110%	$3,812,726	$3,246,218
Series 2002B Bonds	133%	145%	100%	$ 302,940	$ 693,773
Series 2003B Bonds	218%	242%	100%	$1,852,386	$2,311,137

Our 2008 budgeted debt coverage ratios and ending balances are:

	Projected Debt Coverage Ratio	Required Debt Coverage Ratio	Budgeted Ending Fund Balance
Series 2002-3A Bonds	185%	110%	$4,070,909
Series 2002B Bonds	165%	100%	$ 690,686
Series 2003B Bonds	175%	100%	$1,529,398

Additional information about the revenues that support these bonds are:

- The Series 2002A and 2003A bonds are primarily supported by housing rents. Like the 2006 academic year, the fall 2007 semester began with a 100% occupancy rate.
- The Series 2002B bonds capital fee was increased by 30% for the University and this is projected to bring in an additional $122,000 in new revenues based on the current student population.
- The Series 2003B bonds dining revenue is increasing due to the 100% occupancy condition in housing. It is yielding positive revenue increases over plan for the first three months of fiscal year 2008. This increase is likely to offset the loss in student fee revenue from the enrollment decline.

Fairmont State has been able to adjust our plans to assure stable outcomes in fiscal year 2008 and beyond in our unrestricted E&G and Auxiliary funds. We are also slowing down on our capital fund activity with the completion of two projects, the technology building, (which started two years ago), and the inner campus project, (which started in April 2007). After these two projects are complete and we spend out the bond funds planned for other small projects, we will be moving into campus maintenance mode until State or private funding allows us to begin building again. Please know that Fairmont State has been investing in the campus to improve campus accessibility and provide improved student life. We have made this campus investment while maintaining a healthy unrestricted net asset balance.

FAIRMONT STATE UNIVERSITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 23,003,790	$ 23,794,959
Accounts receivable — net	2,278,829	3,060,719
Loans to students — current portion	125,684	151,042
Inventories	215,459	182,858
Total current assets	25,623,762	27,189,578
Noncurrent assets:		
Cash and cash equivalents	7,304,123	10,979,104
Loans to students, net of allowance of $576,724 and $675,640 in 2007 and 2006, respectively	1,143,906	1,065,957
Deferred charges — bond issuance costs	1,122,370	1,167,103
Capital assets — net	128,832,072	114,464,620
Total noncurrent assets	138,402,471	127,676,784
TOTAL	$ 164,026,233	$ 154,866,362

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 3,798,589	$ 3,817,968
Due to Commission	83,656	7,934
Accrued liabilities	2,165,565	1,989,727
Accrued interest payable	296,656	299,292
Retainages payable	720,650	178,419
Deferred revenue	522,633	443,080
Compensated absences — current portion	1,247,213	1,116,532
Capital leases — current portion		55,431
Debt obligation to Commission — current portion	526,210	494,390
Bonds payable — current portion	1,660,450	1,619,877
Total current liabilities	11,021,622	10,022,650
Noncurrent liabilities:		
Compensated absences	3,287,824	3,588,856
Advances from federal sponsors	1,151,584	1,151,584
Debt obligation to Commission	5,297,496	5,697,355
Bonds payable	66,833,905	68,508,028
Total noncurrent liabilities	76,570,809	78,945,823
Total liabilities	87,592,431	88,968,473
NET ASSETS:		
Invested in capital assets — net of related debt	58,251,460	45,676,943
Restricted for — expendable:		
Loans	532,125	394,171
Scholarships	451,011	357,338
Sponsored projects	636,730	588,562
Capital projects	5,288,106	7,404,220
Debt service	2,185,349	2,180,023
Total restricted	9,093,321	10,924,314
Unrestricted	9,089,021	9,296,632
Total net assets	76,433,802	65,897,889
TOTAL	$ 164,026,233	$ 154,866,362

See notes to financial statements. (Concluded)

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

COMPONENT UNIT — STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2007 AND 2006

	2007	2006
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 74,774	$ 75,746
Accounts receivable — FSU	5,558	
Grant receivable	25,000	25,000
Promises to give receivable — net	76,876	60,754
Interest and dividends receivable	4,281	15,933
Other assets		360
Total current assets	186,489	177,793
NONCURRENT ASSETS:		
Investments — trust holdings	9,900,287	8,764,768
Investments — gift annuities	332,491	257,223
Investments — strengthening institutions	375,846	231,841
Investments — strengthening institutions — phase ii	154,144	
Investments — other	158,123	131,639
Cash value — life insurance		69,395
Promises to give receivable — net	916,883	509,568
Total noncurrent assets	11,837,774	9,964,434
TOTAL	$ 12,024,263	$ 10,142,227
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES —		
Accounts payable	$ 757	$ 205
Scholarships payable	22,500	
Deferred compensation agreement	15,000	
Lifetime annuities	26,777	22,416
Total current liabilities	65,034	22,621
NONCURRENT LIABILITIES —		
Lifetime annuities	78,558	68,558
Deferred compensation agreement		69,395
Total noncurrent liabilities	78,558	137,953
Total liabilities	143,592	160,574
NET ASSETS —		
Unrestricted:		
Operating	2,440,270	1,724,219
Board designated	10,701	
Total unrestricted	2,450,971	1,724,219
Temporarily restricted	3,521,840	2,885,275
Permanently restricted	5,907,860	5,372,159
Total net assets	11,880,671	9,981,653
TOTAL	$ 12,024,263	$ 10,142,227

FAIRMONT STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of $10,842,742 and $10,079,704 in 2007 and 2006, respectively	$ 13,659,793	$ 13,535,019
Contracts and grants:		
Federal	16,146,958	14,271,863
State	8,253,629	6,908,207
Private	3,599,997	3,434,845
Interest on student loans receivable	54,173	32,606
Auxiliary enterprise revenue	11,573,434	10,467,229
Miscellaneous — net	1,540,220	1,521,770
Total operating revenues	54,828,204	50,171,539
OPERATING EXPENSES:		
Salaries and wages	28,645,893	26,982,042
Benefits	6,643,469	7,161,735
Supplies and other services	19,819,171	17,917,134
Utilities	2,142,137	2,065,995
Student financial aid — scholarships and fellowships	9,142,629	8,905,899
Depreciation	4,228,889	3,994,428
Loan cancellations and write-offs	106,957	171,084
Fees assessed by the Commission for operations	275,501	271,399
Total operating expenses	71,004,646	67,469,716
OPERATING LOSS	(16,176,442)	(17,298,177)

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 19,639,646	$ 19,426,594
Gifts	151,190	25,000
Investment income	1,771,293	1,280,461
Interest on indebtedness	(2,730,552)	(2,434,154)
Loss on disposal of fixed assets	(937)	(37,054)
Fees assessed by the Commission for debt service	(556,908)	(582,765)
Amortization of bond issuance costs, premiums, and discounts	(44,732)	(43,003)
Nonoperating revenues — net	18,229,000	17,635,079
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	2,052,558	336,902
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	8,609,706	3,395,322
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(126,351)	
INCREASE IN NET ASSETS	10,535,913	3,732,224
NET ASSETS — Beginning of year	65,897,889	62,165,665
NET ASSETS — End of year	$ 76,433,802	$ 65,897,889

See notes to financial statements. (Concluded)

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

COMPONENT UNIT — STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Unresticted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATION:				
Support:				
Gifts and donations	$ 80,509	$ 1,263,951	$ 530,549	$ 1,875,009
Fundraising activities		220,514		220,514
Grant income		157,600		157,600
Total support	80,509	1,642,065	530,549	2,253,123
Revenue:				
Investment income including net gains	137,871	337,278	5,152	480,301
Administrative fee	61,874			61,874
Royalty income	92,017			92,017
Net appreciation in fair value of investments	819,601			819,601
Total revenue	1,111,363	337,278	5,152	1,453,793
Reclassifications —				
Net assets released from restrictions:				
Restrictions satisfied by payments	1,384,887	(1,384,887)		
Net assets restricted by donor	(42,109)	42,109		
Total reclassifications	1,342,778	(1,342,778)		
Total support, revenue, and reclassifications	2,534,650	636,565	535,701	3,706,916
Expenses — program services:				
Scholarships	1,047,834			1,047,834
Educational services	18,335			18,335
Other	557,893			557,893
Total program services	1,624,062			1,624,062
Supporting services:				
Fundraising	102,118			102,118
General administration	81,718			81,718
Total supporting services	183,836			183,836
Total expenses	1,807,898			1,807,898
EXCESS OF SUPPORT AND REVENUE OVER EXPENSE	726,752	636,565	535,701	1,899,018
NET ASSETS — Beginning of year	1,724,219	2,885,275	5,372,159	9,981,653
NET ASSETS — End of year	$2,450,971	$ 3,521,840	$5,907,860	$11,880,671

See notes to financial statements.

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

COMPONENT UNIT — STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Unresticted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATION:				
Support:				
Gifts and donations	$ 138,398	$ 404,912	$ 546,590	$1,089,900
Fundraising activities		194,527		194,527
Grant income		120,000		120,000
Total support	138,398	719,439	546,590	1,404,427
Revenue:				
Investment income including net gains	87,999	126,729	95,899	310,627
Administrative fee	76,629			76,629
Royalty income	14,566			14,566
Net appreciation in fair value of investments	279,897			279,897
Total revenue	459,091	126,729	95,899	681,719
Reclassifications —				
Net assets released from restrictions:				
Restrictions satisfied by payments	899,459	(899,459)		
Net assets restricted by donor	(51,742)	51,742		
Total reclassifications	847,717	(847,717)		
Total support, revenue, and reclassifications	1,445,206	(1,549)	642,489	2,086,146
Expenses — program services:				
Scholarships	808,224			808,224
Educational services	15,521			15,521
Other	340,505			340,505
Total program services	1,164,250			1,164,250
Supporting services:				
Fundraising	79,182			79,182
General administration	82,499			82,499
Total supporting services	161,681			161,681
Total expenses	1,325,931			1,325,931
(DEFICIENCY) EXCESS OF SUPPORT AND REVENUE (UNDER) OVER EXPENSE	119,275	(1,549)	642,489	760,215
NET ASSETS — Beginning of year	1,604,944	2,886,824	4,729,670	9,221,438
NET ASSETS — End of year	$1,724,219	$2,885,275	$5,372,159	$9,981,653

See notes to financial statements.

FAIRMONT STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 12,634,436	$ 12,436,063
Contracts and grants	28,909,467	24,307,456
Payments to and on behalf of employees	(35,297,509)	(33,564,801)
Payments to suppliers	(20,879,206)	(16,712,592)
Payments to utilities	(2,125,227)	(2,017,163)
Payments for scholarships and fellowships	(8,083,333)	(7,918,240)
Loans issued to students	10,565	170,541
Interest on student loans receivable	54,173	32,606
Auxiliary enterprise charges	11,640,622	10,295,743
Fees assessed by the Commission	(275,501)	(271,399)
City B&O revenues	29,639	175,614
Other receipts — net	1,197,758	1,150,264
Net cash used in operating activities	(12,184,116)	(11,915,908)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	19,639,646	19,496,277
Gift receipts	151,190	25,000
William D. Ford direct lending receipts	21,785,874	21,675,467
William D. Ford direct lending payments	(21,779,470)	(21,674,761)
Net cash provided by noncapital financing activities	19,797,240	19,521,983
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital projects and bond proceeds from the Commission	8,634,259	3,278,362
Proceeds from bond issuances		8,500,000
Fees assessed by the Commission	(556,908)	(582,765)
Purchases of capital assets	(14,793,497)	(11,320,180)
Principal paid on leases	(55,431)	(167,534)
Interest paid on leases	(357)	(3,503)
Purchases of equipment	(1,709,761)	(960,474)
Payments to the Commission on debt obligation	(494,390)	(484,803)
Principal paid on bonds	(1,619,877)	(1,310,000)
Interest paid on bonds	(3,252,137)	(2,935,101)
Bond interest income	556,932	236,650
Bond issuance costs		(17,000)
Net cash used in capital financing activities	(13,291,167)	(5,766,348)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	1,211,893	1,032,292
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(4,466,150)	2,872,019
CASH AND CASH EQUIVALENTS — Beginning of year	34,774,063	31,902,044
CASH AND CASH EQUIVALENTS — End of year	$ 30,307,913	$ 34,774,063

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	2007	2006
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (16,176,442)	$ (17,298,177)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	4,228,889	3,994,428
Changes in assets and liabilities:		
Receivables — net	649,000	(312,804)
Loans to students — net	(52,592)	169,285
Inventories	(32,600)	35,789
Accounts payable	(885,412)	533,617
Accrued liabilities - Payroll	175,838	336,461
Compensated absences	(170,350)	498,127
Deferred revenue	58,004	68,535
Undistributed receipts	21,549	58,831
NET CASH USED IN OPERATING ACTIVITIES	$ (12,184,116)	$ (11,915,908)
NONCASH TRANSACTIONS:		
Construction in progress additions in accounts payable	$ 1,857,406	$ 843,336
Construction in progress additions in retainage payable	$ 720,650	$ 178,419
Amortization of bond issuance costs — addition for new bond	$ 44,732	$ 43,003
Cancellation of capital lease obligation	$ -	$ 50,667
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:		
Cash and cash equivalents classified at current	$ 23,003,790	$ 23,794,959
Cash and cash equivalents classified at noncurrent	7,304,123	10,979,104
	$ 30,307,913	$ 34,774,063

See notes to financial statements. (Concluded)

1. ORGANIZATION

Fairmont State University ("Fairmont State" or the "University") 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" and HEPC), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

The additional information schedules are included to comply with the requirements of the Commission and the West Virginia Council of Community and Technical College to provide financial information for all component parts of Fairmont State under Senate Bill 448. This presentation provides financial information for Fairmont State, Pierpont Community and Technical College (PC&TC), and Fairmont State Board of Governors Support ("BOG Support"). The BOG Support component consists of auxiliary enterprises and student activities that support both Fairmont State and Pierpont 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 PC&TC.

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 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, 2007 and 2006. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Statements of 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 13). The Fairmont State Alumni Association is not included in Fairmont State's accompanying financial statements under GASB No. 39 because they are not significant.

Financial Statement Presentation — GASB Statement No. 35, GASB Statements of 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,* establishes 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:

a. *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.

b. *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.

c. 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 to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the West Virginia State Legislature.

d. *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, 2007 and 2006.

e. *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 Board of Treasury Investments ("BTI"). These funds were transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or amortizing cost, which approximates fair value. Fair value is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments for External Investment Pools.* The BTI was established by the West Virginia State Legislature and is subject to oversight by the West Virginia State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

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

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

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 and cash equivalents, 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. Interest on related borrowing, net of interest earnings on invested proceeds, is capitalized during the period of construction and was $505,633 and $545,480 for the years ended June 30, 2007 and 2006, respectively. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 20 to 50 years for buildings and infrastructure, 15 years for land improvements, 7 years for library books, and 3 to 10 years for furniture and equipment. During fiscal year 2006, Fairmont State implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* The financial statements reflect all adjustments required by GASB Statement No. 42.

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 tuition, 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 3⅓ 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 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.

In addition, through its participation in the West Virginia Public Employees Insurance Agency (PEIA) and a third-party insurer, the University has obtained health, life, prescription drug coverage, and coverage for job-related injuries for its employees. In exchange for payment of premiums to PEIA and the third-party insurer, the University has transferred its risks related to health, life, prescription drug coverage, and job-related injuries.

Classification of Revenues — Fairmont State has classified its revenues according to the following criteria:

a. *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.

b. *Nonoperating Revenues* — Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB 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.

c. *Other Revenues* — Other revenues consist primarily of capital grants and gifts.

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 $21,785,094 in 2007 and $21,675,467 in 2006 under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net 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 financial statements. Fairmont State received and disbursed $8,185,909 in 2007 and $8,543,005 in 2006 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 University 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.

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 expenses during the reporting period. Actual results could differ from those estimates.

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

Recent Statements Issued By the Government Accounting Standards Board — The GASB has 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. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployement benefits for the State of West Virginia (the "State"). Effective July 1, 2007, Fairmont State is required to participate in this multiple employer cost-sharing plan sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or http://www.wvpeia.com.

The GASB has issued statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*, effective for fiscal years beginning after December 15, 2006. This statement addresses whether an exchange of an interest in expected cash flows for collecting specific receivables of specific future revenues for an immediate lump sum should be regarded as a sale or as a collateralized borrowing resulting in a liability. It establishes criteria to determine whether proceeds should be reported as revenue or a liability. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 48 may have on the financial statements.

The GASB has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, effective for fiscal years beginning after December 15, 2007. This statement addresses the obligations of existing pollution events. It provides guidance on whether any components of a remediation should be recognized as a liability. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 49 may have on the financial statements.

The GASB has issued Statement No. 50, *Pension Disclosures — an amendment of GASB Statements No. 25 and No. 27*, effective for fiscal years beginning after June 15, 2007. This statement more closely aligns the financial reporting requirements for pension with those for other postemployment benefits, thus enhancing the information disclosed on the notes to the financial statements or presented as required supplementary information. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 50 may have on the financial statements.

The GASB has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, effective for fiscal years beginning after June 15, 2009. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 51 may have on the financial statements

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2007 and 2006, was held as follows:

2007	Current	Noncurrent	Total
State Treasurer	$ 21,140,481	$ -	$ 21,140,481
In bank — BB&T Bonds	1,634,799	4,714,094	6,348,893
Trustee	9,179	2,175,910	2,185,089
In bank	215,665	414,119	629,784
On hand	3,666		3,666
	$ 23,003,790	$ 7,304,123	$ 30,307,913

2006	Current	Noncurrent	Total
State Treasurer	$ 23,424,482	$ -	$ 23,424,482
In bank—BB&T Bonds		8,538,667	8,538,667
Trustee	211,351	2,111,681	2,323,032
In bank	155,440	328,756	484,196
On hand	3,686		3,686
	$ 23,794,959	$ 10,979,104	$ 34,774,063

Cash on deposit with the Trustee as of June 30, 2007 and 2006, includes $2,185,089 and $2,323,032, 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.

The combined carrying amount of cash in the bank at June 30, 2007 and 2006, were $629,784 and $484,197, respectively, as compared with the combined bank balances of $819,301 and $654,363, 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.

Amounts with the State Treasurer and the Municipal Bond Commission as of June 30, 2007 and 2006, are comprised of the following investment pools:

The BTI has adopted an investment policy in accordance with the "Uniform Prudent Investor Act." The "prudent investor rule" guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI's investment policy to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of BTI's Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the BTI's Consolidated Fund.

Cash Liquidity Pool

Credit Risk **—** Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Neither the BTI nor any of the BTI's Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the BTI's Consolidated Fund pools and accounts which the Commission may invest in, three are subject to credit risk: Cash Liquidity Pool, Government Money Market Pool, and Enhanced Yield Pool.

The BTI limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA- by Standard & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standard & Poor's and P1 by Moody's. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Cash Liquidity Pool's investments (in thousands):

	Credit Rating *		2007		2006	
Security Type	**Moody's**	**S&P**	**Carrying Value**	**Percent of Pool Assets**	**Carrying Value**	**Percent of Pool Assets**
Investments —						
Commercial paper	P1	A-1	$ 1,015,926	48.89 %	$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76	61,992	3.56
	Aa3	AA	20,001	0.96		
	Aa3	A	23,002	1.11		
	Aa2	AA	15,000	0.72		
	Aa2	A	27,000	1.30		
	Aa1	AA	77,023	3.71		
	Aa	AA			55,063	3.16
	Aa	A			12,000	0.69
			261,025	12.56	129,055	7.41
U.S. agency bonds	Aaa	AAA	46,994	2.26	43,663	2.51
U.S. Treasury bills	Aaa	AAA	358,725	17.27	306,279	17.58
Negotiable certificates of deposit	P1	A-1	76,500	3.68	99,000	5.68
U.S. agency discount notes	P1	A-1	21,655	1.04	93,851	5.39
Money market funds	Aaa	AAA	185	0.01	758	0.04
Repurchase agreements (underlying securities) —						
U.S. Treasury notes	Aaa	AAA			73,000	4.19
U.S. agency notes	Aaa	AAA	246,821	11.88	29,339	1.69
			246,821	11.88	102,339	5.88
Deposits —						
Nonnegotiable certificates of deposit	NR	NR	50,000	2.41	23,800	1.37
			$ 2,077,831	100.00 %	$ 1,741,802	100.00 %

* NR = Not Rated. See "Deposits" note at the conclusion of this footnote.

At June 30, 2007 and 2006, Fairmont State's ownership represents 0.84% and 0.81%, respectively, of these amounts held by the BTI.

Government Money Market Pool

Credit Risk **—** The BTI limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury issues. The following table provides information on the credit ratings of the Government Money Market Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %	$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85	28,346	15.56
U.S. agency discount notes	P1	A-1	74,143	32.30	112,399	61.70
Money market funds	Aaa	AAA	9		109	0.06
Repurchase agreements (underlying securities):						
U.S. Treasury notes	Aaa	AAA	51,400	22.39		
U.S. Treasury strips	Aaa	AAA			15,602	8.56
U.S. agency bonds	Aaa	AAA			4,298	2.36
			51,400	22.39	19,900	10.92
			$ 229,551	100.00 %	$ 182,174	100.00 %

At June 30, 2007 and 2006, Fairmont State's ownership represents 0.29% and 0.19%, respectively, of these amounts held by the BTI.

Enhanced Yield Pool

Credit Risk **—**The BTI limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A- by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's. The following table provides information on the credit ratings of the Enhanced Yield Pool's investments (in thousands):

	Credit Rating		2007		2006	
Security Type	Moody's	S&P	Carrying Value	Percent of Pool Assets	Carrying Value	Percent of Pool Assets
Corporate asset backed securities	P1	A-1	$ 42,122	18.40 %	$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	1,667	0.73	2,448	0.92
	Aa3	AA	7,857	3.43		
	Aa3	A	3,905	1.70		
	Aa2	AA	950	0.41		
	Aa2	A	2,177	0.95		
	Aa1	AA	6,431	2.81		
	A3	A	6,958	3.04		
	A2	AA	747	0.33		
	A2	A	8,188	3.58		
	A1	AA	3,034	1.32		
	A1	A	10,706	4.68		
	Aa	AA			3,790	1.43
	Aa	A			15,660	5.90
	A	AA			3,048	1.15
	A	A			46,847	17.65
			52,620	22.98	71,793	27.05
U.S. agency bonds	Aaa	AAA	46,075	20.13	87,215	32.86
U.S. Treasury bills	Aaa	AAA			58,067	21.88
U.S. Treasury notes	Aaa	AAA	55,877	24.41		
U.S. agency mortgage backed securities	Aaa	AAA	11,741	5.13		
Repurchase agreements (underlying securities):						
U.S. agency mortgage backed securities	Aaa	AAA			1,346	0.51
U.S. angency notes	Aaa	AAA	20,485	8.95		
			20,485	8.95	1,346	0.51
			$ 228,920	100 %	$ 265,384	100.00 %

At June 30, 2007 and 2006, Fairmont State's ownership represents 0.44% and 2.78%, respectively, of these amounts held by the BTI.

Interest Rate Risk — Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All the BTI's Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

	2007		2006	
Security Type	Carrying Value (In Thousands)	WAM (Days)	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 246,821	2	$ 102,339	3
U.S. Treasury bills	358,725	30	306,279	32
Commercial paper	1,015,926	52	943,057	25
Certificates of deposit	126,500	76	122,800	105
U.S. agency discount notes	21,655	113	93,851	89
Corporate notes	261,025	58	129,055	77
U.S. agency bonds/notes	46,994	156	43,663	208
Money market funds	185	1	758	1
	$2,077,831	48	$1,741,802	42

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Government Money Market Pool:

	2007		2006	
Security Type	Carrying Value (In Thousands)	WAM (Days)	Carrying Value (In Thousands)	WAM (Days)
Repurchase agreements	$ 51,400	2	$ 19,900	3
U.S. Treasury bills	36,379	29	28,346	42
U.S. agency discount notes	74,143	106	112,399	39
U.S. agency bonds/notes	67,620	60	21,420	152
Money market funds	9	1	109	1
	$ 229,551	49	$ 182,174	49

The overall weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the weighted average maturities for the various asset types in the Enhanced Yield Pool:

	2007		2006	
Security Type	**Carrying Value (In Thousands)**	**WAM (Days)**	**Carrying Value (In Thousands)**	**WAM (Days)**
Repurchase agreements	$ 20,485	2	$ 1,346	3
U.S. Treasury bonds/notes	55,877	1,092	58,067	894
Corporate notes	52,620	557	71,793	588
Corporate asset backed securities	42,122	421	46,963	688
U.S. agency bonds/notes	46,075	927	87,215	594
U.S. agency mortgage backed securities	11,741	814		
	$ 228,920	700	$ 265,384	672

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. Securities lending collateral that is reported on the BTI's Statement of Fiduciary Net Assets is invested in the lending agent's money market fund in the BTI's name. In all transactions, the BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the BTI's Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

Deposits — Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The Cash Liquidity Pool contains nonnegotiable certificates of deposit valued at $50,000,000, which represents 2.41% of the pool's assets. The BTI does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2007 and 2006, are as follows:

	2007	2006
Student tuition and fees, net of allowance for doubtful accounts of $1,078,041 and $907,926	$ 322,125	$ 374,199
Grants and contracts receivable	1,153,247	1,921,383
Due from the Commission	192,110	224,486
Due from other State agencies	213,735	331,092
Other accounts receivable	397,612	209,559
Accounts receivable — net	$ 2,278,829	$ 3,060,719

5. CAPITAL ASSETS

Capital asset activities for the years ended June 30, 2007 and 2006, are as follows:

	2007			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 6,976,825	$ 69,623	$ -	$ 7,046,448
Construction in progress	7,603,299	16,829,191	(8,604,027)	15,828,463
Total capital assets not being depreciated	$ 14,580,124	$ 16,898,814	$ (8,604,027)	$ 22,874,911
Other capital assets:				
Land improvements	$ 1,895,789	$ 469,531	$ -	$ 2,365,320
Infrastructure	11,507,997	1,629,955		13,137,952
Buildings	106,987,368	6,449,889		113,437,257
Equipment	10,735,377	695,077	(219,931)	11,210,523
Computer software	835,262	1,396,146	(431,070)	1,800,338
Library books	6,552,421	97,762	(20,370)	6,629,813
Total other capital assets	138,514,214	10,738,360	(671,371)	148,581,203
Less accumulated depreciation for:				
Land improvements	787,262	148,484		935,746
Infrastructure	1,435,105	840,472		2,275,577
Buildings	21,417,679	2,135,299		23,552,978
Equipment	7,911,747	777,264	(214,195)	8,474,816
Computer software	746,156	143,869		890,025
Library books	6,331,769	183,501	(20,370)	6,494,900
Total accumulated depreciation	38,629,718	4,228,889	(234,565)	42,624,042
Other capital assets — net	$ 99,884,496	$ 6,509,471	$ (436,806)	$ 105,957,161
Capital asset summary:				
Capital assets not being depreciated	$ 14,580,124	$ 16,898,814	$ (8,604,027)	$ 22,874,911
Other capital assets	138,514,214	10,738,360	(671,371)	148,581,203
Total cost of capital assets	153,094,338	27,637,174	(9,275,398)	171,456,114
Less accumulated depreciation	38,629,718	4,228,889	(234,565)	42,624,042
Capital assets — net	$ 114,464,620	$ 23,408,285	$ (9,040,833)	$ 128,832,072

	2006			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 5,648,421	$ 1,328,404	$ -	$ 6,976,825
Construction in progress	48,977,294	9,193,172	(50,567,167)	7,603,299
Total capital assets not being depreciated	$ 54,625,715	$ 10,521,576	$ (50,567,167)	$ 14,580,124
Other capital assets:				
Land improvements	$ 1,756,996	$ 198,793	$ (60,000)	$ 1,895,789
Infrastructure	2,424,384	9,083,613		11,507,997
Buildings	67,060,571	39,926,797		106,987,368
Equipment	10,334,195	898,618	(497,436)	10,735,377
Computer software	798,203	61,856	(24,797)	835,262
Library books	6,458,548	111,175	(17,302)	6,552,421
Total other capital assets	88,832,897	50,280,852	(599,535)	138,514,214
Less accumulated depreciation for:				
Land improvements	675,446	121,149	(9,333)	787,262
Infrastructure	920,228	514,877		1,435,105
Buildings	19,332,311	2,085,368		21,417,679
Equipment	7,459,174	908,775	(456,202)	7,911,747
Computer software	618,417	152,536	(24,797)	746,156
Library books	6,137,348	211,723	(17,302)	6,331,769
Total accumulated depreciation	35,142,924	3,994,428	(507,634)	38,629,718
Other capital assets — net	$ 53,689,973	$ 46,286,424	$ (91,901)	$ 99,884,496
Capital asset summary:				
Capital assets not being depreciated	$ 54,625,715	$ 10,521,576	$ (50,567,167)	$ 14,580,124
Other capital assets	88,832,897	50,280,852	(599,535)	138,514,214
Total cost of capital assets	143,458,612	60,802,428	(51,166,702)	153,094,338
Less accumulated depreciation	35,142,924	3,994,428	(507,634)	38,629,718
Capital assets — net	$ 108,315,688	$ 56,808,000	$ (50,659,068)	$ 114,464,620

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 $6,900,000 as of June 30, 2007.

6. LONG-TERM LIABILITIES

Long-term obligation activities for the years ended June 30, 2007 and 2006, are as follows:

	2007				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$69,765,000	$ -	$(1,619,877)	$68,145,123	
Add (less) deferred amounts:					
Premium on issuance	455,088		(17,207)	437,881	
Discount on issuance	(92,183)		3,534	(88,649)	
Total bonds payable — net	70,127,905	-	(1,633,550)	68,494,355	$1,660,450
Capital leases payable	55,431		(55,431)	-	
Other long-term liabilities:					
Accrued compensated absences	4,705,388	1,117,754	(1,288,105)	4,535,037	1,247,213
Advances from federal sponsors	1,151,584			1,151,584	
Payable to Commission	6,191,745	126,351	(494,390)	5,823,706	526,210
Total long-term liabilities	$82,232,053	$ 1,244,105	$(3,471,476)	$80,004,682	

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$62,575,000	$ 8,500,000	$(1,310,000)	$69,765,000	
Add (less) deferred amounts:					
Premium on issuance	472,295		(17,207)	455,088	
Discount on issuance	(95,718)		3,535	(92,183)	
Total bonds payable — net	62,951,577	8,500,000	(1,323,672)	70,127,905	$1,619,877
Capital leases payable	276,899		(221,468)	55,431	55,431
Other long-term liabilities:					
Accrued compensated absences	4,207,260	1,786,341	(1,288,213)	4,705,388	1,116,532
Advances from federal sponsors	1,151,584			1,151,584	
Payable to Commission	6,676,548		(484,803)	6,191,745	494,390
Total long-term liabilities	$75,263,868	$ 10,286,341	$(3,318,156)	$82,232,053	

7. BONDS PAYABLE

Bonds payable at June 30, 2007 and 2006, are summarized as follows:

	Interest Rates	Annual Principal Installments (In thousands)	2007 Principal Outstanding (In thousands)	2006 Principal Outstanding (In thousands)
College Facilities Revenue Bonds 2002, Series A, due through 2032	3.125%—5.375%	$375–1,145	$ 16,760	$ 17,125
Infrastructure Revenue Bonds 2002, Series B, due through 2032	3.125%—5.00%	$195–565	8,470	8,660
College Facilities Revenue Bonds 2003, Series A, due through 2032	2.625%—5.25%	$295–860	12,755	13,040
Student Activity Revenue Bonds 2003, Series B, due through 2032	2.625%—5.25%	$505–1,475	21,945	22,440
Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18% (10-year reset)	$291–611	8,215	8,500
Total outstanding principal			68,145	69,765
Add unamortized bond premium			438	455
Less unamortized bond discount			(89)	(92)
Total			$ 68,494	$ 70,128
Current			$ 1,660	$ 1,620
Noncurrent			66,834	68,508
Total			$ 68,494	$ 70,128

Fairmont State has issued the following revenue bonds:

a. *University Facilities Revenue Bonds 2002, Series A* — On August 1, 2002, Fairmont State issued University 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. *University Facilities Revenue Bonds 2003, Series A* — On March 1, 2003, Fairmont State issued University 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 Series B (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.

e. *Facilities Improvement Revenue Bonds, 2006 Series* — On May 9, 2006, Fairmont State issued Facilities Improvement Bonds, 2006 Series (the "2006 Bonds") amounting to $8,500,000. The 2006 Bonds were issued to (1) finance the design, acquisition, construction, and equipping of certain necessary improvements in the facilities of the main campus of Fairmont State, including but not limited to a Technology Wing addition/renovation and elevator/HVAC improvements to infrastructure improvements, all of which will be owned by the Board and (2) pay the costs of issuance of the 2006 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 within the meaning of the Constitution of the State; neither the credit nor the taxing power of the State is pledged for the payment of the Bonds. The Bonds, except for the 2006 Bonds, are fully insured as to principal and interest by Financial Guaranty Insurance Company (FGIC).

Future debt service requirements to maturity for the revenue bonds at June 30, 2007, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2008	$ 1,660,450	$ 3,213,475	$ 4,873,925
2009	1,717,717	3,162,395	4,880,112
2010	1,770,503	3,105,374	4,875,877
2011	1,828,829	3,042,813	4,871,642
2012	1,897,718	2,974,766	4,872,484
2013–2017	10,698,340	13,660,668	24,359,008
2018–2022	13,539,906	10,822,176	24,362,082
2023–2027	16,651,660	7,087,644	23,739,304
2028–2032	18,380,000	2,847,000	21,227,000
Total	$ 68,145,123	$ 49,916,311	$ 118,061,434

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, 2007, are as follows:

Year Ending June 30	
2008	$ 150,804
2009	163,330
2010	165,904
2011	167,856
2012	154,735
2013–2015	368,366
Total	$ 1,170,995

Total lease expense for the years ended June 30, 2007 and 2006, was $156,676 and $131,164, respectively.

Capital Leases — Fairmont State leases various equipment accounted for as capital leases.

Fairmont State entered into a lease agreement with Fieldturf Finance in April 2007 to cover the acquisition and installation costs for an athletic field turf, markings, and logo. The lease will be accounted for as a capital lease with a total cost of $686,930. The athletic field was not installed as of June 30, 2007, therefore, a capital asset and the related capital lease liability were not recorded in the University's financial statements.

9. COMPENSATED ABSENCES

Compensated absences liability at June 30, 2007 and 2006, is as follows:

	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Health or life insurance benefits	$ 162,668	$2,708,718	$2,871,386	$ 196,844	$3,087,794	$3,284,638
Accrued vacation leave	1,084,545	579,106	1,663,651	919,688	501,062	1,420,750
Total	$1,247,213	$3,287,824	$4,535,037	$1,116,532	$3,588,856	$4,705,388

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, 2007 and 2006, the amounts paid by Fairmont State for extended health or life insurance coverage retirement benefits totaled $190,885 and $184,760, respectively. As of both years ended June 30, 2007 and 2006, there were 72 retirees 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 2007 and 2006, Fairmont State paid $494,390 and $484,803, respectively, to the Commission against the debt obligation. The amount due to Commission at June 30, 2007, is $5,823,706.

During the year ended June 30, 2005, the Commission issued $167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State . The University was approved to receive $12,500,000 of the bond proceeds for capital projects from this bond issuance. The University has recognized $12,200,002 as of June 30, 2007, on capital projects funded by these bonds.

11. UNRESTRICTED NET ASSETS

Fairmont State's unrestricted net assets at June 30, 2007 and 2006, include certain designated net assets as follows:

	2007	2006
Designated for auxiliaries	$ 1,434,878	$ 646,903
Undesignated	7,654,143	8,649,729
Total unrestricted net assets	$ 9,089,021	$ 9,296,632

12. 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) ("Great West") basic retirement plan. New hires have the choice of either plan. As of June 30, 2007 and 2006, 17 and 18 employees, respectively, were enrolled in the Great West basic retirement plan. Total contributions to this Great West basic retirement plan for the years ended June 30, 2007, 2006, and 2005, was $33,611, $29,642, and $12,747, respectively.

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, 2007 and 2006. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2007 and 2006. 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, 2007, 2006, and 2005, were $515,697 $553,972, and $589,010, respectively, which consisted of $368,540, $395,694, and $420,722 from Fairmont State in 2007, 2006, and 2005, respectively, and $147,157, $158,278, and $168,288 from the covered employees in 2007, 2006, and 2005, 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, 2007, 2006, and 2005 were $2,547,234, $2,351,326, and $2,099,162, respectively, which consisted of equal contributions from Fairmont State and covered employees of $1,273,612, $1,175,663, and $1,049,581 in 2007, 2006, and 2005, respectively.

Fairmont State's total payroll for the years ended June 30, 2007 and 2006, was $28,744,692 and $27,019,638, respectively; total covered employees' salaries in the Great West, STRS, and TIAA-CREF were $560,177, $2,456,933, and $21,231,767, respectively, in 2007 and $494,030, $2,637,960, and $19,610,370, respectively, in 2006.

13. FOUNDATION

The Foundation is a separate nonprofit organization incorporated in the State and has as its 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, 2007 and 2006, the Foundation's net assets (including unrealized gains) totaled $11,880,671 and $9,981,653, 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, 2007 and 2006, the Foundation contributed $1,066,169 and $823,745, respectively, to Fairmont State for scholarships and grants.

The following are the significant footnote disclosures of the Foundation:

13-1. 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 (FASB) Statement No. 117, *Financial Statements of Not-for-Profit Organizations*. Under FASB Statement 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 noncurrent 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 13-8.

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.

13-2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of the following:

	2007	2006
WesBanco — Checking	$ 74,774	$ 75,746

13-3. INVESTMENTS

Investments are presented in the financial statements at their quoted market values (fair value) at June 30, 2007 and 2006. A summary of investments is as follows:

	2007	2006
Trust Holdings:		
US Treasury cash equivalents	$ 1,468,199	$ 1,069,779
Corporate bonds and notes	2,370,292	2,517,646
Mutual funds	1,832,292	1,986,765
Common stocks	4,229,504	3,190,578
	9,900,287	8,764,768
Gift Annuities:		
US Treasury cash equivalents	(6,409)	26,943
Mutual funds	338,900	230,280
	332,491	257,223
Strengthening Institutions:		
US Treasury cash equivalents	6,793	29,184
Mutual funds	369,053	202,657
	375,846	231,841
Strengthening Institutions Phase II:		
Money Market Fund cash equivalents	788	
Mutual funds	153,356	-
	154,144	-
Other	158,123	131,639
	158,123	131,639
Total investments	$ 10,920,891	$ 9,385,471

During fiscal year 2006–2007, the Foundation's investments appreciated in value by $819,601. During fiscal year 2005–2006, the Foundation's investments appreciated in value by $279,897.

PROMISES TO GIVE RECEIVABLE

Unconditional promises to give at June 30, 2007 and 2006, are as follows:

	2007	2006
Receivable in less than one year	$ 78,501	$ 61,674
Receivable in one to five years	1,033,879	569,390
Total unconditional promises to give	1,112,380	631,064
Less discounts to net present value	(111,962)	(57,130)
Less allowance for uncollectible promises to give	(6,659)	(3,612)
Net unconditional promises to give at June 30	$ 993,759	$ 570,322

Discounts rates used on noncurrent promises to give were 4.90% in 2007.

13-4. INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 2007 and 2006, are as follows:

2007	Due From Other Funds	Due to Other Funds
Operating fund	$ -	$ 8,598,443
School fund	842,811	-
Scholarship fund	7,450,209	-
Restricted operating fund	305,423	-
Total	$ 8,598,443	$ 8,598,443

2006	Due From Other Funds	Due to Other Funds
Operating fund	$ -	$ 7,875,454
School fund	1,048,446	-
Scholarship fund	6,580,143	-
Restricted operating fund	246,865	-
Total	$ 7,875,454	$ 7,875,454

13-5. CHARITABLE GIFT ANNUITIES

The Foundation has entered into 21 charitable gift annuity agreements with 6 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.

13-6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets at June 30, 2007 and 2006, are available for the following purposes:

	2007	2006
School fund	$ 1,349,565	$ 1,132,110
Scholarship fund	1,972,187	1,597,274
Restricted operating fund	200,088	155,894
Total	$ 3,521,840	$ 2,885,278

Net assets were permanently restricted at June 30, 2007 and 2006, for the following purposes:

	2007	2006
School fund	$ -	$ -
Scholarship fund	5,907,860	5,372,159
Total	$ 5,907,860	$ 5,372,159

13-7. DONATED MATERIALS AND SERVICES

Donated assets are reflected as contributions in the accompanying statements at their estimated value at the 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.

13-8. RECLASSIFICATIONS

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

14. 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.

15. 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.

16. 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 and facilities improvement activities. Investors in the auxiliary bonds rely solely on the revenues generated by the activities of the auxiliaries for repayment. The facilities improvement bonds are special obligations of the University and payable from System Fees held under the Indenture.

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

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

On August 1, 2002, Fairmont State issued University 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 outstanding consist of $3,405,000 Serial Bonds with varying interest rates from 3.125% to 4.20%, and mature serially from June 1, 2008 to June 1, 2015, and Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 4,125,000	June 1, 2022	5.375 %
4,030,000	June 1, 2027	5.375
5,200,000	June 1, 2032	5.000

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 University, 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 outstanding consist of $1,775,000 Serial Bonds with varying interest rates from 3.125% to 4.20%, and mature serially from June 1, 2008 to June 1, 2015, and Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 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 years ended June 30, 2007 and 2006, the University had revenues, as defined in the Indenture, that approximated 133% and 145%, respectively, of the maximum annual debt service.

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

On March 1, 2003, Fairmont State issued University 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 outstanding consist of $2,630,000 Serial Bonds with varying interest rates from 2.63% to 4.1%, and mature serially from June 1, 2008 to June 1, 2015, and Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 3,170,000	June 1, 2022	5.25 %
6,955,000	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 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 years ended June 30, 2007 and 2006, the University's combined 2002A and 2003A Bonds had net revenues, when combined with other monies legally available, as defined in the Indentures, that approximated 175% and 148%, respectively, of the maximum debt service.

d. *Board of Governors of Fairmont State University, 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 outstanding consist of $4,525,000 Serial Bonds with varying interest rates from 2.63% to 4.1%, and mature serially from June 1, 2008 to June 1, 2015, and Term Bonds as follows:

Principal Amount	Maturity Date	Interest Rate
$ 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 years ended June 30, 2007 and 2006, the University had pledged revenues, as defined in the Indenture, that approximated 218% and 242%, respectively, of the maximum annual debt service.

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

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

The 2006 Bonds outstanding are $8,215,123 with interest at the rate of 4.18% until (but not including) May 1, 2016. On May 1, 2016, the interest rate on the Bonds shall automatically adjust to the reset rate and shall bear the reset rate from May 1, 2016, to maturity.

The University has pledged all university fees as defined in the bond indenture. University fees are the amounts remaining from the System Fees after the University has (a) fulfilled its obligations with respect to the Higher Education Policy Commission (HEPC) Bonds during each six-month period, which funds are then released to the University and (b) allocated $1,200,000 of the System Fees to the repair and replacement of the facilities financed with the system bonds.

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

	College Facilities Bonds 2002 and 2003, Series A As of/Year Ended June 30,		Infrastructure Bonds 2002, Series B As of/Year Ended June 30,		Student Activity Bonds 2003, Series B As of/Year Ended June 30,		Facilities Improvement Bonds 2006, As of/Year Ended June 30,	
	2007	2006	2007	2006	2007	2006	2007	2006
CONDENSED STATEMENT OF NET ASSETS								
ASSETS:								
Current assets	$ 1,816,249	$ 1,344,581	$ 314,739	$ 710,566	$ 1,950,473	$ 2,487,538	$ 1,634,799	$ -
Noncurrent and capital assets	34,040,793	34,473,316	10,062,868	10,257,568	23,945,086	23,932,766	8,532,982	8,579,821
Total assets	35,857,042	35,817,897	10,377,607	10,968,134	25,895,559	26,420,304	10,167,781	8,579,821
LIABILITIES:								
Current liabilities	(885,115)	(876,967)	(228,190)	(432,773)	(818,656)	(861,787)	(1,982,481)	(366,485)
Long-term liabilities	(29,113,169)	(29,793,764)	(8,186,351)	(8,377,818)	(21,609,711)	(22,121,325)	(7,924,673)	(8,215,123)
Total liabilities	(29,998,284)	(30,670,731)	(8,414,541)	(8,810,591)	(22,428,367)	(22,983,112)	(9,907,154)	(8,581,608)
NET ASSETS:								
Invested in capital assets — net of related debt	1,423,580	1,174,426	2,079,416	1,747,590	1,496,234	1,010,916	260,627	(1,787)
Restricted	4,435,178	3,972,740	(116,350)	409,953	1,970,958	2,426,276		
Total net assets	$ 5,858,758	$ 5,147,166	$ 1,963,066	$ 2,157,543	$ 3,467,192	$ 3,437,192	$ 260,627	$ (1,787)
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS								
OPERATING REVENUES	$ 4,765,121	$ 4,269,093	$ 792,372	$ 876,867	$ 3,061,134	$ 3,079,435	$ 630,838	$ -
OPERATING EXPENSES	(2,346,502)	(2,111,011)	(30,347)		(1,663,429)	(1,464,987)	(425,600)	
Operating income	2,418,619	2,158,082	762,025	876,867	1,397,705	1,614,448	205,238	-
NONOPERATING REVENUE (EXPENSE):								
Investment income	223,236	185,190	7,799	10,526	107,365	152,243	402,904	55,667
Interest expense	(1,437,022)	(1,314,507)	(369,541)	(316,162)	(985,192)	(797,002)	(342,873)	(57,108)
Amortization of bond issuance costs	(23,821)	(23,821)	(6,598)	(6,598)	(12,239)	(12,239)	(2,075)	(346)
Depreciation	(469,420)	(469,360)	(588,162)	(316,623)	(477,639)	(470,845)	(780)	
Increase (decrease) in net assets	711,592	535,584	(194,477)	248,010	30,000	486,605	262,414	(1,787)
NET ASSETS — Beginning of year	5,147,166	4,611,582	2,157,543	1,909,533	3,437,192	2,950,587	(1,787)	
NET ASSETS — End of year	$ 5,858,758	$ 5,147,166	$ 1,963,066	$ 2,157,543	$ 3,467,192	$ 3,437,192	$ 260,627	$ (1,787)
CONDENSED STATEMENT OF CASH FLOWS								
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 2,501,074	$ 2,064,234	$ 763,369	$ 856,107	$ 1,573,301	$ 1,909,751	$ -	$ -
NET CASH (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	(2,021,731)	(2,048,391)	(1,154,202)	(1,127,198)	(2,122,330)	(3,839,993)	(2,189,773)	8,483,000
NET CASH PROVIDED BY INVESTING ACTIVITIES	87,165	54,775			90,278	117,743		55,667
Increase (decrease) in cash and cash equivalents	566,508	70,618	(390,833)	(271,091)	(458,751)	(1,812,499)	(2,189,773)	8,538,667
CASH AND CASH EQUIVALENTS — Beginning of year	3,246,218	3,175,600	693,773	964,864	2,311,137	4,123,636	8,538,667	
CASH AND CASH EQUIVALENTS — End of year	$ 3,812,726	$ 3,246,218	$ 302,940	$ 693,773	$ 1,852,386	$ 2,311,137	$ 6,348,894	$ 8,538,667

17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2007 and 2006, are represented in the following table:

2007

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Function:									
Auxiliary enterprises	$ 1,805,479	$ 363,861	$ 4,404,345	$ 701,696	$ -	$ -	$ -	$ -	$ 7,275,381
Instruction	15,209,959	3,305,452	2,730,118	268					21,245,797
Research	247,827	65,275	289,512						602,614
Public service	797,271	196,653	4,757,302	14,340					5,765,566
Academic support	3,764,837	822,638	2,389,626	47,046					7,024,147
Student services	2,548,750	588,312	1,768,609	32,367					4,938,038
General institutional support	2,761,785	716,099	1,918,744					275,501	5,672,129
Student financial aid					9,142,629				9,142,629
Operation and maintenance	1,509,985	585,179	1,560,915	1,346,420					5,002,499
Depreciation						4,228,889			4,228,889
Other							106,957		106,957
Total	$ 28,645,893	$ 6,643,469	$ 19,819,171	$ 2,142,137	$ 9,142,629	$ 4,228,889	$ 106,957	$ 275,501	$ 71,004,646

2006

	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Function:									
Auxiliary enterprises	$ 1,644,905	$ 289,291	$ 3,986,052	$ 706,146	$ -	$ -	$ -	$ -	$ 6,626,394
Instruction	14,466,236	3,399,932	2,559,107	783					20,426,058
Research	259,344	38,878	278,444						576,666
Public service	836,521	185,709	3,518,015	33,243	52,636				4,626,124
Academic support	3,183,532	601,721	1,866,763						5,652,016
Student services	2,290,482	505,485	1,595,439						4,391,406
General institutional support	2,806,568	1,524,713	2,301,177	4,672				271,399	6,908,529
Student financial aid					8,853,263				8,853,263
Operation and maintenance	1,494,454	616,006	1,812,137	1,321,151					5,243,748
Depreciation						3,994,428			3,994,428
Other							171,084		171,084
Total	$ 26,982,042	$ 7,161,735	$ 17,917,134	$ 2,065,995	$ 8,905,899	$ 3,994,428	$ 171,084	$ 271,399	$ 67,469,716

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ADDITIONAL INFORMATION

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2007

ALL FUNDS ASSETS	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technica College	Component Unit Eliminations	Total Institution
CURRENT ASSETS:					
Cash and cash equivalents	$ 12,477,663	$6,664,846	$ 3,861,281	$ -	$ 23,003,790
Accounts receivable — net	650,801	1,423,041	204,987		2,278,829
Chargebacks due from CTC		13,447		(13,447)	
Chargebacks due from Fairmont State University			70	(70)	
Due from other funds	9,489	47,494	8,510	(65,493)	
Loans to students — current portion	125,684				125,684
Inventories	72,197	107,665	35,597		215,459
Total current assets	13,335,834	8,256,493	4,110,445	(79,010)	25,623,762
NONCURRENT ASSETS:					
Cash and cash equivalents	7,304,123				7,304,123
Loans to students — net	1,143,906				1,143,906
Deferred charges — bond issuance costs	1,122,370				1,122,370
Capital assets — net	128,832,072				128,832,072
Total noncurrent assets	138,402,471	-	-	-	138,402,471
TOTAL	$ 151,738,305	$8,256,493	$ 4,110,445	$ (79,010)	$ 164,026,233
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 2,142,683	$1,554,054	$ 101,852	$ -	$ 3,798,589
Due to Commission	83,501	155			83,656
Chargebacks due to Fairmont State University			13,447	(13,447)	
Chargebacks due to CTC		70		(70)	
Due to other funds	32,838	32,655		(65,493)	
Accrued liabilities	59,762	1,625,268	480,535		2,165,565
Accrued interest payable	296,656				296,656
Retainages payable	720,650				720,650
Deferred revenue	522,633				522,633
Compensated absences — current portion	140,872	741,838	364,503		1,247,213
Debt obligation payable to Commission — current portion	526,210				526,210
Bonds payable — current portion	1,660,450				1,660,450
Total current liabilities	6,186,255	3,954,040	960,337	(79,010)	11,021,622
Noncurrent liabilities:					
Compensated absences	373,742	2,022,980	891,102		3,287,824
Advances from federal sponsors	1,151,584				1,151,584
Debt obligation to Commission	5,297,496				5,297,496
Bonds payable	66,833,905				66,833,905
Total noncurrent liabilities	73,656,727	2,022,980	891,102	-	76,570,809
Total liabilities	79,842,982	5,977,020	1,851,439	(79,010)	87,592,431
NET ASSETS:					
Invested in capital assets — net of related debt	58,251,460				58,251,460
Restricted for —					
Expendable:					
Loans	532,125				532,125
Scholarships	451,011				451,011
Sponsored projects	3,141	193,977	439,612		636,730
Capital projects	5,288,106				5,288,106
Debt service	2,185,349				2,185,349
Total restricted	8,459,732	193,977	439,612		9,093,321
Unrestricted	5,184,131	2,085,496	1,819,394		9,089,021
Total net assets	71,895,323	2,279,473	2,259,006	-	76,433,802
TOTAL	$ 151,738,305	$8,256,493	$ 4,110,445	$ (79,010)	$ 164,026,233

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

ALL FUNDS	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technical College	Component Unit Eliminations	Total Institution
OPERATING REVENUES:					
Tuition and fees — net	$ 403,369	$ 9,526,284	$ 3,730,140	$ -	$ 13,659,793
Tuition and fees support services revenue	4,080,038			(4,080,038)	
Faculty services revenue		1,573,217	1,530,766	(3,103,983)	
Contracts and grants:					
Federal	163,424	12,841,425	3,142,109		16,146,958
State/local	8,773	6,505,234	1,739,622		8,253,629
Private	53,503	2,744,524	801,970		3,599,997
Interest on student loans receivable	54,173				54,173
Auxiliary enterprise revenue	7,046,112	3,337,550	1,189,772		11,573,434
Auxiliary support services revenue	4,563,946			(4,563,946)	
Operating costs revenue		2,505,253	281,828	(2,787,081)	
Suport services revenue		3,297,442	136,292	(3,433,734)	
Miscellaneous — net	910,441	312,769	317,010		1,540,220
Total operating revenues	17,283,779	42,643,698	12,869,509	(17,968,782)	54,828,204
OPERATING EXPENSES:					
Salaries and wages	2,182,577	20,709,967	5,753,349		28,645,893
Benefits	458,331	4,985,455	1,199,683		6,643,469
Supplies and other services	5,744,727	12,123,149	1,951,295		19,819,171
Utilities	701,696	1,437,800	2,641		2,142,137
Student financial aid — scholarships and fellowships	281,440	6,423,862	2,437,327		9,142,629
Depreciation	4,228,889				4,228,889
Assessment for tuition, auxiliary, and capital costs		6,056,698	2,587,286	(8,643,984)	
Assessment for faculty services		1,530,766	1,573,217	(3,103,983)	
Assessment for operating costs		281,828	2,505,253	(2,787,081)	
Assessment for support services		136,292	3,297,442	(3,433,734)	
Loan cancellations and write-offs	15,736	30,778	60,443		106,957
Fees assessed by the Commission for operations		183,867	91,634		275,501
Total operating expenses	13,613,396	53,900,462	21,459,570	(17,968,782)	71,004,646
OPERATING LOSS	3,670,383	(11,256,764)	(8,590,061)	-	(16,176,442)
NONOPERATING REVENUES (EXPENSES):					
State appropriations		11,746,694	7,892,952		19,639,646
Gifts	125,050	25,000	1,140		151,190
Investment income	1,180,518	353,733	237,042		1,771,293
Interest on indebtedness	(2,730,552)				(2,730,552)
Loss on disposal of fixed assets	(937)				(937)
Fees assessed by the Commission for debt service	(556,908)				(556,908)
Amortization of bond issuance costs	(44,732)				(44,732)
Total nonoperating revenues (expenses)	(2,027,561)	12,125,427	8,131,134	-	18,229,000
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	1,642,822	868,663	(458,927)		2,052,558
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	8,609,706				8,609,706
TRANSFER OF LIABILITY FROM POLICY COMMISSION	(126,351)				(126,351)
TRANSFER BETWEEN COMPONENT UNITS	648,545	(496,274)	(152,271)		
INCREASE (DECREASE) IN NET ASSETS	10,774,722	372,389	(611,198)	-	10,535,913
NET ASSETS — Beginning of year	61,120,601	1,907,084	2,870,204		65,897,889
NET ASSETS — End of year	$ 71,895,323	$ 2,279,473	$ 2,259,006	$ -	$ 76,433,802

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technical College	Total Institution
CASH FLOWS FROM OPERATING ACTIVITIES:				
Student tuition and fees	$ (582,344)	$ 9,589,760	$ 3,627,020	$ 12,634,436
Contracts and grants	368,693	22,834,869	5,705,905	28,909,467
Payments to and on behalf of employees	(4,244,335)	(24,528,515)	(6,524,659)	(35,297,509)
Payments to suppliers	(5,911,344)	(12,992,684)	(1,975,178)	(20,879,206)
Payments to utilities	(695,200)	(1,427,201)	(2,826)	(2,125,227)
Payments for scholarships and fellowships	778,385	(6,432,111)	(2,429,607)	(8,083,333)
Loans issued to students	10,565			10,565
Interest on student loans receivable	54,173			54,173
Auxiliary enterprise charges	7,103,276	3,344,814	1,192,532	11,640,622
Fees assessed by the Commission		(183,867)	(91,634)	(275,501)
City B&O Revenues	29,639			29,639
Other receipts — net	524,886	314,913	357,959	1,197,758
Assessments	8,643,984	(335,151)	(8,308,833)	
Net cash provided by (used in) operating activities	6,080,378	(9,815,173)	(8,449,321)	(12,184,116)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations		11,746,694	7,892,952	19,639,646
Gift receipts	125,050	25,000	1,140	151,190
William D. Ford direct lending receipts	6,119	15,438,868	6,340,887	21,785,874
William D. Ford direct lending payments		(15,438,372)	(6,341,098)	(21,779,470)
Net cash provided by noncapital financing activities	131,169	11,772,190	7,893,881	19,797,240
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Capital projects and bond proceeds from the Commission	8,634,259			8,634,259
Fees assessed by the Commission	(556,908)			(556,908)
Purchases of capital assets	(14,695,229)	(37,014)	(61,254)	(14,793,497)
Principal paid on leases	(55,431)			(55,431)
Interest paid on leases	(357)			(357)
Purchases of equipment	(485,404)	(1,106,709)	(117,648)	(1,709,761)
Payments to the Commission on debt obligation	(494,390)			(494,390)
Principal paid on bonds	(1,619,877)			(1,619,877)
Interest paid on bonds	(3,252,137)			(3,252,137)
Bond interest income	556,932			556,932
Net cash used in capital financing activities	(11,968,542)	(1,143,723)	(178,902)	(13,291,167)
CASH FLOW FROM INVESTING ACTIVITY —				
Interest on investments	619,046	352,552	240,295	1,211,893
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(5,137,949)	1,165,846	(494,047)	(4,466,150)
TRANSFERS BETWEEN COMPONENT UNITS	(618,716)	586,679	32,037	
CASH AND CASH EQUIVALENTS — Beginning of year	25,538,451	4,912,321	4,323,291	34,774,063
CASH AND CASH EQUIVALENTS — End of year	$ 19,781,786	$ 6,664,846	$ 3,861,281	$ 30,307,913

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technical College	Total Institution
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating loss	$ 3,670,384	$(11,256,764)	$ (8,590,062)	$(16,176,442)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	4,228,889			4,228,889
Changes in assets and liabilities:				
Receivables — net	(184,742)	1,114,842	(281,100)	649,000
Loans to students — net	(52,592)			(52,592)
Inventories	(33,448)	(11,112)	11,960	(32,600)
Accounts payable	(37,874)	(821,270)	(26,268)	(885,412)
Accrued liabilities	(1,595,397)	1,334,392	436,843	175,838
Compensated absences	5,605	(175,261)	(694)	(170,350)
Deferred revenue	58,004			58,004
Undistributed receipts	21,549			21,549
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 6,080,378	$ (9,815,173)	$ (8,449,321)	$(12,184,116)
NONCASH TRANSACTIONS:				
Construction in progress additions in accounts payable	$ 1,857,406	$ -	$ -	$ 1,857,406
Construction in progress additions in retainage payable	$ 720,650	$ -	$ -	$ 720,650
Amortization of bond issuance costs, premiums, and discounts	$ 44,732	$ -	$ -	$ 44,732
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:				
Cash and cash equivalents classified at current	$ 12,477,663	$ 6,664,846	$ 3,861,281	$ 23,003,790
Cash and cash equivalents classified at noncurrent	7,304,123			7,304,123
	$ 19,781,786	$ 6,664,846	$ 3,861,281	$ 30,307,913

See notes to financial statements.

(Concluded)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2007

COMPONENT: BOG Support

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$1,472,723	$286,412	$4,387,815	$701,696	$ -	$ -	$ -	$ 6,848,646
Instruction	992	665	47,271					48,928
Research								
Public service	36,684	5,264	159,981					201,929
Academic support			132,045					132,045
Student services	396,140	88,930	622,600					1,107,670
General institutional support	81,894	19,180	121,798					222,872
Student financial aid					281,440			281,440
Operation and maintenance	194,144	57,880	273,217					525,241
Depreciation						4,228,889		4,228,889
Other							15,736	15,736
Total	$2,182,577	$458,331	$5,744,727	$701,696	$281,440	$4,228,889	$ 15,736	$13,613,396

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2007

COMPONENT: University

Function	Salaries and Wages	Benefits	Assessment for Faculty Services	Assessment for Support Services	Supplies and Others	Assessment for Operating Costs	Utilities	Scholarships	Assessment for Tuition, Auxiliary and Capital Costs	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 314,150	$ 63,690			$ 14,770	$ -	$ -	$ -	$ 3,369,127	$ -	$ -	$ 3,761,737
Instruction	10,866,601	2,447,893	1,530,766	87,660	1,587,681	137,647						16,658,248
Research	231,224	54,019			289,512							574,755
Public service	573,760	151,377			4,385,717	286	14,247					5,125,387
Academic support	2,698,776	584,531		48,632	1,630,637	143,895	44,766					5,151,237
Student services	2,102,775	485,852			1,146,009		32,367		381,624			4,148,627
General institutional support	2,638,324	690,902			1,781,125				2,305,947		183,867	7,600,165
Student financial aid								6,423,862				6,423,862
Operation and maintenance	1,284,357	507,191			1,287,698		1,346,420					4,425,666
Depreciation												
Other										30,778		30,778
Total	$20,709,967	$4,985,455	$ 1,530,766	$136,292	$12,123,149	$281,828	$1,437,800	$ 6,423,862	$ 6,056,698	$ 30,778	$183,867	$53,900,462

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION
YEAR ENDED JUNE 30, 2007

COMPONENT: PIERPONT COMMUNITY AND TECHNICAL COLLEGE

Function	Salaries and Wages	Benefits	Assessment for Faculty Services	Assessment for Support Services	Supplies and Others	Assessment for Operating Costs	Utilities	Scholarships	Assessment for Tuition, Auxiliay and Capital Costs	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 18,606	$ 13,759	$ -	$ -	$ 1,760	$ 6	$ -	$ -	$ 1,194,819	$ -	$ -	$ 1,228,950
Instruction	4,342,366	856,894	1,573,217	330,362	1,095,166	211,268	268					8,409,541
Research	16,603	11,256										27,859
Public service	186,827	40,012			211,604		93					438,536
Academic support	1,066,061	238,107		653,996	626,944	553,284	2,280					3,140,672
Student services	49,835	13,530		826,716		198,374			172,210			1,260,665
General institutional support	41,567	6,017		910,319	15,821	641,358			1,220,257		91,634	2,926,973
Student financial aid								2,437,327				2,437,327
Operation and maintenance	31,484	20,108		576,049		900,963						1,528,604
Other										60,443		60,443
Total	$ 5,753,349	$ 1,199,683	$ 1,573,217	$ 3,297,442	$ 1,951,295	$ 2,505,253	$ 2,641	$ 2,437,327	$ 2,587,286	$ 60,443	$ 91,634	$ 21,459,570

See note to schedules.

FAIRMONT STATE UNIVERSITY

NOTE TO SCHEDULES
YEAR ENDED JUNE 30, 2007

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 ("FSU"), Pierpont Community and Technical College ("PC&TC"), and Fairmont State Board of Governors Support ("BOG Support"). The Fairmont State BOG Support 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 FSU or PC&TC

Financial Schedules — The financial schedules for Fairmont State (FSU, Pierpont 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 setup has allowed Fairmont State to prepare financial statements (net assets, statement of revenues, expenses, and changes in 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.

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. These representations are based on the approved chargeback agreement between FSU and PC&TC Legislative Actions:

a. ***Revenues*** — State appropriations are allocated by the legislature each year. Appropriation budget cuts are being realized by the four-year university to a greater extent than the two-year college. The four-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 two-and four-year college funds based on the students' program major. Student enrollment in each college drives the fee revenue dollars available to each component.

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

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

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

4. Student payments made via lockbox, Web, etc., are deposited to the four-year clearing fund and are moved daily to the appropriate operating state fund for each institution.

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

b. ***Expenses*** —

Direct Expenditures:

1. Direct expenditures will be assigned directly to either FSU or PC&TC.

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

Chargeback Expenditures:

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

2. Support service chargebacks are for salary and benefit costs from one institution to the other and/or services provided from the administrative, academic support, student service, and physical plant support areas of the university to the community and technical college and vice versa. The salary and benefit chargeback services from each institution to the other for Support Services are based on the percentage of total credit hours (full time equivalent ("FTE") enrollment) taken by the PC&TC and FSU students.

   Support service chargebacks for staff located in the academic schools, for salary and benefit costs:

   The chargeback services for support staff located in the academic units are based on enrollment percentages within that academic unit.

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

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

   Support Services salary and benefit chargebacks are performed each pay cycle and are supported with detailed reports showing employee costs being charged by PC&TC to FSU and vice versa.

3. Operating (Nonlabor) expenses for all support offices listed in the operating budget chargeback table are funded based on the same percentage listed in this table. The organization manager of those offices has budget authority to expend against these budgets during the fiscal year. All unspent budgets at the end of each fiscal year are not carried forward to future fiscal years. Therefore, unspent budget increases the fund balance of both institutions. These fund balances are under the direct control of the respective Presidents of each institution.

   Academic operating costs are funded directly by Educational & General (“E&G”) revenues received by each institution. In some academic units, a portion of the operating (nonlabor) expense budgets are based on the percentage of total credit hours taken by PC&TC and FSU students in that academic unit. The chargeback for these operating expenses is driven by the percentages found on the attached operating budget chargeback table. The organization manager of those academic units has budget authority to spend against these budgets during the fiscal year. All unspent budgets at the end of each fiscal year are not carried forward to future fiscal years. Once again, any unspent budget increases the fund balance of the appropriate institutions. These fund balances are under the direct control of the respective Presidents of each institution.

4. Support staff actual liability costs:

   The liability costs incurred annually from employee benefits provided to support staff, such as retiree health premiums, severance payable, etc., are allocated to the institutions based on the percentage of total credit hours (FTE enrollment) taken by the FSC&TC and FSU students.

5. Support staff accrued liabilities:

   Accrued liabilities (sick leave, annual leave, severance payable, etc.) required to be recorded in the financial statements annually for all support staff are allocated to the institutions based on the percentage of total credit hours (FTE enrollment) taken by the PC&TC and FSU students.

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

   Compensated Absences — As of June 30, 2007, PEIA retiree and severance costs and liabilities are distributed to the component units based on funding source. However, the chargeback agreement for fiscal year 2007 between the institutions reads as follows: “Payout of PEIA retiree and severance costs incurred during the year will be allocated to the institutions based on the percentage defined in the chargeback agreement. For fiscal year 2007, the percentages are 33% two-year and 67% four-year.

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

To the Governing Board of
Fairmont State University:

We have audited the financial statements of Fairmont State University ("Fairmont State") as of and for the year ended June 30, 2007, and have issued our report thereon dated October 4, 2007, which 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. The audit of the Fairmount State's discretely presented component unit was audited in accordance with generally accepted auditing standards but not in accordance with 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 as a basis for designing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Fairmont State's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Fairmont State's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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 4, 2007