Fairmont State University

Financial Statements as of and for the Years Ended June 30, 2008 and 2007, Additional Information as of and for the Year Ended June 30, 2008, 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, 2008 and 2007, 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. (the "Foundation") (a component unit of Fairmont State). 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 the Foundation, 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 Foundation'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, such financial statements present fairly, in all material respects, the financial position of Fairmont State as of June 30, 2008 and 2007, 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.

As discussed in Note 2 to the financial statements, during the year ended June 30, 2008, Fairmont State adopted Governmental Accounting Standards Board (GASB) Statement No. 45, *Accounting and Financial Reporting by Employers for Post Employment Benefits Other Than Pensions*.

The Management's Discussion and Analysis (MD&A) on pages 3 to 19 is not a required part of the basic financial statements, but is supplementary information required by the GASB. This supplementary information is the responsibility of Fairmont State's management. We have applied certain limited procedures, which consisted principally of inquiries 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 September 25, 2008, 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

September 25, 2008

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, 2008

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.

During fiscal year 2008, Fairmont State was 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 85 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. New legislation effective July, 1, 2008 gives Pierpont Community & Technical College a separate governing board. Fiscal year 2009 is a transition year for this new legislation. However, the University will continue to provide essential services to PC&TC as outlined in the chargeback agreement for continued operating effectiveness. The new legislation will require a separate audit for PC&TC for fiscal year 2009.

Total enrollment was 7,320 for the Fall 2007 semester with a student to faculty ratio of 18:1. Approximately 80% of our students receive some form of scholarship or financial aid. Campus activities include more than 86 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 seventh 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 fifth 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, 2008, 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

- Effective July 1, 2007, Fairmont State adopted GASB Statement No.45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions.* This statement provides standards for the measurement, recognition, and display of other postemployment benefit ("OPEB") expenditures, assets and liabilities. The compensated absences liabilities for sick leave as of June 30, 2007 previously recorded following GASB Statement No. 16 were removed from the financial statements in the amount of $2,871,386. This is shown on the Statement of Revenues, Expenses, and Changes in Net Assets as a Cumulative Effect of Adoption of Accounting Principle. This accrual was replaced by the OPEB liability accrual for fiscal year 2008 in the amount of $457,999. However, this liability is net of payments made on behalf of Fairmont State in the amount of $793,934. The amount of future on behalf payments from the State are unknown. The OPEB liability is expected to increase annually unless funding from the State becomes available to manage the liability.

- On May 9, 2006, Facilities Improvement Revenue Bonds were issued in the amount of $8,500,000. The bond funds have been expended for various projects on the main campus including the Technology Wing addition, elevator and heating ventilation and air conditioning (HVAC) projects, and improvements to infrastructure. At June 30, 2008 expenditures and payables from the bond fund totaled $7,807,361 leaving $692,639 to be expended in fiscal year 2009.

- Total net assets increased by $3,901,864 or approximately 5.10% compared to an approximate 15.99% increase in 2007. The Cumulative Effect of Adoption of Accounting Principle (GASB Statement No. 45) increased net asset by $2,871,386. The remaining increase of $1,030,478 was primarily due to Lottery Bond Proceeds from the Commission in the amount of $1,100,567.

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	**2008**	**2007**	**2006**
Current Assets	$25,076,527	$25,623,762	$27,189,578
Non-Current Assets	137,054,491	138,402,471	127,676,784
Total Assets	162,131,018	164,026,233	154,866,362
Liabilities			
Current Liabilities	9,192,545	11,021,622	10,022,650
Non-Current Liabilities	72,602,807	76,570,809	78,945,823
Total Liabilities	81,795,352	87,592,431	88,968,473
Net Assets			
Invested in capital assets, net of related debt	59,440,208	58,251,460	45,676,943
Restricted for:			
Expendable:			
Loans	498,380	532,125	394,171
Scholarships	674,298	451,011	357,338
Sponsored projects	733,733	636,730	588,562
Capital projects	5,288,050	5,288,106	7,404,220
Debt service	2,176,957	2,185,349	2,180,023
Total Restricted	9,371,418	9,093,321	10,924,314
Unrestricted	11,524,040	9,089,021	9,296,632
Total Net Assets	$80,335,666	$76,433,802	$65,897,889

- Total current assets decreased by $547,235 or 2.14% resulting primarily from a decrease in accounts receivable of $585,090. In comparison at June 30, 2007, current assets decreased by approximately 5.76%, due primarily to a decrease in building renewal funds and accounts receivable. The decrease in accounts receivable of $585,090 was due to a decrease in Other Accounts Receivable of $332,030 and a decrease in Grant and Contract Receivables of $334,438. Other Receivables at June 30, 2007 included a receivable from the City of Fairmont in the amount of $325,361 for amounts billed in support of campus construction activities. The final payment was received from the City in fiscal year 2008. The decrease in Grants and Contracts receivables was primarily due to a decrease in National Institute of Health receivables by $134,982 and the National Aeronautics and Space Administration (NASA) Langley receivables by $237,219.

- Total non-current assets comprised primarily of capital assets including buildings and equipment decreased by $1,347,980 or .97%. In comparison at June 30, 2007, non-current assets increased by 8.40% due primarily to an increase in capital assets. Non-current cash decreased by $4,192,267 due primarily to spending of the 2006 Facilities Improvement Revenue Bond balances. Capital assets increased by $2,755,299 or 2.14% to $131,587,371 as a result of building & infrastructure additions, net of the current year depreciation. Expenditures of State issued Lottery Revenue Bonds accounted for $1,100,567 of the capital expenditures. The remaining expenditures were from the 2006 Facilities Improvement Revenue Bonds and Capital Fee revenues.

- Total current liabilities decreased by $1,829,077 or approximately 16.60% due primarily to decreases in accounts payable of $1,518,642 and retainages payable of $720,650. In comparison for fiscal year 2007, current liabilities increased by 9.97% due primarily to increases in construction retainages payable, accrued liabilities (payroll related) and compensated absences. The decrease in accounts payable of $1,518,642 was due primarily to a decrease in construction related payables. There were no construction retainages payable at June 30, 2008. These decreases were partially offset by an increase in payroll related accrued liabilities of $218,940 due to an increase in the liabilities for arrears pay including nine month faculty paid over twelve months, temporary appointments, and increment pay.

- Total non-current liabilities decreased by $3,968,002 or approximately 5.18%. In comparison for 2007, non-current liabilities decreased by 3.01% due primarily to payments on existing bonds and obligations to the Commission. The decrease is due primarily to payments on existing bonds and obligation to the Commission of $2,186,660. Compensated absences decreased by $2,230,982 due primarily to the adoption of GASB Statement No. 45.

- The total assets of Fairmont State exceeded its liabilities at the close of the most recent fiscal year by $80,335,666 (net assets). Of this amount, $11,524,040 (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, 2008:

* BOG Support	$ 2,668,390
* Fairmont State University	6,054,933
* Pierpont Community & Technical College	2,800,717
	$11,524,040

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.

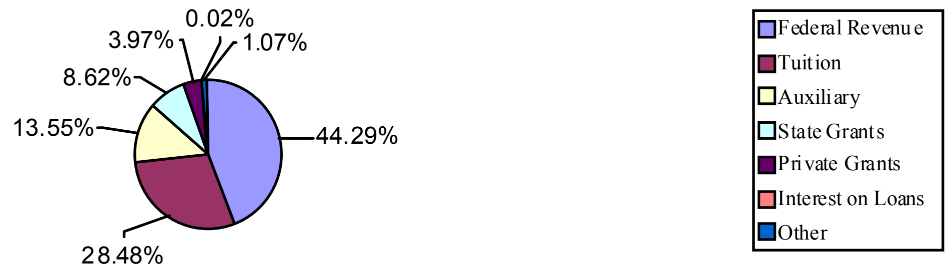
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30:

	2008	2007	2006
Operating Revenue	$54,427,823	$54,828,204	$50,171,539
Operating Expenses	73,663,619	71,004,646	67,469,716
Operating Loss	(19,235,796)	(16,176,442)	(17,298,177)
Total Net Nonoperating Revenues	19,165,707	18,229,000	17,635,079
Income/(Loss) Before Other Revenues, Expenses, Gains or Losses	(70,089)	2,052,558	336,902
Capital Projects & Bond Proceeds from the Commission	1,100,567	8,609,706	3,395,322
Increase in Net Assets before Transfers	1,030,478	10,662,264	3,732,224
Transfer of Liability from Policy Commission	-	(126,351)	-
Increase in Net Assets before Cumulative Effect	1,030,478	10,535,913	3,732,224
Cumulative Effect of Adoption of Accounting Principle	2,871,386	-	-
Increase in Net Assets	3,901,864	10,535,913	3,732,224
Net Assets – Beginning Year	76,433,802	65,897,889	62,165,665
Net Assets – End of Year	$80,335,666	$76,433,802	$65,897,889

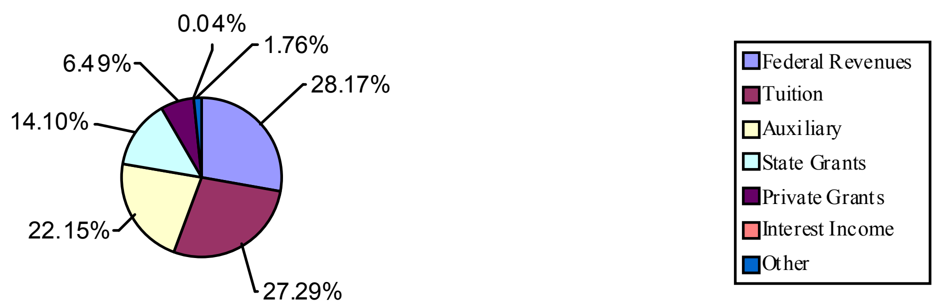
Revenues:

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 2008 prior to GASB Statement No. 35 adjustments and reclassification were $89,002,685. This amount was reduced/adjusted for scholarship allowance in the amount of $10,494,487 and direct loans in the amount of $24,080,375. Total operating revenues for fiscal year 2008 after GASB No. 35 adjustments and reclassification is $54,427,823. This is a decrease from the 2007 operating revenues of $54,828,204, which was an increase from the 2006 revenues of $50,171,539

	Prior to GASB No. 35 Changes	After GASB No. 35 Changes
Tuition and Fees	$25,346,607	$14,852,120
Federal Revenues	$39,411,022	$15,330,647

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

- Tuition and fees revenue, after adjustment for scholarship allowance, increased by $1,192,416 or 8.73% compared to a .92% increase in fiscal year 2007. Tuition and fees increased prior to scholarship allowance by $844,160 or 3.45%. The scholarship allowance decreased by $348,256 for a total increase in tuition and fees of $1,192,416. Tuition and rates for the University increased by 6.5% while the Community and Technical College had no increase. Additionally, enrollment for fiscal year 2008 declined by 1.3%, compared to a decrease in enrollment of 3.9% for fiscal year 2007.

- Federal Financial Aid and Federal Grants revenues, including GEAR-UP, after the adjustment for Direct Loans decreased by $816,311 or 5.06% compared to a 13.14% increase in fiscal year 2007. Gear-Up revenues decreased by $797,437, the NASA Langley Aerospace grant decreased by $151,126 and National Institute of Health (NIH) grant projects decreased federal revenues by $141,522. Pell grant revenues increased by $370,177 and the Federal Academic Competitiveness Grant (ACG) revenues increased by $141,402.

- State contracts and grants decreased by $578,307 or 7.01% compared to an increase of 19.48% in fiscal year 2006. This is due primarily to an decrease in state funded West Virginia Higher Education grants of $317,241 and state funded PROMISE Scholarships of $98,038. Also, Fairmont State did not host the Governors Honor Academy which resulted in an additional decrease of $257,000. The Heavy Equipment Operator Program (HEOP) WV Advance grant resulted in additional state grant revenues in the amount of $217,900.

- Private contracts and grants decreased by $65,456 or 1.82% compared to an approximate increase of 4.81% in fiscal year 2007. Alternative student loans decreased in fiscal year 2008 by $383,493. Also, Foundation Athletic awards decreased by $240,903 and Foundation Endowed awards decreased by $40,773. Athletic awards were increased from auxiliary funding sources to compensate for the decline in funding from the Foundation. The decreased funding was offset by an increase in Neighborhood Investment Program revenues of $206,480. Also, the University received new funding from the Center for Education in Appalachia in the amount of $106,000 and from the Dominion Oil, Gas & Coal Program in the amount of $75,000. Pierpont Community and Technical College received a private grant revenue from the Culinary Entrepreneurship Grant in the amount of $100,000 and the Appalachian Oil & Gas Training Center grant in the amount of $90,000.

- Auxiliary enterprises revenue increased by $484,703 or 4.19% compared to a 10.57% increase in fiscal year 2007. 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 $162,405 and revenues from damage assessments increased by $31,190. Dining revenues increased by $157,511 and vendor revenues increased by $53,961. Falcon Center revenues increased in several areas including fitness classes, facilities rental, camps and pay for print revenues for a total net increase of $54,123.

- Miscellaneous revenues decreased by $584,284 or 37.94% compared to a 1.21% increase in fiscal year 2007. This is primarily due to a decrease in revenues from the City of Fairmont for construction project support in the amount of $355,000.

- State appropriations increased by $758,176 or 3.86% compared to a 1.09% increase in fiscal year 2007. The increases by component unit were as follows:

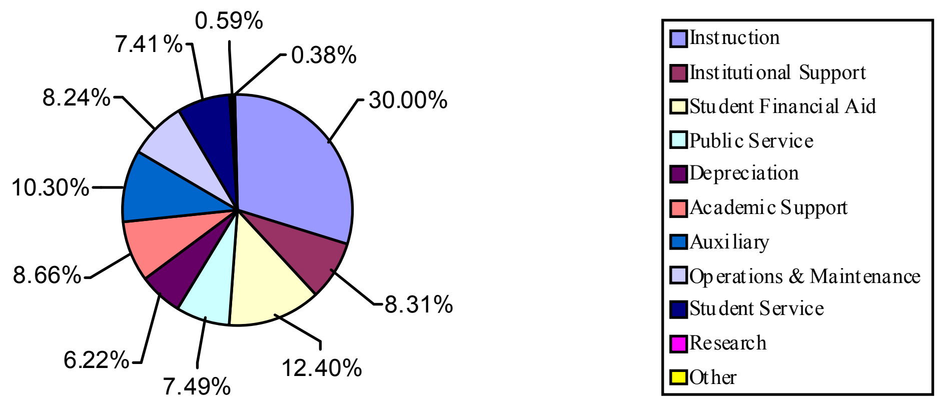
    - University increased by $420,201 or 3.58%.
    - Pierpont C&TC increased by $337,975 or 4.28%.
    - BOG Support does not receive any state appropriations.

FUNCTIONAL CLASSIFICATION CHART

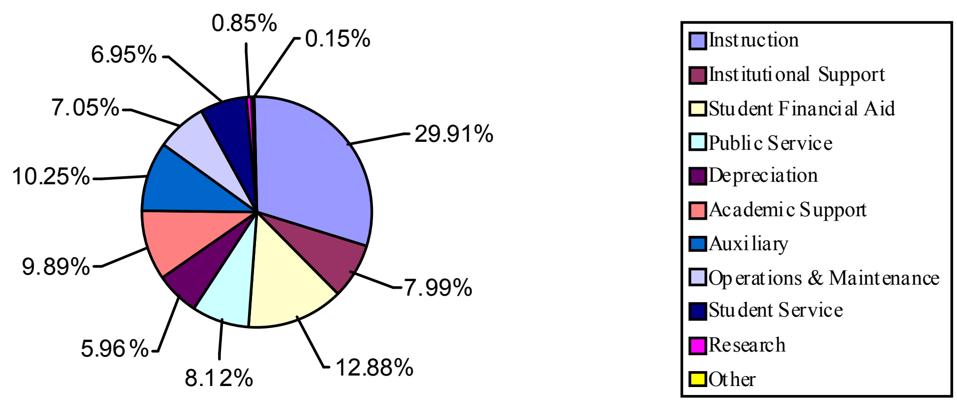
Operating Expenses:

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

2008



2007



Breakdown of Expense by Function:

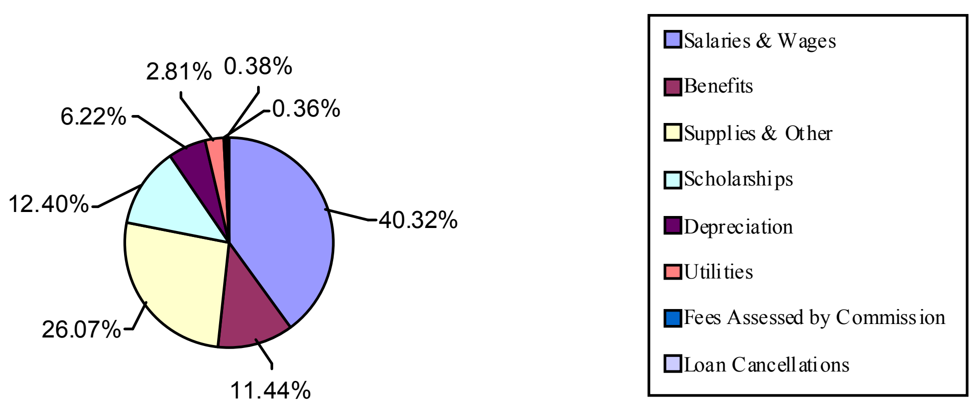
For fiscal year 2008, Fairmont State's total operating expenses were $73,663,619 which was an increase of $2,658,973. This increase for fiscal year 2007 was $3,534,930. Instruction expenses totaled $22,097,275 or 30.00% of the total operating budget. The following reflects the amounts and percentage for these expenses:

	2008	%	2007	%	2006	%
Auxiliary	$7,585,558	10.30%	$7,275,381	10.25%	$6,626,394	9.82%
Instruction	22,097,275	30.00%	21,245,797	29.91%	20,426,058	30.27%
Research	436,254	0.59%	602,614	0.85%	576,666	0.85%
Public Service	5,516,715	7.49%	5,765,566	8.12%	4,626,124	6.86%
Academic Support	6,377,715	8.66%	7,024,147	9.89%	5,652,016	8.38%
Student Services	5,455,717	7.41%	4,938,038	6.95%	4,391,406	6.51%
General Institutional Support	6,124,972	8.31%	5,672,129	7.99%	6,908,529	10.24%
Student Financial Aid	9,136,386	12.40%	9,142,629	12.88%	8,853,263	13.12%
Operation & Maintenance	6,073,530	8.24%	5,002,499	7.05%	5,243,748	7.77%
Depreciation	4,583,075	6.22%	4,228,889	5.96%	3,994,428	5.92%
Other	276,422	0.38%	106,957	0.15%	171,084	0.25%
Total	$73,663,619	100%	$71,004,646	100%	$67,469,716	100%

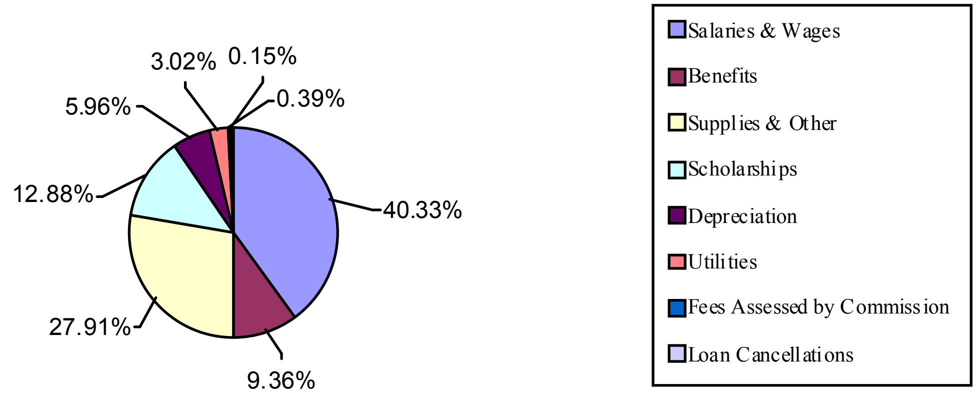
NATURAL CLASSIFICATION CHARTS

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

2008



2007



Breakdown of Expenses by Natural Classification:

For fiscal year 2008, Fairmont State's total operating expenses were $73,663,619. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $38,127,570 or 51.76%. The following reflects the amounts and percentages for the expenses.

	2008	%	2007	%	2006	%
Salaries and Wages	$29,698,352	40.32%	$28,645,893	40.33%	$26,982,042	39.99%
Benefits	8,429,218	11.44%	6,643,469	9.36%	7,161,735	10.61%
Supplies and Other Services	19,201,222	26.07%	19,819,171	27.91%	17,917,134	26.56%
Utilities	2,073,271	2.81%	2,142,137	3.02%	2,065,995	3.06%
Scholarships and Fellowships	9,133,415	12.40%	9,142,629	12.88%	8,905,899	13.20%
Depreciation	4,583,075	6.22%	4,228,889	5.96%	3,994,428	5.92%
Loan Cancellations & Write Offs	276,422	0.38%	106,957	0.15%	271,399	0.40%
Fees Assessed by the Commission	268,644	0.36%	275,501	0.39%	171,084	0.25%
Total	$73,663,619	100%	$71,004,646	100%	$67,469,716	100%

Salaries and Wages: Salaries increased by $1,052,459 or 3.67% compared to a 3.36% increase for fiscal year 2007. In fiscal year 2008, pay raises occurred effective October 1 with an average raise of approximately 3% and a salaries increase of $518,423 for fiscal year 2008. Also, the raises for fiscal year 2007 were effective December 1 so the annual costs were first realized in fiscal year 2008. This timing effect of the 2007 raises contributes an additional salaries increase of $334,375 in fiscal year 2008. Also, payroll accrued liabilities at June 30, 2008 increased by $218,940 due to an increase in the liability for arrears pay and nine month faculty paid over twelve months of $80,280, an increase in temporary appointments of $47,897 and an increase in increment pay of $60,490.

Benefits: Benefits increased by $1,785,749 or 26.88% compared to a 7.24% decrease for fiscal year 2007. The increase for fiscal year 2008 is primarily due to the adoption of GASB Statement No. 45. The OPEB liability recorded at June 30, 2008 was $457,999 and the entire amount was an increase to benefits expense. In addition to the OPEB accrued liability, benefits expense was recorded for the advance credit provided by the Retiree Health Benefits Trust (RHBT) in the amount of $629,480 and for the general revenue credit provided by the state in the amount of $164,454. The credit and payment are also reflected as non-operating revenues in the amount of $793,934. The OPEB liability replaced the liability for sick leave that was previously recorded following GASB Statement No. 16. The note on compensated absences may be found on page 52 of the audited financial statements. In addition to the OPEB liability, health insurance premiums increased by approximately $197,000, the annual leave benefits accrual increased by $97,459. The remainder of the increase is due to the fact that the sick leave liability decreased by approximately $179,000 for fiscal year 2007.

Supplies and Other Services: Expenses in this area decreased by $617,949 or 3.12% compared to a 10.62% increase for fiscal year 2007. Current expenses for travel decreased by $347,535, telecommunications decreased by $117,501, routine maintenance decreased by $88,825 and contractual and professional decreased by $58,069.

Utilities: Expenses in this area decreased by $68,866 or 3.21% compared to a 3.69% increase for fiscal year 2007. Utilities usage is within a relatively consistent range, with the expected amounts based on the current facilities structure.

Scholarships: Expenses in this area decreased by $9,214 or 0.10% compared to a 2.66% increase for fiscal year 2007. Scholarships and Fellowships decreased by $357,469 before scholarship allowance. The scholarship funds primarily contributing to the decrease were State WV Higher Education Grant with a decrease in the amount of $317,242 and Alternative Loans decreased by $383,493. These decreases were offset by an increase in Federal Pell awards of $370,177.

Depreciation: Depreciation increased by $354,186 or 8.38% compared to a 5.87% increase for fiscal year 2007. This increase is due to an increase in capital assets placed in service of $22,820,565. Several major projects were completed during the year including the Engineering Technology Building, Feaster Center renovations, Hunt Haught Hall stairtower projects and the Colebank Hall UPS Expansion.

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)	**2008**	**2007**	**2006**
Operating Activities	($12,559,339)	($12,184,116)	($11,915,908)
Non-Capital Financing Activities	20,408,127	19,797,240	19,521,983
Capital and Financing Related Activities	(12,909,927)	(13,291,167)	(5,766,348)
Investing Activities	900,911	1,211,893	1,032,292
Net Change in Cash and Cash Equivalents	(4,160,228)	(4,466,150)	2,872,019
Cash, Beginning of Year	30,307,913	34,774,063	31,902,044
Cash, End of Year	$26,147,685	$30,307,913	$34,774,063

Major sources of funds included in operating activities consist of tuition and fees $13,482,075, contracts and grants $26,887,382 and auxiliary enterprise charges $11,951,576. Major users of funds under this category were payments made to and on behalf of employees for salaries and benefits amounting to $36,679,486, to suppliers amounting to $19,092,868, and payments for scholarships and fellowships $7,944,172.

The major cash flow provided from non-capital financing activities section is State appropriations amounting to $20,397,822.

The major cash flow used in capital financing activity was for construction project expenditures of $8,237,541. The major cash flow provided by capital financing activities was lottery bond proceeds from the Commission for $1,186,604.

Additional Administrative Notes

During fiscal year 2008, 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 auxiliary 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 Net Assets
2. The Schedule of Revenues, Expenses, and Changes in 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 2008 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 2008 and 2007 amounted to $1,660,450, and $1,619,877 respectively. The current portion of bonds payable due in fiscal year 2008 is $1,717,717 and the long term portion of bonds payable is $65,102,514.

The first four Auxiliary bonds issuances were audited for the year ended June 30, 2008 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 2006 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 2009 currently projects a transfer of excess revenues to plant reserves of $986,607.

During 2008, 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, 2008 was $5,297,496. As of June 30, 2007, the current portion due to Commission is $540,667 and long-term portion is $4,756,829.

Fairmont State just completed its sixth 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 were significantly complete at June 30, 2008. There was no separate audit required for this bond issuance.

State issued Lottery Bond proceeds received in fiscal year 2008 total $1,100,567. 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 2008:

Name	Position Held	End of 2008 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
Leslie Lovett	Faculty Representative	Member
Shane Livingston	Student Representative	Member - Student
Donna Trickett	Classified Staff Representative	Member
Shirley Stanton	Lay Member	Member
Rocco Muriale	Lay Member	Member

The Governing Board receives a financial report at each meeting.

Economic Outlook

In fiscal year 2009, State appropriations were increased by 8.34% for Fairmont State as a whole. The University saw a 13.17% increase in appropriations, which included $352,859 to help with salary increases. The remainder of the increase is due to an additional appropriation of $1,250,000 to help bring Fairmont State's appropriations closer to the level of similar Universities in the State. Pierpont Community and Technical College was given additional appropriations, also to cover salary raises, which resulted in a 1.18% increase. In order to cover rising costs in areas other than salaries, the University implemented Tuition and Fees increase of 4.12% for 4-year students and 4.09% for graduate students, while the Community and Technical College saw a 3.11% increase for the 2-year students. In addition, Auxiliary room and board fees where increased by 5.00%.

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 Capital Funds increased due to excess operating revenues from the previous year. Education and General Capital Funds decreased due to several capital projects occurring to improve student life on the Fairmont State campus.

Fairmont State's unofficial enrollment numbers for the Fall 2008 semester saw an overall decrease in headcount by 161, and in full time equivalents (FTEs) by 94. However, the University student population experienced a growth in enrollment of 62 headcount and 51 FTE, plus a growth in the number of out-of-state students by 82. This new growth allowed for an increase in the revenue budget for the University. This revenue growth is partially offset by extra costs to the University since the percent of total population of enrollment shifted between the University and Pierpont Community and Technical College. This requires the University to reduce costs to the Community and Technical College for services provided to their students through the chargeback agreement.

Pierpont Community and Technical College experienced a decline in student population headcount by 223 and FTE's by 145. This decrease caused a reduction to the Community and Technical College revenue budget plan, which was totally offset by a decrease in chargeback expenses from the University for teaching, support services, and operating costs.

Overall, the effect of the increase in University out-of-state student population and the shift in enrollment percentages between the two institutions (Fairmont and Pierpont) had a positive impact on their budget plans for the 2009 fiscal year.

The budget for the fiscal year 2009 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 2008 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 FY08	Debt Coverage Ratio FY07	Required Debt Coverage Ratio	FY08 Ending Fund Balance	FY07 Ending Fund Balance
Series 2002-3A Bonds	199%	175%	110%	$4,320,579	$3,812,726
Series 2002B Bonds	165%	133%	100%	$ 688,507	$ 302,940
Series 2003B Bonds	208%	218%	100%	$1,683,397	$1,852,386

Our 2009 budgeted debt coverage ratios and ending balances are:

	Budgeted Debt Coverage Ratio	Required Debt Coverage Ratio	Budgeted Ending Fund Balance
Series 2002-3A Bonds	205%	110%	$4,433,859
Series 2002B Bonds	165%	100%	$ 572,347
Series 2003B Bonds	215%	100%	$1,858,397

Additional information about the revenues that support these bonds are:

- The Series 2002A and 2003A bonds are primarily supported by housing rents. Like the 2007-2008 academic year, the fall 2008 semester began with a 107% occupancy rate.
- The Series 2003B bonds dining revenue is increasing due to the 107% occupancy condition in housing. It is yielding positive revenue increases over plan for the first three months of fiscal year 2009.

Fairmont State has been able to adjust our plans to assure stable outcomes in fiscal year 2009 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). With these projects completed and remaining bond proceeds 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, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 23,035,829	$ 23,003,790
Accounts receivable — net	1,693,739	2,278,829
Loans to students — current portion	124,009	125,684
Inventories	222,950	215,459
Total current assets	25,076,527	25,623,762
NONCURRENT ASSETS:		
Cash and cash equivalents	3,111,856	7,304,123
Loans to students — net of allowance of $622,207 and $576,724 in 2008 and 2007, respectively	1,277,626	1,143,906
Deferred charges — bond issuance costs	1,077,638	1,122,370
Capital assets — net	131,587,371	128,832,072
Total noncurrent assets	137,054,491	138,402,471
TOTAL	$ 162,131,018	$ 164,026,233

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

LIABILITIES AND NET ASSETS	2008	2007
LIABILITIES:		
Current liabilities:		
Accounts payable	$ 2,279,947	$ 3,798,589
Due to the Commission	115,798	83,656
Accrued liabilities	2,384,505	2,165,565
Accrued interest payable	291,398	296,656
Retainages payable		720,650
Deferred revenue	622,159	522,633
Compensated absences — current portion	1,162,267	1,247,213
Capital leases — current portion	78,087	
Debt obligation to the Commission — current portion	540,667	526,210
Bonds payable — current portion	1,717,717	1,660,450
Total current liabilities	9,192,545	11,021,622
Noncurrent liabilities:		
Other postemployment benefits liability	457,999	
Compensated absences	598,843	3,287,824
Advances from federal sponsors	1,151,584	1,151,584
Capital leases	535,038	
Debt obligation to the Commission	4,756,829	5,297,496
Bonds payable	65,102,514	66,833,905
Total noncurrent liabilities	72,602,807	76,570,809
Total liabilities	81,795,352	87,592,431
NET ASSETS:		
Invested in capital assets — net of related debt	59,440,208	58,251,460
Restricted for — expendable:		
Loans	498,380	532,125
Scholarships	674,298	451,011
Sponsored projects	733,733	636,730
Capital projects	5,288,050	5,288,106
Debt service	2,176,957	2,185,349
Total restricted	9,371,418	9,093,321
Unrestricted	11,524,040	9,089,021
Total net assets	80,335,666	76,433,802
TOTAL	$ 162,131,018	$ 164,026,233

See notes to financial statements.

(Concluded)

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

COMPONENT UNIT — STATEMENTS OF NET ASSETS
AS OF JUNE 30, 2008 AND 2007

	2008	2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,055	$ 74,774
Accounts receivable — FSU	5,000	5,558
Grant receivable	15,000	25,000
Promises to give receivable — net	331,085	76,876
Interest and dividends receivable	2,071	4,281
Total current assets	374,211	186,489
NONCURRENT ASSETS:		
Investments — trust holdings	9,945,886	9,900,287
Investments — gift annuities	335,274	332,491
Investments — strengthening institutions	492,015	375,846
Investments — strengthening institutions — phase II	347,895	154,144
Investments — other	138,364	158,123
Promises to give receivable — net	612,675	916,883
Total noncurrent assets	11,872,109	11,837,774
TOTAL	$ 12,246,320	$ 12,024,263
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable	$ 17,270	$ 757
Scholarships payable		22,500
Deferred compensation agreement	15,000	15,000
Lifetime annuities	26,596	26,777
Total current liabilities	58,866	65,034
NONCURRENT LIABILITIES:		
Lifetime annuities	68,795	78,558
Total noncurrent liabilities	68,795	78,558
Total liabilities	127,661	143,592
NET ASSETS:		
Unrestricted:		
Operating	1,849,211	2,440,270
Board designated	15,350	10,701
Total unrestricted	1,864,561	2,450,971
Temporarily restricted	3,951,827	3,521,840
Permanently restricted	6,302,271	5,907,860
Total net assets	12,118,659	11,880,671
TOTAL	$ 12,246,320	$ 12,024,263

See notes to financial statements.

FAIRMONT STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
OPERATING REVENUES:		
Student tuition and fees — net of scholarship allowance of $10,494,487 and $10,842,742 in 2008 and 2007, respectively	$ 14,852,209	$ 13,659,793
Contracts and grants:		
Federal	15,330,647	16,146,958
State	7,675,322	8,253,629
Private	3,534,541	3,599,997
Interest on student loans receivable	21,032	54,173
Auxiliary enterprise revenue	12,058,137	11,573,434
Miscellaneous — net	955,935	1,540,220
Total operating revenues	54,427,823	54,828,204
OPERATING EXPENSES:		
Salaries and wages	29,698,352	28,645,893
Benefits	8,429,218	6,643,469
Supplies and other services	19,201,222	19,819,171
Utilities	2,073,271	2,142,137
Student financial aid — scholarships and fellowships	9,133,415	9,142,629
Depreciation	4,583,075	4,228,889
Loan cancellations and write-offs	276,422	106,957
Fees assessed by the Commission for operations	268,644	275,501
Total operating expenses	73,663,619	71,004,646
OPERATING LOSS	(19,235,796)	(16,176,442)

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
NONOPERATING REVENUES (EXPENSES):		
State appropriations	$ 20,397,822	$ 19,639,646
Payments on behalf of Fairmont State University	793,934	
Gifts	26,300	151,190
Investment income	1,118,847	1,771,293
Interest on indebtedness	(2,447,992)	(2,730,552)
Loss on disposal of fixed assets	(171,871)	(937)
Fees assessed by the Commission for debt service	(506,601)	(556,908)
Amortization of bond issuance costs, premiums, and discounts	(44,732)	(44,732)
Nonoperating revenues — net	19,165,707	18,229,000
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(70,089)	2,052,558
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	1,100,567	8,609,706
INCREASE IN NET ASSETS BEFORE TRANSFERS AND CUMULATIVE EFFECT	1,030,478	10,662,264
TRANSFER OF LIABILITY FROM COMMISSION		(126,351)
INCREASE IN NET ASSETS BEFORE CUMULATIVE EFFECT	1,030,478	10,535,913
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	2,871,386	
INCREASE IN NET ASSETS	3,901,864	10,535,913
NET ASSETS — Beginning of year	76,433,802	65,897,889
NET ASSETS — End of year	$ 80,335,666	$ 76,433,802

See notes to financial statements. (Concluded)

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

COMPONENT UNIT — STATEMENTS OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
SUPPORT, REVENUE, AND RECLASSIFICATION:				
Support:				
Gifts and donations	$ 254,618	$ 1,491,078	$ 392,260	$ 2,137,956
Fundraising activities		251,130		251,130
Grant income		52,500		52,500
Total support	254,618	1,794,708	392,260	2,441,586
Revenue:				
Investment income including net gains	204,587	450,938	2,151	657,676
Administrative fee	91,270			91,270
Net appreciation in fair value of investments	(723,781)			(723,781)
Total revenue	(427,924)	450,938	2,151	25,165
Reclassifications — net assets released from restrictions:				
Restrictions satisfied by payments	1,852,199	(1,852,199)		-
Net assets restricted by donor	(36,540)	36,540		-
Total reclassifications	1,815,659	(1,815,659)	-	-
Total support, revenue, and reclassifications	1,642,353	429,987	394,411	2,466,751
Expenses — program services:				
Scholarships	1,079,948			1,079,948
Educational services	17,187			17,187
Other	877,857			877,857
Total program services	1,974,992	-	-	1,974,992
Supporting services:				
Fundraising	173,873			173,873
General administration	79,898			79,898
Total supporting services	253,771	-	-	253,771
Total expenses	2,228,763	-	-	2,228,763
EXCESS (DEFICIENCY) OF SUPPORT AND REVENUE OVER EXPENSE	(586,410)	429,987	394,411	237,988
NET ASSETS — Beginning of year	2,450,971	3,521,840	5,907,860	11,880,671
NET ASSETS — End of year	$ 1,864,561	$ 3,951,827	$ 6,302,271	$ 12,118,659

See notes to financial statements.

FAIRMONT STATE UNIVERSITY
FAIRMONT STATE FOUNDATION, INC.

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

	Unrestricted	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

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 13,482,075	$ 12,634,436
Contracts and grants	26,887,382	28,909,467
Payments to and on behalf of employees	(36,679,486)	(35,297,509)
Payments to suppliers	(19,092,868)	(20,879,206)
Payments to utilities	(2,078,862)	(2,125,227)
Payments for scholarships and fellowships	(7,944,172)	(8,083,333)
Loans issued to students	(186,080)	10,565
Interest on student loans receivable	21,032	54,173
Auxiliary enterprise charges	11,951,576	11,640,622
Fees assessed by the Commission	(268,644)	(275,501)
City B&O revenues		29,639
Other receipts — net	1,348,708	1,197,758
Net cash used in operating activities	(12,559,339)	(12,184,116)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	20,397,822	19,639,646
Gift receipts	26,300	151,190
William D. Ford direct lending receipts	24,064,380	21,785,874
William D. Ford direct lending payments	(24,080,375)	(21,779,470)
Net cash provided by noncapital financing activities	20,408,127	19,797,240
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital projects and bond proceeds from the Commission	1,186,604	8,634,259
Fees assessed by the Commission	(506,601)	(556,908)
Purchases of capital assets	(8,237,541)	(14,793,497)
Principal paid on leases	(73,805)	(55,431)
Interest paid on leases	(26,667)	(357)
Purchases of equipment	(110,409)	(1,709,761)
Payments to the Commission on debt obligation	(526,210)	(494,390)
Principal paid on bonds	(1,660,450)	(1,619,877)
Interest paid on bonds	(3,213,474)	(3,252,137)
Bond interest income	258,626	556,932
Net cash used in capital financing activities	(12,909,927)	(13,291,167)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	900,911	1,211,893
DECREASE IN CASH AND CASH EQUIVALENTS	(4,160,228)	(4,466,150)
CASH AND CASH EQUIVALENTS — Beginning of year	30,307,913	34,774,063
CASH AND CASH EQUIVALENTS — End of year	$ 26,147,685	$ 30,307,913

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	2008	2007
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (19,235,796)	$ (16,176,442)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	4,583,075	4,228,889
Expenses paid on behalf of Fairmont State University	793,934	
Changes in assets and liabilities:		
Receivables — net	544,399	649,000
Loans to students — net	(132,044)	(52,592)
Inventories	(7,492)	(32,600)
Accounts payable	21,144	(885,412)
Accrued liabilities — payroll	218,940	175,838
Compensated absences	97,460	(170,350)
Other postemployment benefits liability	457,999	
Deferred revenue	15,265	58,004
Undistributed receipts	83,777	21,549
NET CASH USED IN OPERATING ACTIVITIES	$ (12,559,339)	$ (12,184,116)
NONCASH TRANSACTIONS:		
Cumulative effect of adoption of accounting principle	$ 2,871,386	$ -
Construction in progress additions in accounts payable	$ 337,517	$ 1,857,406
Construction in progress additions in retainage payable	$ -	$ 720,650
Amortization of bond issuance costs — addition for new bond	$ 44,732	$ 44,732
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:		
Cash and cash equivalents classified at current	$ 23,035,829	$ 23,003,790
Cash and cash equivalents classified at noncurrent	3,111,856	7,304,123
	$ 26,147,685	$ 30,307,913

See notes to financial statements. (Concluded)

1. ORGANIZATION

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

The Board's powers and duties include, but are not limited to, the power to determine, control, supervise, and manage the financial, business, and educational policies and affairs of the institution(s) under its jurisdiction; the duty to develop a master plan for the institution(s); 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(s); and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution(s).

S.B. 653 also created the West Virginia Higher Education Policy Commission (the "Commission"), which is responsible for developing, gaining consensus around, and overseeing the implementation and development of a higher education public policy agenda.

The additional information schedules are included to comply with the requirements of the Commission and the West Virginia Council of Community and Technical College Education to provide financial information for all component parts of Fairmont State under S.B. 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 PC&TC, 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.

During fiscal year 2008, House Bill 3215 was passed, which clarified and redefined relationships between and among certain higher education boards and institutions. This legislation defines the statewide network of independently accredited community and technical colleges. Effective July 1, 2008, the administratively linked community and technical college of Fairmont State will have established its own Board of Governors. The newly established Board of Governors and the Board of Governors of Fairmont State shall jointly agree on a division of assets and liabilities of Fairmont State on or before December 1, 2008. The division of all assets and liabilities shall be effective retroactively to July 1, 2008. The amount of net assets to be transferred out from Fairmont State to the separately established community and technical college is not determinable as of June 30, 2008. Fairmont State and the separately established community and technical college shall oversee a plan that ensures the financial stability of auxiliary enterprises, including, but not limited to, student housing, student centers, dining services, parking, and athletics through fiscal year 2012.

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 GASB Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments*, and GASB 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, entitywide 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 that, along with all State institutions of higher education and the Commission (which includes the 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, since 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 — 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, 2008 and 2007. 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 Note 13). The Fairmont State Alumni Association is not included in Fairmont State's accompanying financial statements under GASB No. 39, because it is not significant.

Financial Statement Presentation — GASB Statements No. 35; 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*, establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on Fairmont State as a whole. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of Fairmont State's obligations. Fairmont State's net assets are classified as follows:

Invested in Capital Assets — Net of Related Debt — This represents Fairmont State's total investment in capital assets, net of depreciation and outstanding debt obligations related to those capital assets. To the extent that debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted Net Assets — Expendable — This includes assets for which Fairmont State is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

The Legislature, as a regulatory body outside the reporting entity, has restricted the use of certain funds by Article 10, *Fees and Other Money Collected at State Institutions of Higher Education* of the West Virginia State Code. House Bill 101, passed in March 2004, simplified the tuition and fee restrictions to auxiliaries and capital items. These activities are fundamental to the normal ongoing operations of the institution. These restrictions are subject to change by future actions of the Legislature.

Restricted Net 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, 2008 and 2007.

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 in only business-type activities. Accordingly, Fairmont State's financial statements have been prepared on the accrual basis of accounting, with a focus on the flow of economic resources measurement. Revenues are reported when earned, and 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 State Code and 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 Legislature and is subject to oversight by the Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit are available for immediate withdrawal or on the first day of each month for the WV Short Term Bond Pool (formerly Enhanced Yield Pool) and accordingly are presented as cash and cash equivalents in the accompanying financial statements.

The BTI maintains the Consolidated Fund investment fund, which consists of seven investment pools and participant-directed accounts, three of which Fairmont State may invest in. These pools have been structured as multiparticipant variable net asset funds to reduce risk and offer investment liquidity diversification to the fund participants. Funds not required to meet immediate disbursement needs are invested for longer periods. A more detailed discussion of the BTI's investment operations pool can be found in its annual 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; certificates of deposit; state and local government securities; and other investments. Other investments consist primarily of investments in accordance with the Linked Deposit Program, a program using financial institutions in West Virginia to obtain certificates of deposit, loans approved by the Legislature, and any other program investments authorized by the Legislature.

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

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

Noncurrent Cash and Cash Equivalents — Cash and cash equivalents, that are (1) externally restricted to make debt service payments, long-term loans to students or to maintain sinking or reserve funds and (2) used to purchase capital or other noncurrent assets, are 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 at fair market value at the date of donation in the case of gifts. Interest on related borrowings, net of interest earnings on invested proceeds, is capitalized during the period of construction and was $773,218 and $505,633 for the years ended June 30, 2008 and 2007, 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 and fees, football ticket sales, and room and board. Financial aid and other deposits are separately classified as deposits.

Compensated Absences and Other Postemployment Benefits — Fairmont State accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*.

Effective July 1, 2007, Fairmont State adopted GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions.* This statement provided standards for the measurement, recognition, and display of other postemployment benefit (OPEB) expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State of West Virginia (the "State"). Effective July 1, 2007, Fairmont State was required to participate in this multiple-employer cost-sharing plan, the West Virginia Retiree Health Benefit Trust Fund, sponsored by the State of West Virginia. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency (PEIA), State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston WV 25305-0710 or http://www.wvpeia.com.

These statements require 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 1½ 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. The liability is now provided for under the multiple-employer cost-sharing plan sponsored by the State.

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.

For the year ended June 30, 2007, 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 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 or OPEB 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 that such differences arise between estimated premiums currently charged by BRIM to Fairmont State and Fairmont State's ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

In addition, through its participation in PEIA and a third-party insurer, Fairmont State has obtained health, 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, Fairmont State has transferred its risks related to health, life, prescription drug drugs, and job-related injuries coverage.

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

Operating Revenues — Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances; (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances; (3) most federal, state, local, and nongovernmental grants and contracts; and (4) sales and services of educational activities.

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

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 such as Fairmont State. Direct student loan receivables are not included in Fairmont State's balance sheets, since the loans are repayable directly to the U.S. Department of Education. In 2008 and 2007, Fairmont State received and disbursed $24,064,380 and $21,785,094, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense in the statements of revenues, expenses, and changes in net 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. In 2008 and 2007, Fairmont State received and disbursed $8,577,397 and $8,185,909, respectively, under these federal student aid programs.

Scholarship Allowances — Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship allowances in the statements of revenues, expenses, and changes in net 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. 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 GASB — The GASB has issued GASB 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 GASB 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.

The GASB has issued GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*, effective for fiscal years beginning after June 15, 2008. This statement requires endowments to report their land and other real estate investments at fair value. It also requires changes in fair value to be reported as investment income, disclosure of the methods and significant assumptions employed to determine fair value, and disclosure of other information that is currently presented for other investments reported at fair value. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 52 may have on its financial statements.

The GASB has issued GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, effective for fiscal years beginning after June 15, 2009. This statement requires governmental entities to measure most derivative instruments at fair value as assets or liabilities. It also improves disclosure requirements surrounding the entity's derivative instrument activity, its objectives for entering into the derivative instrument, and the instrument's significant terms and risks. Fairmont State has not yet determined the effect that the adoption of GASB Statement No. 53 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2008 and 2007, was held as follows:

2008	Current	Noncurrent	Total
State Treasurer	$22,652,232	$ -	$22,652,232
In bank — BB&T Bonds	228,567	692,639	921,206
Trustee		2,170,888	2,170,888
In bank	151,164	248,329	399,493
On hand	3,866		3,866
	$23,035,829	$3,111,856	$26,147,685

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

Cash on deposit with the Trustee as of June 30, 2008 and 2007, includes $2,170,888 and $2,185,089, respectively, invested in a money market fund sponsored by an investment company, the underlying assets of which are securities of the U.S. government and its agencies, authorities, and instrumentalities.

The combined carrying amount of cash in the bank at June 30, 2008 and 2007, was $399,493 and $629,784, respectively, as compared with the combined bank balances of $707,530 and $819,301, 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, 2008 and 2007, comprise 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 is 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. Of the BTI's Consolidated Fund pools and accounts that Fairmont State may invest in, three are subject to credit risk: WV Money Market Pool (formerly Cash Liquidity Pool), WV Government Money Market Pool (formerly Government Money Market Pool), and WV Short Term Bond Pool (formerly Enhanced Yield Pool).

WV Money Market Pool (Formerly Cash Liquidity Pool)

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the year ended June 30, 2008, the WV Money Market Pool has been rated AAAm by Standard & Poor's. A fund rated AAAm has an extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAm is the highest principal stability fund rating assigned by Standard & Poor's. Since this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as those in 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV Money Market 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.

At June 30, 2008, the WV Money Market Pool investments had a total carrying value of $2,358,470,000, of which Fairmont State's ownership represents 0.83%.

The information provided on the credit ratings of the WV Money Market Pool's investments at June 30, 2007, is as follows (in thousands):

Security Type	Credit Rating * Moody's	Credit Rating * S&P	2007 Carrying Value	2007 Percent of Pool Assets
Investments:				
Commercial paper	P1	A-1	$1,015,926	48.89 %
Corporate bonds and notes	Aaa	AAA	98,999	4.76
	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
			261,025	12.56
U.S. agency bonds	Aaa	AAA	46,994	2.26
U.S. Treasury bills	Aaa	AAA	358,725	17.27
Negotiable certificates of deposit	P1	A-1	76,500	3.68
U.S. agency discount notes	P1	A-1	21,655	1.04
Money market funds	Aaa	AAA	185	0.01
Repurchase agreements (underlying securities) — U.S. agency notes	Aaa	AAA	246,821	11.88
Deposits — nonnegotiable certificates of deposit	NR	NR	50,000	2.41
			$2,077,831	100.00 %

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

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

WV Government Money Market Pool (formerly Government Money Market Pool)

Credit Risk — For the year ended June 30, 2008, the WV Government Market Pool has been rated AAAm by Standard & Poor's. A Fund rated AAAm has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAm is the highest principal stability fund rating assigned by Standard & Poor's. Since this pool has been rated in the current year, specific information on the credit ratings of the underlying investments of the pool have not been provided for the year ended June 30, 2008, although the underlying investments are similar securities with similar ratings as those in 2007. For the year ended June 30, 2007, this pool was not rated for credit risk by any organization.

The BTI limits the exposure to credit risk in the WV 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.

At June 30, 2008, the WV Government Money Market Pool investments had a total carrying value of $187,064,000, of which Fairmont State's ownership represents 0.10%.

The information provided on the credit ratings of the WV Government Money Market Pool's investments at June 30, 2007, is as follows (in thousands):

	Credit Rating		2007	
Security Type	Moody's	S&P	Carrying Value	Percentage of Pool Assets
U.S. agency bonds	Aaa	AAA	$ 67,620	29.46 %
U.S. Treasury bills	Aaa	AAA	36,379	15.85
U.S. agency discount notes	P1	A-1	74,143	32.30
Money market funds	Aaa	AAA	9	
Repurchase agreements (underlying securities) —				
U.S. Treasury notes	Aaa	AAA	51,400	22.39
			51,400	22.39
			$229,551	100.00 %

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

WV Short Term Bond Pool (formerly Enhanced Yield Pool)

Credit Risk — The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all corporate bonds to be rated A (A- in 2007) 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 information provided on the credit ratings of the WV Short Term Bond Pool's investments at June 30, 2008 and 2007, is as follows (in thousands):

	Credit Rating*		2008		2007	
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 %
	Aaa	AAA	48,663	13.75		
	Aaa	NR	2,179	0.62		
	NR	AAA	1,135	0.32		
	AA3	AA	192	0.06		
			52,169	14.75	42,122	18.40
Commercial paper	P1	A-1	7,971	2.25		
Corporate bonds and notes	Aaa	AAA	13,146	3.72	1,667	0.73
	Aa1	AA	12,613	3.56	6,431	2.81
	Aa2	AA	20,860	5.89	950	0.41
	Aa2	A	1,061	0.30	2,177	0.95
	Aa3	AA	11,488	3.25	7,857	3.43
	Aa3	A	4,548	1.28	3,905	1.70
	A1	AA	4,305	1.22	3,034	1.32
	A1	A	8,361	2.36	10,706	4.68
	A2	AA	847	0.24	747	0.33
	A2	A	26,585	7.51	8,188	3.58
	A3	A	10,917	3.08	6,958	3.04
	Baa1	AA-	593	0.17		
	Baa1	A-	2,028	0.57		
	Baa3	BB+	645	0.18		
			117,977	33.33	52,620	22.98
U.S. agency bonds	Aaa	AAA	71,840	20.29	46,075	20.13
U.S. Treasury notes**	Aaa	AAA	81,875	23.13	55,877	24.41
U.S. agency mortgage-backed securities***	Aaa	AAA	5,345	1.51	11,741	5.13
Repurchase agreements (underlying securities): U.S. agency notes	Aaa	AAA	16,782	4.74	20,485	8.95
			$353,979	100.00 %	$228,920	100.00 %

* NR = Not Rated

** U.S. Treasury issues are explicitly guaranteed by the U.S. government and are not subject to credit risk.

***U.S. agency mortgage-backed securities are issued by the Government National Mortgage Association and are explicitly guaranteed by the U.S. government and are not subject to credit risk.

At June 30, 2008 and 2007, Fairmont State's ownership represents 0.46% and 0.44%, 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 WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase. The information provided on the weighted average maturities for the various asset types in the WV Money Market Pool is as follows:

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 371,163	1	$ 246,821	2
U.S. Treasury bills	406,426	31	358,725	30
Commercial paper	658,879	29	1,015,926	52
Certificates of deposit	147,001	95	126,500	76
U.S. agency discount notes	212,924	84	21,655	113
Corporate notes	158,000	21	261,025	58
U.S. agency bonds/notes	254,019	111	46,994	156
Money market funds	150,058	1	185	1
	$2,358,470	40	$2,077,831	48

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

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 53,400	1	$ 51,400	2
U.S. Treasury bills	29,929	58	36,379	29
U.S. agency discount notes	43,249	77	74,143	106
U.S. agency bonds/notes	60,420	84	67,620	60
Money market funds	66	1	9	1
	$ 187,064	54	$ 229,551	49

The overall weighted average maturity of the investments of the WV Short Term Bond Pool cannot exceed 731 days. Maximum maturity of individual securities cannot exceed 1,827 days (five years) from date of purchase. The information provided on the weighted average maturities for the various asset types in the WV Short Term Bond Pool is as follows:

	2008		2007	
Security Type	**Carrying Value (In thousands)**	**WAM (Days)**	**Carrying Value (In thousands)**	**WAM (Days)**
Repurchase agreements	$ 16,782	1	$ 20,485	2
U.S. Treasury bonds/notes	81,875	744	55,877	1,092
Corporate notes	117,997	675	52,620	557
Corporate asset-backed securities	52,169	341	42,122	421
U.S. agency bonds/notes	71,840	1,231	46,075	927
U.S. agency mortgage-backed securities	5,345	570	11,741	814
Commercial paper	7,971	50		814
	$ 353,979	707	$ 228,920	700

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 or 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. None of the above pools contain nonnegotiable certificates of deposit. The BTI does not have a deposit policy for custodial credit risk.

4. ACCOUNTS RECEIVABLE

Accounts receivable at June 30, 2008 and 2007, are as follows:

	2008	2007
Student tuition and fee — net of allowance for doubtful accounts of $1,300,427 and $1,078,041, respectively	$ 498,993	$ 322,125
Grants and contracts receivable	818,809	1,153,247
Due from the Commission	129,083	192,110
Due from other State agencies	181,272	213,735
Other accounts receivable	65,582	397,612
Accounts receivable — net	$ 1,693,739	$ 2,278,829

5. CAPITAL ASSETS

Capital asset activities for the years ended June 30, 2008 and 2007, are as follows:

	2008			
	Beginning Balance	Additions	Reductions	Ending Balance
Capital assets not being depreciated:				
Land	$ 7,046,448	$ -	$ -	$ 7,046,448
Construction in progress	15,828,463	6,593,971	(21,939,695)	482,739
Total capital assets not being depreciated	$ 22,874,911	$ 6,593,971	$ (21,939,695)	$ 7,529,187
Other capital assets:				
Land improvements	$ 2,365,320	$ 2,201,591	$ -	$ 4,566,911
Infrastructure	13,137,952	2,284,988		15,422,940
Buildings	113,437,257	17,773,511	(133,905)	131,076,863
Equipment	11,210,523	260,055	(3,340,684)	8,129,894
Computer software	1,800,338	114,021	(142,298)	1,772,061
Library books	6,629,813	186,401	(48,040)	6,768,174
Total other capital assets	148,581,203	22,820,567	(3,664,927)	167,736,843
Less accumulated depreciation for:				
Land improvements	935,746	241,662	(19,300)	1,158,108
Infrastructure	2,275,577	903,716	(13,706)	3,165,587
Buildings	23,552,978	2,262,982	(14,315)	25,801,645
Equipment	8,474,816	680,222	(3,290,799)	5,864,239
Computer software	890,025	315,464	(142,298)	1,063,191
Library books	6,494,900	179,029	(48,040)	6,625,889
Total accumulated depreciation	42,624,042	4,583,075	(3,528,458)	43,678,659
Other capital assets — net	$ 105,957,161	$ 18,237,492	$ (136,469)	$ 124,058,184
Capital asset summary:				
Capital assets not being depreciated	$ 22,874,911	$ 6,593,971	$ (21,939,695)	$ 7,529,187
Other capital assets	148,581,203	22,820,567	(3,664,927)	167,736,843
Total cost of capital assets	171,456,114	29,414,538	(25,604,622)	175,266,030
Less accumulated depreciation	42,624,042	4,583,075	(3,528,458)	43,678,659
Capital assets — net	$ 128,832,072	$ 24,831,463	$ (22,076,164)	$ 131,587,371

	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

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 $748,000 as of June 30, 2008.

6. LONG-TERM LIABILITIES

Long-term obligation activities for the years ended June 30, 2008 and 2007, are as follows:

	2008				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$ 68,145,123	$ -	$ (1,660,450)	$ 66,484,673	
Add (less) deferred amounts:					
Premium on issuance	437,881		(17,208)	420,673	
Discount on issuance	(88,649)		3,534	(85,115)	
Total bonds payable — net	68,494,355	-	(1,674,124)	66,820,231	$ 1,717,717
Capital leases payable		686,930	(73,805)	613,125	78,087
Other long-term liabilities:					
Other postemployment benefits liability		457,999		457,999	2,384,505
Accrued compensated absences	4,535,037	1,080,134	(3,854,061)	1,761,110	1,162,267
Advances from federal sponsors	1,151,584			1,151,584	
Payable to the Commission	5,823,706		(526,210)	5,297,496	540,667
Total long-term liabilities	$ 80,004,682	$ 2,225,063	$ (6,128,200)	$ 76,101,545	

	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 the 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	

7. BONDS PAYABLE

Bonds payable at June 30, 2008 and 2007, are summarized as follows:

	Interest Rates	Annual Principal Installments	2008 Principal Outstanding	2007 Principal Outstanding
University Facilities Revenue Bonds 2002, Series A, due through 2032	3.30%—5.375%	$390–$1,145	$ 16,385	$ 16,760
Infrastructure Revenue Bonds 2002, Series B, due through 2032	3.30%—5.00%	$205–$565	8,275	8,470
University Facilities Revenue Bonds 2003, Series A, due through 2032	3.00%—5.25%	$300–$860	12,460	12,755
Student Activity Revenue Bonds 2003, Series B, due through 2032	3.00%—5.25%	$520–$1,475	21,440	21,945
Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18% (10-year reset)	$303–$611	7,925	8,215
Total outstanding principal			66,485	68,145
Add unamortized bond premium			421	438
Less unamortized bond discount			(85)	(89)
Total			$ 66,821	$ 68,494
Current			$ 1,718	1,660
Noncurrent			65,103	66,834
Total			$ 66,821	$ 68,494

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 thedesign, 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 facility; 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 the 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 the construction of the dormitory; 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 the construction of the student activities center; 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 costs of 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 (the "Indenture"). The bonds shall not be deemed to be general obligations or debts of the State within the meaning of the Constitution of the State; neither the credit nor the taxing power of the State is pledged for the payment of the bonds. The bonds, except for the 2006 Bonds, are fully insured as to principal and interest by Financial Guaranty Insurance Company (FGIC).

Future debt service requirements to maturity for the revenue bonds at June 30, 2008, are as follows:

Fiscal Years Ending June 30	Principal	Interest	Total
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	1,972,193	2,901,979	4,874,172
2014–2018	11,175,421	13,182,507	24,357,928
2019–2023	14,220,848	10,140,592	24,361,440
2024–2028	16,846,444	6,264,408	23,110,852
2029–2032	15,055,000	1,928,000	16,983,000
Total	$ 66,484,673	$ 46,702,834	$ 113,187,507

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, 2008, are as follows:

Year Ending June 30	
2009	$ 173,422
2010	166,096
2011	152,346
2012	133,816
2013	133,816
2014–2015	156,119
Total	$ 915,615

Total lease expense for the years ended June 30, 2008 and 2007, was $169,758 and $156,676, respectively.

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

Fairmont State entered into a lease agreement with Fieldturf Finance in April 2007 to cover the acquisition and installation costs for an athletic field turf, markings, and logo. The lease is accounted for as a capital lease, with a total cost of $686,930. The athletic field was placed into service in February 2008. Future annual minimum lease payments on operating leases for years subsequent to June 30, 2008, are as follows:

Year Ending June 30	Principal	Interest	Total
2009	$ 78,087	$ 22,386	$ 100,473
2010	81,059	19,413	100,472
2011	84,143	16,330	100,473
2012	87,345	13,127	100,472
2013	90,669	9,804	100,473
2014–2015	191,822	9,124	200,946
Total	$ 613,125	$ 90,184	$ 703,309

9. COMPENSATED ABSENCES LIABILITY AND OTHER POSTEMPLOYMENT BENEFITS

Compensated absences liability at June 30, 2008 and 2007, is as follows:

	2008			2007		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Health or life insurance benefits	$ -	$ -	$ -	$ 162,668	$2,708,718	$2,871,386
Accrued vacation leave	1,162,267	598,843	1,761,110	1,084,545	579,106	1,663,651
Total	$1,162,267	$598,843	$1,761,110	$1,247,213	$3,287,824	$4,535,037

For the year ended June 30, 2007, the cost of health and life insurance benefits paid by Fairmont State was based on a combination of years of service and age in accordance with GASB Statement No. 16. For the year ended June 30, 2007, the amount paid by Fairmont State for extended health or life insurance coverage retirement benefits totaled $190,885. As of the year ended June 30, 2007, there were 72 retirees receiving these benefits.

For the year ended June 30, 2008, with the adoption of GASB Statement No. 45, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2008, the noncurrent liability related to OPEB costs was $457,999. For the year ended June 30, 2008, Fairmont State recorded a cumulative effect of the adoption of this accounting principle of $2,871,386, an amount equal to the June 30, 2007, liability for the extended health or life insurance benefit previously recorded in accordance with GASB Statement No. 16. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $2,406,773 and $1,154,800, respectively, during 2008. As of the year ended June 30, 2008, there were 71 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 a capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission. During 2008 and 2007, Fairmont State paid $526,210 and $494,390, respectively, to the Commission against the debt obligation. The amount due to Commission at June 30, 2008 and 2007, is $5,297,496 and $5,823,706, respectively.

During the year ended June 30, 2005, the Commission issued $167,000,000 of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. Fairmont State was originally approved to receive $12,500,000 of the bond proceeds for capital projects from this bond issuance. Fairmont State has recognized $13,275,801, including interest, as of June 30, 2008, on capital projects funded by these bonds.

11. UNRESTRICTED NET ASSETS

Fairmont State's unrestricted net assets at June 30, 2008 and 2007, include certain designated net assets, as follows:

	2008	2007
Designated for auxiliaries	$ 1,610,974	$ 1,434,878
Undesignated	9,913,066	7,654,143
Total unrestricted net assets	$ 11,524,040	$ 9,089,021

12. RETIREMENT PLANS

Substantially all full-time employees of Fairmont State participate in either the West Virginia Teachers' Retirement System (STRS) or the Teachers' Insurance and Annuities Association — College Retirement Equities Fund (TIAA-CREF). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by Fairmont State employees have not been significant to date.

Effective January 1, 2003, higher education employees enrolled in the basic 401(a) retirement plan with TIAA-CREF have an option to switch to the new Educators Money 401(a) basic retirement plan ("Educators Money"). New hires have the choice of either plan.

Total contributions to the Educators Money for the year ended June 30, 2008, were $71,408, which consisted of $35,704 from the Commission and $35,704 from covered employees. Total contributions to the Educators Money for the year ended June 30, 2007, were $67,222, which consisted of $33,611 from the Commission and $33,611 from covered employees. Total contributions to the Educators Money for the year ended June 30, 2006, were $59,284, which consisted of $29,642 from the Commission and $29,642 from covered employees.

The STRS is a cost-sharing, public employee retirement system. Employer and employee contribution rates are established annually by the Legislature. The contractual maximum contribution rate is 15%. Fairmont State accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for both years ended June 30, 2008 and 2007. Required employee contributions were at the rate of 6% of total annual salary for both years ended June 30, 2008 and 2007. 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, 2008, 2007, and 2006, were $491,788, $515,697, and $553,972, respectively, which consisted of $351,798, $368,540, and $395,694 from Fairmont State in 2008, 2007, and 2006, respectively, and $139,990, $147,157, and $158,278 from the covered employees in 2008, 2007, and 2006, respectively.

The contribution rate is set by the 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, 2008, 2007, and 2006, were $2,727,724, $2,547,234, and $2,351,326, respectively, which consisted of equal contributions from Fairmont State and covered employees of $1,363,862, $1,273,612, and $1,175,663 in 2008, 2007, and 2006, respectively.

Fairmont State's total payroll for the years ended June 30, 2008 and 2007, was $29,892,521 and $28,744,692, respectively; total covered employees' salaries in the Educators Money, STRS, and TIAA-CREF were $598,219, $2,345,322, and $20,214,762, respectively, in 2008 and $560,177, $2,456,933, and $21,231,767, respectively, in 2007.

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, 2008 and 2007, the Foundation's net assets (including unrealized gains) totaled $12,118,659 and $11,880,671, 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, 2008 and 2007, the Foundation contributed $1,097,135 and $1,066,169, respectively, to Fairmont State for scholarships and grants.

The notes taken directly from the audited financial statements of the Foundation are as follows:

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 at June 30, 2008 and 2007, consists of the following:

	2008	2007
Cash on Hand	$ 1,000	$ -
WesBanco — Checking	20,055	74,774
Total	$ 21,055	$ 74,774

13-3. INVESTMENTS

Investments are presented in the financial statements at their quoted market values (fair value) at June 30, 2008 and 2007. A summary of investments is as follows:

	2008	2007
Trust Holdings:		
US Treasury cash equivalents	$ 740,084	$ 1,468,199
Corporate bonds and notes	2,762,137	2,370,292
Mutual funds	2,585,594	1,832,292
Common stocks	3,858,071	4,229,504
	9,945,886	9,900,287
Gift Annuities:		
US Treasury cash equivalents	11,656	(6,409)
Mutual funds	323,618	338,900
	335,274	332,491
Strengthening Institutions:		
US Treasury cash equivalents	18,645	6,793
Mutual funds	473,370	369,053
	492,015	375,846
Strengthening Institutions Phase II:		
Money Market Fund cash equivalents	32,585	788
Mutual funds	315,310	153,356
	347,895	154,144
Other	138,364	158,123
	138,364	158,123
Total investments	$11,259,434	$10,920,891

During fiscal year 2007–2008, the Foundation's investments depreciated in value by $723,781. During fiscal year 2006–2007, the Foundation's investments appreciated in value by $819,601.

PROMISES TO GIVE RECEIVABLE

Unconditional promises to give at June 30, 2008 and 2007, are as follows:

	2008	2007
Receivable in less than one year	$ 334,695	$ 78,501
Receivable in one to five years	663,262	1,033,879
Total unconditional promises to give	997,957	1,112,380
Less discounts to net present value	(45,888)	(111,962)
Less allowance for uncollectible promises to give	(8,309)	(6,659)
Net unconditional promises to give at June 30	$ 943,760	$ 993,759

Discounts rates used on noncurrent promises to give were 2.81% and 4.90% in 2008 and 2007, respectively.

13-4. INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 2008 and 2007, are as follows:

2008	Due From Other Funds	Due to Other Funds
Operating fund	$ -	$ 9,482,325
School fund	1,038,575	
Scholarship fund	8,117,753	
Restricted operating fund	325,997	
Total	$ 9,482,325	$ 9,482,325

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

13-5. CHARITABLE GIFT ANNUITIES

The Foundation has entered into 22 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, 2008 and 2007, are available for the following purposes:

	2008	2007
School fund	$ 1,616,752	$ 1,349,565
Scholarship fund	2,104,469	1,972,187
Restricted operating fund	230,606	200,088
Total	$ 3,951,827	$ 3,521,840

Net assets were permanently restricted at June 30, 2008 and 2007, for the following purposes:

	2008	2007
School fund	$ -	$ -
Scholarship fund	6,302,271	5,907,860
Total	$ 6,302,271	$ 5,907,860

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 seriously affect the financial position of Fairmont State.

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

The Internal Revenue Code of 1986 establishes rules and regulations for arbitrage rebates. There are no arbitrage rebate liabilities that have been recorded in the financial statements as of June 30, 2008 or 2007.

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

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 Fairmont State 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 the 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 $3,030,000 Serial Bonds with varying interest rates from 3.30% to 4.20%, and mature serially from June 1, 2009 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 the Facilities sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created under the Indenture, and such schedule of rents, charges, and fees shall be revised from time to time to provide for all reasonable operating expenses, and 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 $1,580,000 Serial Bonds with varying interest rates from 3.30% to 4.20%, and mature serially from June 1, 2009 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 that 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, 2008 and 2007, Fairmont State had revenues, as defined in the Indenture, that approximated 165% and 133%, 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 the 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 $2,335,000 Serial Bonds with varying interest rates from 3.00% to 4.10%, and mature serially from June 1, 2009 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 the Facilities. Fairmont State must fix rents, charges, and fees to produce revenues from the Facilities sufficient to pay operating expenses and to make the prescribed payments into the funds and accounts created under the Indenture, and such schedule of rents, charges, and fees shall be revised from time to time to provide for all reasonable operating expenses, and 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, 2008 and 2007, Fairmont State's combined 2002A and 2003A Bonds had net revenues, when combined with other monies legally available, as defined in the Indentures, that approximated 199% and 175%, 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 the design, acquisition, construction, and equipping of 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 $4,020,000 Serial Bonds with varying interest rates from 3.0% to 4.1%, and mature serially from June 1, 2009 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, 2008 and 2007 Fairmont State had pledged revenues, as defined in the Indenture, that approximated 208% and 218%, 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, 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 $7,924,673 with interest at the rate of 4.18% until (but not including) May 1, 2016. On May 1, 2016, the interest rate on the 2006 Bonds shall automatically adjust to the reset rate and shall bear the reset rate from May 1, 2016, to maturity.

Fairmont State has pledged all university fees as defined in the Indenture. University fees are the amounts remaining from the System Fees after Fairmont State has (i) fulfilled its obligations with respect to the Commission bonds during each six-month period, which funds are then released to Fairmont State, and (ii) 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 as of and for the years ended June 30, 2008 and 2007, is as 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,	
	2008	2007	2008	2007	2008	2007	2008	2007
CONDENSED STATEMENT OF NET ASSETS								
Assets:								
Current assets	$ 236,486	$ 1,816,249	$ 21,050	$ 314,739	$ 173,750	$ 1,950,473	$ 228,567	$ 1,634,799
Noncurrent and capital assets	34,677,290	33,982,625	10,699,356	11,198,123	26,086,673	23,755,598	8,987,000	8,763,332
Total assets	34,913,776	35,798,874	10,720,406	11,512,862	26,260,423	25,706,071	9,215,567	10,398,131
Liabilities:								
Current liabilities	(840,805)	(885,115)	(237,574)	(228,190)	(706,968)	(818,656)	(586,493)	(1,982,481)
Long-term liabilities	(28,412,574)	(29,113,169)	(7,984,885)	(8,186,351)	(21,350,618)	(21,609,711)	(7,621,956)	(7,924,673)
Total liabilities	(29,253,379)	(29,998,284)	(8,222,459)	(8,414,541)	(22,057,586)	(22,428,367)	(8,208,449)	(9,907,154)
Net assets:								
Invested in capital assets — net of related debt	674,292	1,365,412	1,662,067	3,214,671	2,191,723	1,306,746	332,684	490,977
Restricted	4,986,105	4,435,178	835,880	(116,350)	2,011,114	1,970,958	674,434	
Total net assets	$ 5,660,397	$ 5,800,590	$ 2,497,947	$ 3,098,321	$ 4,202,837	$ 3,277,704	$ 1,007,118	$ 490,977
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS								
Operating revenues	$ 4,993,705	$ 4,765,121	$ 986,529	$ 792,372	$ 3,321,417	$ 3,061,134	$ 630,838	$ 630,838
Operating expenses	(3,449,901)	(2,346,502)	(575,421)	(30,347)	(879,411)	(1,663,429)	(140,889)	(425,600)
Operating income	1,543,804	2,418,619	411,108	762,025	2,442,006	1,397,705	489,949	205,238
Nonoperating revenue (expense):								
Investment income	229,338	223,236	4,518	7,799	80,705	107,365	119,385	402,904
Interest expense	(1,420,154)	(1,437,022)	(398,805)	(369,541)	(1,067,002)	(985,192)	(61,247)	(342,873)
Amortization of bond issuance costs	(23,821)	(23,821)	(6,598)	(6,598)	(12,239)	(12,239)	(2,075)	(2,075)
Depreciation	(469,360)	(469,420)	(610,597)	(588,162)	(518,337)	(477,639)	(29,871)	(780)
Increase (decrease) in net assets	(140,193)	711,592	(600,374)	(194,477)	925,133	30,000	516,141	262,414
Net assets — beginning of year	5,800,590	5,088,998	3,098,321	3,292,798	3,277,704	3,247,704	490,977	228,563
Net assets — end of year	$ 5,660,397	$ 5,800,590	$ 2,497,947	$ 3,098,321	$ 4,202,837	$ 3,277,704	$ 1,007,118	$ 490,977
CONDENSED STATEMENT OF CASH FLOWS								
Net cash provided by operating activities	$ 2,374,853	$ 2,501,074	$ 972,479	$ 763,369	$ 1,772,080	$ 1,573,301	$ -	$ -
Net cash used in capital and related financing activiti	(1,980,847)	(2,021,731)	(586,912)	(1,154,202)	(2,013,956)	(2,122,330)	(5,427,687)	(2,189,773)
Net cash provided by investing activities	113,847	87,165			72,887	90,278		
Increase (decrease) in cash and cash equivalent	507,853	566,508	385,567	(390,833)	(168,989)	(458,751)	(5,427,687)	(2,189,773)
Cash and cash equivalents — beginning of year	3,812,726	3,246,218	302,940	693,773	1,852,386	2,311,137	6,348,894	8,538,667
Cash and cash equivalents — end of year	$ 4,320,579	$ 3,812,726	$ 688,507	$ 302,940	$ 1,683,397	$ 1,852,386	$ 921,207	$ 6,348,894

17. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the years ended June 30, 2008 and 2007, are represented as follows:

2008

	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	$ 1,869,907	$ 493,013	$ 4,540,318	$ 682,320	$ -	$ -	$ -	$ -	$ 7,585,558
Instruction	15,507,783	4,026,612	2,560,498	2,382					22,097,275
Research	216,284	57,281	162,689						436,254
Public service	890,208	265,858	4,331,180	29,469					5,516,715
Academic support	3,878,858	995,006	1,501,578	2,273					6,377,715
Student services	2,652,664	773,270	2,029,308	475					5,455,717
General institutional support	3,102,506	1,184,854	1,568,831	137				268,644	6,124,972
Student financial aid			2,971		9,133,415				9,136,386
Operation and maintenance	1,580,142	633,324	2,503,849	1,356,215					6,073,530
Depreciation						4,583,075			4,583,075
Other							276,422		276,422
Total	$ 29,698,352	$ 8,429,218	$ 19,201,222	$ 2,073,271	$ 9,133,415	$ 4,583,075	$ 276,422	$ 268,644	$ 73,663,619

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

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ADDITIONAL INFORMATION

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2008

ALL FUNDS	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technical College	Component Unit Eliminations	Total Institution
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 8,650,566	$ 9,947,429	$4,437,834	$ -	$ 23,035,829
Accounts receivable — net	279,589	1,118,930	295,220		1,693,739
Chargebacks due from PC&TC		21,856		(21,856)	-
Chargebacks due from Fairmont State University			2,669	(2,669)	-
Due from other funds	23,228	9,011		(32,239)	-
Loans to students — current portion	124,009				124,009
Inventories		161,560	61,390		222,950
Total current assets	9,077,392	11,258,786	4,797,113	(56,764)	25,076,527
NONCURRENT ASSETS:					
Cash and cash equivalents	3,111,856				3,111,856
Loans to students — net	1,277,626				1,277,626
Deferred charges — bond issuance costs	1,077,638				1,077,638
Capital assets — net	131,587,371				131,587,371
Total noncurrent assets	137,054,491	-	-	-	137,054,491
TOTAL	$ 146,131,883	$11,258,786	$4,797,113	$ (56,764)	$ 162,131,018
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 518,233	$ 1,649,769	$ 111,945	$ -	$ 2,279,947
Due to the Commission	112,280	3,518			115,798
Chargebacks due to Fairmont State University			21,856	(21,856)	-
Chargebacks due to PC&TC		2,669		(2,669)	-
Due to other funds	1,690	20,807	9,742	(32,239)	-
Other postemployment benefits liability	61,076	1,833,729	489,700		2,384,505
Accrued interest payable	291,398				291,398
Deferred revenue	326,772	295,387			622,159
Compensated absences — current portion	103,614	744,683	313,970		1,162,267
Capital lease payable — current portion	78,087				78,087
Debt obligation payable to the Commission — current portion	540,667				540,667
Bonds payable — current portion	1,717,717				1,717,717
Total current liabilities	3,751,534	4,550,562	947,213	(56,764)	9,192,545
Noncurrent liabilities:					
Accrued liabilities	38,280	279,012	140,707		457,999
Compensated absences	49,821	368,874	180,148		598,843
Advances from federal sponsors	1,151,584				1,151,584
Capital lease payable	535,038				535,038
Debt obligation to the Commission	4,756,829				4,756,829
Bonds payable	65,102,514				65,102,514
Total noncurrent liabilities	71,634,066	647,886	320,855	-	72,602,807
Total liabilities	75,385,600	5,198,448	1,268,068	(56,764)	81,795,352
NET ASSETS:					
Invested in capital assets — net of related debt	59,440,208				59,440,208
Restricted for — expendable:					
Loans	498,380				498,380
Scholarships	674,298				674,298
Sponsored projects		5,405	728,328		733,733
Capital projects	5,288,050				5,288,050
Debt service	2,176,957				2,176,957
Total restricted	8,637,685	5,405	728,328	-	9,371,418
Unrestricted	2,668,390	6,054,933	2,800,717		11,524,040
Total net assets	70,746,283	6,060,338	3,529,045	-	80,335,666
TOTAL	$ 146,131,883	$11,258,786	$4,797,113	$ (56,764)	$ 162,131,018

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2008

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	$ -	$ 11,074,062	$ 3,778,147	$ -	$ 14,852,209
Tuition and fees support services revenue	3,549,333	518,641		(4,067,974)	-
Faculty services revenue		1,249,141	1,567,567	(2,816,708)	-
Contracts and grants:					
Federal	20,411	11,916,698	3,393,538		15,330,647
State/local	93	5,839,625	1,835,604		7,675,322
Private	224,498	2,550,284	759,759		3,534,541
Interest on student loans receivable	21,032				21,032
Auxiliary enterprise revenue	7,513,513	3,400,198	1,144,426		12,058,137
Auxiliary support services revenue	4,534,373			(4,534,373)	-
Operating costs revenue		2,428,143	214,250	(2,642,393)	-
Support services revenue		3,387,046	191,656	(3,578,702)	-
Miscellaneous — net	220,341	565,527	170,067		955,935
Total operating revenues	16,083,594	42,929,365	13,055,014	(17,640,150)	54,427,823
OPERATING EXPENSES:					
Salaries and wages	1,764,227	22,365,384	5,568,741		29,698,352
Benefits	486,522	6,360,358	1,582,338		8,429,218
Supplies and other services	5,702,582	11,874,263	1,624,377		19,201,222
Utilities	682,319	1,388,157	2,795		2,073,271
Student financial aid — scholarships and fellowships	339,935	6,152,761	2,640,719		9,133,415
Depreciation	4,583,075				4,583,075
Assessment for tuition, auxiliary, and capital costs		6,123,972	2,478,375	(8,602,347)	-
Assessment for faculty services		1,567,567	1,249,141	(2,816,708)	-
Assessment for operating costs		214,250	2,428,143	(2,642,393)	-
Assessment for support services		191,656	3,387,046	(3,578,702)	-
Loan cancellations and write-offs	220,233	22,806	33,383		276,422
Fees assessed by the Commission for operations		173,249	95,395		268,644
Total operating expenses	13,778,893	56,434,423	21,090,453	(17,640,150)	73,663,619
OPERATING INCOME (LOSS)	2,304,701	(13,505,058)	(8,035,439)	-	(19,235,796)
NONOPERATING REVENUES (EXPENSES):					
State appropriations		12,166,895	8,230,927		20,397,822
Payments on behalf of Fairmont State University	66,358	483,662	243,914		793,934
Gifts	2,800	23,500			26,300
Investment income	594,404	402,528	121,915		1,118,847
Interest on indebtedness	(2,447,992)				(2,447,992)
Loss on disposal of fixed assets	(171,871)				(171,871)
Fees assessed by the Commission for debt service	(506,601)				(506,601)
Amortization of bond issuance costs	(44,732)				(44,732)
Total nonoperating revenues (expenses)	(2,507,634)	13,076,585	8,596,756	-	19,165,707
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(202,933)	(428,473)	561,317		(70,089)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	1,100,567				1,100,567
TRANSFER BETWEEN COMPONENT UNITS	(2,299,612)	2,351,793	(52,181)		-
CUMULATIVE EFFECT OF ADOPTION OF ACCOUNTING PRINCIPLE	252,938	1,857,545	760,903		2,871,386
INCREASE (DECREASE) IN NET ASSETS	(1,401,978)	1,923,320	509,136	-	1,030,478
NET ASSETS — Beginning of year	71,895,323	2,279,473	2,259,006		76,433,802
NET ASSETS — End of year	$70,746,283	$ 6,060,338	$ 3,529,045	$ -	$ 80,335,666

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

	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	$ (193,684)	$ 9,986,565	$ 3,689,194	$ 13,482,075
Contracts and grants	267,862	20,691,457	5,928,063	26,887,382
Payments to and on behalf of employees	(2,276,651)	(27,644,957)	(6,757,878)	(36,679,486)
Payments to suppliers	(5,910,065)	(11,538,735)	(1,644,068)	(19,092,868)
Payments to utilities	(680,394)	(1,395,768)	(2,700)	(2,078,862)
Payments for scholarships and fellowships	(339,936)	(4,980,194)	(2,624,042)	(7,944,172)
Loans issued to students	(186,080)			(186,080)
Interest on student loans receivable	21,032			21,032
Auxiliary enterprise charges	7,422,024	3,389,615	1,139,937	11,951,576
Fees assessed by the Commission		(173,249)	(95,395)	(268,644)
Other receipts — net	648,317	505,217	195,174	1,348,708
Assessments	8,083,706	(520,284)	(7,563,422)	-
Net cash provided by (used in) operating activities	6,856,131	(11,680,333)	(7,735,137)	(12,559,339)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
State appropriations		12,166,895	8,230,927	20,397,822
Gift receipts	2,800	23,500		26,300
William D. Ford direct lending receipts	(15,995)	16,852,178	7,228,197	24,064,380
William D. Ford direct lending payments		(16,852,178)	(7,228,197)	(24,080,375)
Net cash (used in) provided by noncapital financing activities	(13,195)	12,190,395	8,230,927	20,408,127
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:				
Capital projects and bond proceeds from the Commission	1,186,604			1,186,604
Fees assessed by the Commission	(506,601)			(506,601)
Purchases of capital assets	(8,237,541)			(8,237,541)
Principal paid on leases	(73,805)			(73,805)
Interest paid on leases	(26,667)			(26,667)
Purchases of equipment	132,281	(217,955)	(24,735)	(110,409)
Payments to the Commission on debt obligation	(526,210)			(526,210)
Principal paid on bonds	(1,660,450)			(1,660,450)
Interest paid on bonds	(3,213,474)			(3,213,474)
Bond interest income	258,626			258,626
Net cash used in capital financing activities	(12,667,237)	(217,955)	(24,735)	(12,909,927)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	365,206	409,282	126,423	900,911
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,459,095)	701,389	597,478	(4,160,228)
TRANSFERS BETWEEN COMPONENT UNITS	(2,560,269)	2,581,194	(20,925)	-
CASH AND CASH EQUIVALENTS — Beginning of year	19,781,786	6,664,846	3,861,281	30,307,913
CASH AND CASH EQUIVALENTS — End of year	$11,762,422	$ 9,947,429	$ 4,437,834	$ 26,147,685

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

	Fairmont State Board of Governors Support	Fairmont State University	Pierpont Community and Technical College	Total Institution
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income (loss)	$ 2,304,701	$ (13,505,058)	$ (8,035,439)	$ (19,235,796)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	4,583,075			4,583,075
Expenses paid on behalf of Fairmont State University	66,358	483,662	243,914	793,934
Changes in assets and liabilities:				
Receivables — net	296,897	318,181	(70,679)	544,399
Loans to students — net	(132,044)			(132,044)
Inventories	72,197	(53,896)	(25,793)	(7,492)
Accounts payable	(70,543)	88,115	3,572	21,144
Accrued liabilities	1,313	208,462	9,165	218,940
Compensated absences	(108,241)	206,285	(584)	97,460
Other postemployment benefits liability	38,280	279,012	140,707	457,999
Deferred revenue	14,065	1,200		15,265
Undistributed receipts	(209,927)	293,704		83,777
Net cash provided by (used in) operating activities	$ 6,856,131	$ (11,680,333)	$ (7,735,137)	$ (12,559,339)
NONCASH TRANSACTIONS:				
Cumulative effect of adoption of accounting principle	$ 252,938	$ 1,857,545	$ 760,903	$ 2,871,386
Construction in progress additions in accounts payable	$ 337,517	$ -	$ -	$ 337,517
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	$ 8,650,566	$ 9,947,429	$ 4,437,834	$ 23,035,829
Cash and cash equivalents classified at noncurrent	3,111,856			3,111,856
	$11,762,422	$ 9,947,429	$ 4,437,834	$ 26,147,685

See note to schedules.

(Concluded)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

COMPONENT: BOG Support

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$1,540,317	$395,755	$4,533,017	$682,319	$ -	$ -	$ -	$ 7,151,408
Instruction								-
Research								-
Public service	10,602	1,339	1,877					13,818
Academic support								-
Student services	42,176	19,076	9,019					70,271
General institutional support	38,885	14,081	8,702					61,668
Student financial aid					339,935			339,935
Operation and maintenance	132,247	56,271	1,149,967					1,338,485
Depreciation						4,583,075		4,583,075
Loan cancellations and write-offs							220,233	220,233
TOTAL	$1,764,227	$486,522	$5,702,582	$682,319	$339,935	$4,583,075	$220,233	$13,778,893

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

COMPONENT: FAIRMONT STATE 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	$ 309,070	$ 97,063	$ -	$ -	$ 7,301	$ -	$ -	$ -	$3,393,325	$ -	$ -	$ 3,806,759
Instruction	11,409,306	2,970,306	1,567,567	144,555	1,524,776	135,475	1,860					17,753,845
Research	211,718	55,601			160,695							428,014
Public service	700,066	210,961			4,160,592		29,469					5,101,088
Academic support	2,729,609	697,420		47,101	1,083,628	78,775						4,636,533
Student services	2,561,815	702,178			2,020,289		475		274,984			5,559,741
General institutional support	3,029,211	1,096,987			1,560,128		137		2,455,663		173,249	8,315,375
Student financial aid					2,971			6,152,761				6,155,732
Operation and maintenance	1,414,589	529,842			1,353,883		1,356,216					4,654,530
Loan cancellations and write-offs										22,806		22,806
TOTAL	$22,365,384	$6,360,358	$1,567,567	$191,656	$ 11,874,263	$214,250	$1,388,157	$6,152,761	$6,123,972	$22,806	$173,249	$56,434,423

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2008

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, Auxiliary, and Capital Costs	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 20,520	$ 195	$ -	$ -	$ -	$ -	$ -	$ -	$1,141,048	$ -	$ -	$ 1,161,763
Instruction	4,098,477	1,056,306	1,249,141	339,956	1,035,722	155,151	522					7,935,275
Research	4,566	1,680			1,994							8,240
Public service	179,540	53,558			168,711							401,809
Academic support	1,149,249	297,585		625,755	417,950	337,014	2,273					2,829,826
Student services	48,673	52,015		845,939		327,337			102,897			1,376,861
General institutional support	34,410	73,785		982,202		678,887			1,234,430		95,395	3,099,109
Student financial aid								2,640,719				2,640,719
Operation and maintenance	33,306	47,214		593,194		929,754						1,603,468
Loan cancellations and write-offs										33,383		33,383
TOTAL	$5,568,741	$1,582,338	$1,249,141	$3,387,046	$1,624,377	$2,428,143	$2,795	$2,640,719	$2,478,375	$33,383	$95,395	$21,090,453

See note to schedules.

(Concluded)

1. COMPONENT FINANCIAL DATA

The additional information schedules are included to comply with the requirements of the Commission to provide financial information for all component parts of Fairmont State. This presentation provides financial information for Fairmont State, PC&TC, and BOG Support. The Fairmont State BOG Support component consists of auxiliary enterprises, 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.

Financial Schedules — The financial schedules for Fairmont State (Fairmont State, PC&TC, and Fairmont State Central) are driven by rollup 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 the 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 Fairmont State and PC&TC legislative actions:

a. *Revenues* — State appropriations are allocated by the Legislature each year. Appropriations increased by 3.58% for the four-year university and by 4.2% for the two-year college.

   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, as follows:

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

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

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

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

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

b. *Expenses* —

Direct Expenditures:

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

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

Chargeback Expenditures:

1. Teaching service expenses are charged back from one institution to the other based on the number of credit hours taught. This chargeback process includes instructional salary and benefit costs. The calculation includes the faculty member's salary and benefit costs, courses taught, the 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 Fairmont State students.

2. Support service chargebacks are for salary and benefit costs from one institution to the other and/or services provided from the administrative, 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 Fairmont State 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 ensures that one W-2 is 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 Fairmont State and vice versa.

3. Operating (Nonlabor) expenses for all support offices are charged back based on state code requirements. The organization manager of those offices has budget authority to expend against these budgets during the fiscal year. All unspent budgets at the end of each fiscal year are not carried forward to future fiscal years. Therefore, unspent budget increases the fund balance of

both institutions. These fund balances are under the direct control of the respective Presidents of each institution.

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 Fairmont State students in that academic unit. The chargeback for these operating expenses is driven by the state code requirements. 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 and severance payable are allocated to the institutions based on the percentage of total credit hours (FTE enrollment) taken by the PC&TC and Fairmont State students.

5. Support staff accrued liabilities:

   Accrued liabilities (OPEB liability, 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 Fairmont State students.

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

   Compensated Absences — As of June 30, 2008, PEIA retiree and severance costs and liabilities are distributed to the component units based on funding source. However, the chargeback agreement for fiscal year 2008 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 2008, the percentages are 33% for the two-year institution and 67% for the four-year institution.

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

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, 2008, and have issued our report thereon dated September 25, 2008, 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

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

September 25, 2008