Fairmont State University

Financial Statements as of and for the
Year Ended June 30, 2010, 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 statement of net assets of Fairmont State University (Fairmont State) as of June 30, 2010, and the related statements of revenues, expenses, and changes in net assets and of cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 audit provides a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Fairmont State as of June 30, 2010, and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis (MD&A) on pages 3 to 24 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 audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 29, 2010, on our consideration of Fairmont State's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Deloitte & Touche LLP

October 29, 2010

FAIRMONT STATE UNIVERSITY

(Includes the following Component Units: Unrestricted, Restricted and Other Funds, Auxiliary Funds and Board of Governors Support Funds)

Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

About Fairmont State

Fairmont State University 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 and Technical College was founded in 1974, and was renamed Pierpont Community and Technical College effective July 1, 2006. Fairmont State College was recognized as a University and renamed Fairmont State University on April 7, 2004.

Fairmont State University ("Fairmont State" or "Institution") is governed by a 12 member Board of Governors that determines, controls, supervises and manages the financial, business and educational policies and affairs of the Institution.

New legislation became effective July, 1, 2008 that provided for a separate governing board for Pierpont Community and Technical College ("Pierpont"). This new legislation defines the statewide network of independently accredited community and technical colleges. The newly established Board of Governors of Pierpont and the Board of Governors of Fairmont State were jointly to agree to a division of assets and liabilities. Fiscal year 2009 was a transition year for this new legislation. This agreement was executed on December 15, 2009 and was effective retroactively to July 1, 2009. The new legislation requires a separate financial statement audit for Pierpont for fiscal year 2010.

Total enrollment of Fairmont State is approximately 4,572 students from 22 states and 22 countries. The student to faculty ratio is 17:1. Approximately 86% of our students receive some form of scholarship or financial aid. Campus activities include more than 80 clubs, organizations, student publications, honoraries, sororities and fraternities and intramural sports. Fairmont State is a member of the NCAA Division II and the West Virginia Intercollegiate Athletics Conference.

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.

For the previous years (fiscal years 2002-2009), Fairmont State (which included Fairmont State University, Pierpont Community and Technical College, and Board of Governors Support ("BOG Support") which were component parts of Fairmont State) presented combined financial statements under this GASB standard. Supplementary information was provided 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. With the separation of assets and liabilities agreement the reporting structure has changed. The Fairmont State University audited financial report will include supplementary information for Unrestricted, Restricted and Other Funds, University owned Auxiliary Funds and Fairmont State's ownership in BOG Support. BOG Support consists primarily of Educational and General (E&G) and Infrastructure funds for the repair and replacement of buildings and capital assets. This component accounts for capital assets, depreciation and debt obligations.

The Fairmont State Foundation financial information will not be presented. This presentation is no longer required to comply with GASB Statement No. 39 due to the fact that the Foundation supports both Fairmont State and Pierpont.

This section of the annual financial report focuses on an overview of Fairmont State's financial performance during the fiscal year ended June 30, 2010.

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.

Financial Highlights

During fiscal year 2010, the most significant financial change was the division of all assets and liabilities in accordance with the Separation of Assets and Liabilities Agreement. The Board of Governors of Fairmont State and the Board of Governors of Pierpont recognize the historical association between the two institutions and the benefit of collaboration to the students. The preamble to the Separation of Assets and Liabilities Agreement that supports these statements reads as follows:

"The Board of Governors of Fairmont State University (BoG-FSU) and the Board of Governors of Pierpont Community and Technical College (BoG-PCTC) jointly endeavor to separate assets and liabilities in accordance with the provisions of HB3215, 2008. Despite the legal separation of the two institutions, the BoG-FSU and the BoG-PCTC wish to maintain the collaborative and cooperative spirit that has characterized the historical relationship between the University and the College.

The BoG-FSU and the BoG-PCTC recognize the historical association between the two institutions. The institution that is today Pierpont Community and Technical College grew from and was sponsored by Fairmont State University. Both institutions have been and, for the foreseeable future, will be co-located on a single campus in Fairmont, West Virginia. Both institutions have proportionally coordinated, shared, and paid for instructional services, course schedules, facilities, information systems, admissions processes, auxiliary functions, housing, debt service, development and advancement *services, student activities and programs, and all the other resources necessary to deliver a high-quality postsecondary education experience.*

Students have benefited and will continue to benefit from the relationship between Fairmont State University (FSU) and Pierpont Community and Technical College (PCTC). Those benefits include a wider range of instructional programs than would be available through an individual institution's offerings; a lower cost of attendance realized from shared institutional infrastructure and reduced duplication of facilities, personnel, and services; and a more diverse mix of student backgrounds, interests, experiences, abilities, and ambitions.

Although the BoG-FSU and the BoG-PCTC recognize the necessity of separation of assets and liabilities, both pledge themselves to continuing, fostering, and promoting collaborative and cooperative relationships between the two institutions. Such relations respect the historical association that has existed between FSU and PCTC. Such relations are to the benefit and best interest of the students at both institutions. Such relations recognize the proportional participation in institutional operations. Such relations recognize that the two institutions have been, are, and will be co-located on one site. Such relations demonstrate responsible stewardship of public resources by achieving efficiencies and synergies that would otherwise not be possible. Therefore, the Board of Governors of Fairmont State University and the Board of Governors of Pierpont Community and Technical College incorporate into their agreement to separate assets and liabilities this pledge of perpetual cooperation and collaboration."

This Agreement was executed to comply with the guidelines established through West Virginia Legislation as stated in the agreement as follows:

***"WHEREAS**, West Virginia Code – §18B-2A-7a(e)(2008 supp.) states "For purposes of generating audited financial statements for inclusion in the West Virginia Higher Education Fund and State single audits, the division of all assets and liabilities shall be effective retroactively to the first day of July, two thousand nine."*

and

***WHEREAS**, West Virginia Code – §18B-2A-7a (2008 supp.) states as follows:*

"(g) Each former sponsoring institution and community and technical college shall enter into a comprehensive agreement to address the division of assets and liabilities and the allocation of revenues and expenditures between former sponsoring institutions and newly independent community and technical colleges.

(h) Absent manifest injustice as determined jointly by the Council and Commission, the following general principles apply to the division of assets and liabilities and allocation of revenues and expenditures between former sponsoring institutions and the newly independent community and technical colleges:

(1) For accounting purposes, the institution that assumes responsibility for any asset also shall assume responsibility for any associated liabilities.

(2) Although one institution may assume responsibility for an asset and associated liabilities for accounting purposes, both institutions shall agree on their respective responsibilities for reducing and ultimately eliminating the liability over time if the asset was originally acquired and/or is being used for the benefit of both institutions.

(A) Any agreement to allocate system and institutional educational and general and auxiliary debt service payments shall be consistent with the provisions of all applicable bond covenants.

(B) Absent a controlling bond covenant or other agreement, debt service payments associated with bond indebtedness presumptively shall be allocated based on the relative full-time equivalent student enrollment of the two institutions either as a whole or on the campus where the asset is located and may be adjusted annually to reflect enrollment changes at the two institutions.

(3) The institutions shall agree to allocate educational and auxiliary capital fees in excess of those needed to cover bonded indebtedness to ensure that assets of both institutions are maintained in proper repair and that the institutions assume responsibility for a reasonable share of the total costs of maintaining the facilities.

(4) The institutions shall develop 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 two thousand twelve.

(A) If community and technical college students pay a mandatory athletics fee for the benefit of a sponsoring institution, but receive no direct benefit from that fee, the community and technical college may phase out that fee over a five-year period.

(B) If certain community and technical college students were required to live in institution housing consistent with rules or policies in effect on the effective date of this section, the former sponsoring institution may continue to require these students to live in institution housing for at least one year." "

The Agreement provides specific language in relation to outstanding bond indebtedness as follows:

"WHEREAS, *there is currently outstanding the following bonded indebtedness:*

(A) Board of Governors of Fairmont State College College Facilities Revenue Bonds, Series 2002 A (the "Series 2002A Bonds"), issued in the principal amount of $18,170,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of August 1, 2002 (the "2002A Indenture"), with WesBanco Bank, Inc., as Trustee (the "Bond Trustee"), and currently outstanding in the principal amount of $15,595,000 as of June 30, 2010;

(B) *Board of Governors of Fairmont State College College Infrastructure Revenue Bonds, Series 2002 B (the "Series 2002B Bonds"), issued in the principal amount of $9,310,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of August 1, 2002 (the "2002B Indenture"), with the Bond Trustee and currently outstanding in the principal amount of $7,860,000 as of June 30, 2010;*

(C) *Board of Governors of Fairmont State College College Facilities Revenue Bonds, Series 2003 A (the "Series 2003A Bonds"), issued in the principal amount of $13,320,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of March 1, 2003 (the "2003A Indenture"), supplementing and amending the 2002A Indenture, with the Bond Trustee and currently outstanding in the principal amount of $11,850,000 as of June 30, 2010;*

(D) *Board of Governors of Fairmont State College Student Activity Revenue Bonds, Series 2003 B (the "Series 2003B Bonds"), issued in the principal amount of $22,925,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of March 1, 2003 (the "2003B Indenture"), with the Bond Trustee and currently outstanding in the principal amount of $20,385,000 as of June 30, 2010; and*

(E) *Fairmont State University Board of Governors Subordinate Facilities Improvement Revenue Bonds, Series 2006 (the "Series 2006 Bonds"; the Series 2002A Bonds, the Series 2002B Bonds, the Series 2003A Bonds, the Series 2003B Bonds and the Series 2006 Bonds are hereinafter referred to together as the "Bonds"), issued in the principal amount of $8,500,000 pursuant to a Bond Authorizing Resolution adopted on May 3, 2006 (as supplemented and amended, the "2006 Resolution"; the 2002A Indenture, the 2002B Indenture, the 2003A Indenture, the 2003B Indenture and the 2006 Resolution, together with the other documents authorizing, securing or otherwise relating to the Bonds, are hereinafter referred to together as the "Bond Documents"), and currently outstanding in the principal amount of $7,306,452.73 as of June 30, 2010.*

and

***WHEREAS**, in addition to the statutory requirements described above, the Bond Documents define the College or University to include any successor thereto and, as such, bind both FSU and PCTC, and both FSU and PCTC have copies of the Bond Documents.*

and

***WHEREAS**, the Bond Documents set forth controlling bond covenants and require pledged revenues, and the intent of this document is to adhere to all existing and future bond covenants.*"

The Board of Governors of Fairmont State and Pierpont agreed to the following terms for Separation of Assets and Liabilities to comply with State Code and bond covenants stated above.

Education and General Equipment Assets:

1. *Equipment assets regardless of whether they are charged back, whether they be presently owned or purchased in the future by either the FSU or the PCTC will be owned by the institution that the equipment was intended for and reflected on the appropriate institution's equipment schedule.*

Education and General Buildings and Infrastructure:

2. *All capital and infrastructure fees assessed to both FSU and PCTC students for the purpose of paying E&G building and infrastructure bonds, and provide for repair and renovation of same, continue to be collected under the terms outlined in the bond covenants.*

3. *All E&G Capital Fee Revenue and Infrastructure Capital Fee Revenue in excess of bond payments will be used for repair and renovation projects. When sufficient E&G and Infrastructure Capital excess revenues are available to bond for additional new capital project improvements, the E&G, and Infrastructure Capital Fees will be utilized and/or retained for that specific purpose. Both the FSU and the PCTC assume a shared responsibility proportionate to the full-time equivalent (FTE) enrollment of each institution for the total cost of maintaining the facilities.*

4. *Joint ownership of the E&G and Infrastructure Capital Assets and Liabilities shall be reflected on each Institution's Financial Statements at the end of each year. The percentage of ownership of assets and liabilities will be assigned and based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years.*

5. *All land assets will be owned by FSU and land deeds will stay in the name of FSU Board of Governors.*

6. *Should either institution, after paying off <u>all</u> E&G and Auxiliary bond debt, upon proper acknowledgement of its ongoing obligations under existing bond covenants, decide to build and move its own campus, that institution agrees to sell its ownership rights to the E&G building assets to the other institution at an agreed upon price.*

7. *All new capital projects that are provided to FSU and PCTC through State appropriations, bonding and/or student capital fee initiatives, that add to the joint ownership of assets and liabilities on a shared campus, will be assigned proportionately based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years. Any capital project designated to only FSU or only to PCTC and not located on a shared campus will be added to the assets and liabilities of the institution to which the capital project is specified.*

Auxiliary Enterprises:

1. *Assets and related liabilities of the Auxiliary Enterprises (Athletics, Bookstore, Conference Center, Convenience Store, Copy Center, Facilities [Parking & Security], Housing, and Recreation Center) are owned by FSU and all students of both FSU and PCTC who attend class on the main campus and/or pay user fees will have access to these facilities and activities.*

2. *All auxiliary-related student fees approved by the FSU BOG and the PCTC BOG and the Higher Education Policy Commission and the Community and Technical College Council, for the operation, debt service, and repair and maintenance of auxiliary enterprise facilities will be dedicated and provided to those specific Auxiliary Funds for appropriate indicated purposes.*

   All Auxiliary net revenues annually are designated to support future costs of the auxiliary enterprise fund(s) and are managed by FSU for the benefit of each auxiliary enterprise.

3. *Auxiliary Enterprise Bond Covenant obligations of FSU and PCTC will be met by continuing to honor the requirements stipulated in those covenants, and both FSU and PCTC students will be required to pay the fees stipulated in all Bond Document covenants.*

4. *FSU is responsible for managing the operation of the Auxiliary Enterprises, and maintaining the Auxiliary facilities in good repair.*

5. *All capital projects for the Auxiliary Enterprises will be approved by the FSU BOG.*

6. *Scholarship dollars provided from the non-athletic auxiliary enterprise funds will be allocated proportionately to FSU and PCTC students based on the percentage (%) of student fee contributions made to these funds from the respective FSU and PCTC students.*

The Agreement further specifies the methodology for the assignment of bond debt as follows and quotes the initial allocation effective for the separation as of July 1, 2009:

"*The Bond Debt assigned to each institution's balance sheet for E&G facilities is allocated based on the average of the past ten (10) years of credit hour enrollments. This average allocated 65.66% of the debt to FSU and 34.34% to the PCTC. The assignment of debt for the Auxiliary facilities will be with the FSU since the FSU will own the assets. However, the PCTC students will continue to pay all Auxiliary fees based on the requirements of those bonds. The allocation of Bond Debt by this Agreement does not affect the obligation of both FSU and PCTC to the bondholders to pay the principal of and interest on the Bonds as the same come due.*

For purposes of financial statements and continuing disclosure required by the Bond Documents, FSU and PCTC must present combined financial statement information along with each Institution's separately audited financial statements, and as well must *present audits of the bond funds of all 2002A, 2002B, 2003A, 2003B and 2006 Bonds annually.* "

The separation of assets and liabilities was completed according to the agreement above. Fairmont State and Pierpont's Boards of Governors were provided individual Statements of Net Assets as of July 1, 2009. Both Boards voted to accept the presentation of the new statements based on their agreement. The approved separation of assets and liabilities is reflected in the audited financial statements.

Other financial highlights include the increase in other postemployment benefits (OPEB) liability and changes in net assets.

- 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 calculated as of June 30, 2007 following GASB Statement No. 16 for approximately $2 million were removed from the financial statements. This accrual was replaced by the OPEB liability accrual. The historical activity dealing with the OPEB liability in the past is as follows:
    - For fiscal years 2009 and 2008, the OPEB liability accruals were $419,810 and $333,145, respectively, for a total unfunded liability of $752,955 at June 30, 2009.
    - The additional OPEB liability for fiscal year 2010 was recorded in the amount of $2,727,735 for a total unfunded liability of $3,480,690 as of June 30, 2010.

  The OPEB liability is recorded based on records maintained by the West Virginia Public Employee Insurance Agency (PEIA). The OPEB liability is expected to increase annually unless funding from the State becomes available to manage the liability.

- Total net assets decreased by $666,812 or 1.07%. The decrease can be attributed to the following:
    - Reappropriated funding was recognized as revenue in fiscal year 2009 and expended in fiscal year 2010 in the amount of $1,250,000. Net Assets at June 30, 2009 increased by the unexpended reappropriated funding recorded as a receivable. The expenditure of the funds in fiscal year 2010 decreased net assets by $1,250,000 as of June 30, 2010.
    - Net assets also decreased by $2,727,735 as a direct result of the increase in the OPEB liability at June 30, 2010 explained above.
    - Also, the net asset balances of the primary operating funds of Fairmont State increased by $2,442,756.

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. Fairmont State has no non-expendable net assets.

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 Statement of Net Assets

	JUNE 30 2010
Assets	
Current Assets	$ 24,302,410
Non-Current Assets	115,232,106
Total Assets	139,534,516
Liabilities	
Current Liabilities	8,338,397
Non-Current Liabilities	69,258,374
Total Liabilities	77,596,771
Net Assets	
Invested in capital assets, net of related debt	45,311,791
Restricted for:	
Expendable:	
Loans	433,187
Scholarships	326,521
Sponsored projects	48,233
Capital projects	2,429,668
Debt service	2,130,107
Total Restricted	5,367,716
Unrestricted	11,258,238
Total Net Assets	$ 61,937,745

- Total current assets increased by $1,530,609 or 6.60% resulting primarily from an increase in cash and cash equivalents of $2,168,845.
  - The increase in cash consisted primarily of;
    - A decrease within the State Scholarship funds including WV HEAPS grant, WV Higher Education Grants and Neighborhood Investment Program Scholarship funds in the amount of $463,462.
    - An increase in Auxiliary operations cash reserve balances in the amount of $1,026,169.
    - Cash increases also include increases in Educational and General (E&G) funds of $1,676,937.
  - Other changes in current assets consisted of an increase in student accounts receivable in the amount of $273,828.
  - Accounts receivable also decreased by $1,250,000 in reappropriated State funding. As described above, this funding was recorded as a receivable at June 30, 2009 and was received and expended in fiscal year 2010.
  - Fairmont State reports a Due from Pierpont for administrative services and operating costs provided through June 30th. The chargeback amount at June 30, 2010 was $462,410. The amount for fiscal year 2010 includes both June activity and accrual amounts which was an increase from fiscal year 2009.

- Total non-current assets comprised primarily of capital assets including buildings and equipment decreased by $2,065,156 or 1.76%.
  - Perkins Loans Receivable from students decreased by $103,264.
  - Deferred charges for bond issue costs decreased by $44,734 through the amortization process.

- As a result of the separation of assets and liabilities, a receivable for Due from Pierpont for debt service was recorded in the amount of $4,779,851 at July 1, 2009. The liability was decreased by $197,666 during the year to reflect Pierpont's portion of indebtedness paid during the year. The balance at June 30, 2010 was $4,582,185.
- The primary cause for the decrease in non-current assets is a result of the decrease in capital assets in the amount of $1,628,503. The primary reason for the decrease in capital assets is due to recording of annual depreciation which exceeded asset additions for the year.

- Total current liabilities decreased by $277,624 or 3.22% due primarily to a decrease in accounts payable and due to Commission of $341,387 and $350,602, respectively. These decreases were offset by increases in accrued payroll liabilities and deferred revenue of $134,352 and $280,360, respectively.
    - The decrease in due to the Commission of $350,602 was due primarily to cash in the West Virginia Higher Education Grant Fund that was returned after June 30, 2009.
    - The increase in payroll related accrued liabilities of $134,352 was due to an increase in the liabilities for arrears pay including nine month faculty paid over twelve months.

- Total non-current liabilities increased by $386,820 or .56%.
    - The 2010 increase is due primarily to an increase in other post- employment benefits (OPEB) liability of $2,727,735 due to the third year of accruals as required by GASB Statement No. 45.
    - The increase in the OPEB liability is offset by payments on existing obligations to the Commission and bonds and increases in the current portion of that liability to the Commission that reduced the non-current debt recorded on Fairmont State's financial statements by $378,127 and $1,842,502, respectively.
    - In addition to these items, capital leases payable and compensated absences decreased by $84,144 and $36,142, respectively.

- The total assets of Fairmont State exceeded its liabilities at the close of the most recent fiscal year by $61,937,745 (net assets). Of this amount, $11,258,238 (unrestricted net assets) may be used to meet the educational and general operations of Fairmont State. Unrestricted Net Assets by component part were as follows at June 30, 2010:

▪ Auxiliary Funds	$ 5,329,550
▪ Unrestricted, Restricted and Other Funds	5,928,688
	$11,258,238

The unrestricted, restricted and other funds net assets balance of $5,928,688 includes fund manager funds of $466,284. Also, Fairmont State's unrestricted President's control net asset amount decreased by $1,335,878 to $5,462,404 at June 30, 2010. This decrease is due to reappropriated State funding that was recorded as a receivable and revenue in fiscal year 2009 and was spent in fiscal year 2010 and the recording of the increase in OPEB liability for fiscal year 2010 in the amount of $2,727,735. These were offset by an increase in cash in Fairmont State's E&G funds of $1,676,937 at June 30th.

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. Likewise, Pell grants are reported as nonoperating, because of specific guidance in the AICPA industry audit guide. 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.

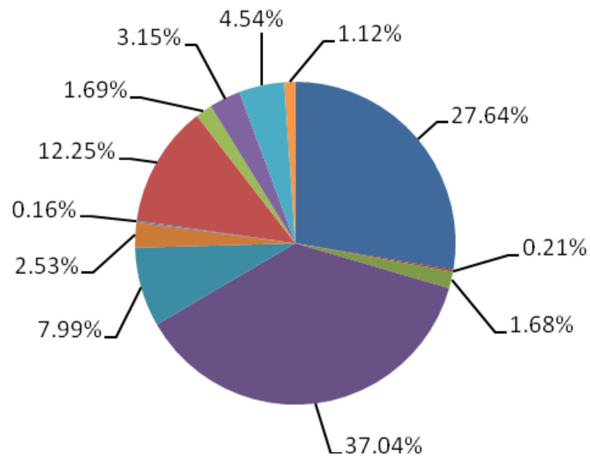
Condensed Statement of Revenues, Expenses, and Changes in Net Assets
For the Fiscal Year Ended June 30:

	2010
Operating Revenue	$ 44,261,100
Operating Expenses	64,603,019
Operating Loss	(20,341,919)
Total Net Nonoperating Revenues	19,332,894
Loss Before Other Revenues, Expenses, Gains or Losses	(1,009,025)
Capital Projects and Bond Proceeds from the Commission	187,965
Decrease in Net Assets before Transfers	(821,060)
Transfer of Net Assets from Pierpont	154,248
Decrease in Net Assets	(666,812)
Net Assets – Beginning Year	62,604,557
Net Assets – End of Year	$ 61,937,745

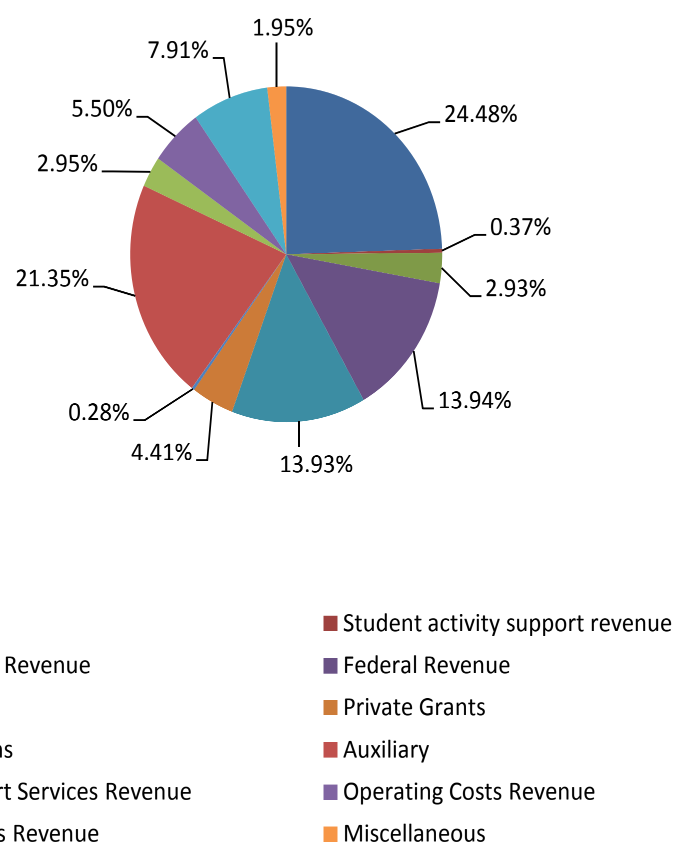
Revenues:

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

Before GASB Statement No. 35 Adjustment



After GASB Statement No. 35 Adjustment



The total gross operating revenues for fiscal year 2010 prior to GASB Statement No. 35 adjustments and reclassification were $77,150,933. This amount was reduced/adjusted for scholarship allowance in the amount of $10,482,794 and direct loans in the amount of $22,407,039. Total operating revenues for fiscal year 2010 after GASB No. 35 adjustments and reclassification is $44,261,100.

	Prior to GASB No. 35 Changes	After GASB No. 35 Changes
Tuition and Fees	$21,313,005	$10,830,211
Federal Revenues	$28,576,935	$ 6,169,896

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, decreased by $1,002,103 or 8.47% compared to a 4.17% increase in fiscal year 2009.
  - Tuition and fees increased prior to scholarship allowance by $1,321,299 or 6.61%. The scholarship allowance increased by $2,323,402 for a total decrease in tuition and fees of $1,002,103.
  - Tuition and fee rates for Fairmont State increased by 3% for 4-year students and graduate students.

- Federal Financial Aid and Federal Grants revenues, including GEAR UP, after the adjustment for Direct Loans increased by $232,034 or 3.91% to $6,169,896.
  - GEAR UP revenues increased by $849,597 to $4,507,570. The National Aeronautics and Space Administration (NASA) grants increased by $134,291 for fiscal year 2010.
  - The increase in GEAR UP revenues was offset by decreases in several federal grants including the National Institute of Health (NIH) grant projects which decreased federal revenues by $278,158 and the Department of Education Model for Engaged Learning Grant decrease of $298,499.

- State contracts and grants decreased by approximately $134,802 or 2.14% to $6,167,638. State contracts and grants include institutional grants from other State agencies. This category was also expanded to include federal funds received through another state agency or other entity. State grants and contracts also includes state funded student financial aid.
  - This State funding decreased during the year due to the loss of the Department of Highways contract in the amount of $224,633.
  - State funding through the Commission for capital projects decreased by $248,925.
  - The addition of federal pass through funds increased State contracts and grants in the amount of $68,603.
  - State grants and contracts also include State funded student financial aid. The WV State Higher Education Grants revenues increased by $307,889 for fiscal year 2010 to $3,323,568. Also, State PROMISE Scholarship program increased by $18,098 to total awards of $2,245,565.

- Private contracts and grants decreased by $448,397 or 18.67% to $1,953,602.
    - Alternative student loans decreased in fiscal year 2010 by $216,446.
    - There was also a decrease in private grants funding.
    - In fiscal year 2009, Fairmont State received private gifts from the Center for Education in Appalachian for $104,000 and a KnowledgeWorks grant from National Commission for Teaching and America's Future (NCTAF) in the amount of $45,000 of which funding was not renewed for fiscal year 2010.

- Auxiliary enterprises revenue increased by $173,909 or 1.87% to $9,451,523.
    - This increase was primarily a result of an increase in student activity, athletic and facilities fees which increased by $119,190 to $3,703,051.
    - The remainder of the increase was in various Auxiliary service revenues which totaled $5,748,472 for fiscal year 2010. Rents from dormitories and apartments and miscellaneous housing revenues totaled approximately $4,094,133 or 71.22% of the $5,748,472 for auxiliary services.

- Miscellaneous revenues decreased by $14,359 or 1.69% to $863,413.
    - Miscellaneous revenues of $331,272 from auxiliary operations consisted primarily of copy center revenues of $216,286, parking fines of $40,176 and athletic revenues of $20,600.
    - Other miscellaneous revenues earned by Fairmont State were recorded in the amount of $513,948. These revenues consisted primarily of
        - Nursing contract support from area hospitals in the amount of $80,800,
        - Administrative and physical plant assessments for services to the Fairmont State Foundation in the amount of $74,400,
        - Revenues from the Community Music Program of $60,128,
        - Adjunct training revenues of $53,606,
        - Administrative costs earned on financial aid of $57,132,
        - Fine arts ticket sales of $20,808 and
        - Miscellaneous Perkins Loan fund income of $67,081.

- State appropriations decreased by $1,726,376 or 11.49%. State appropriations excluding the 2009 re-appropriated State funding of $1,250,000 decreased in the amount of $476,376 or 3.46%.

- State fiscal stabilization funds were provide through the Governor's Office from the Federal American Recovery and Reinvestment Act (ARRA) funding in the amount $476,376 to cover the decrease in State appropriations.

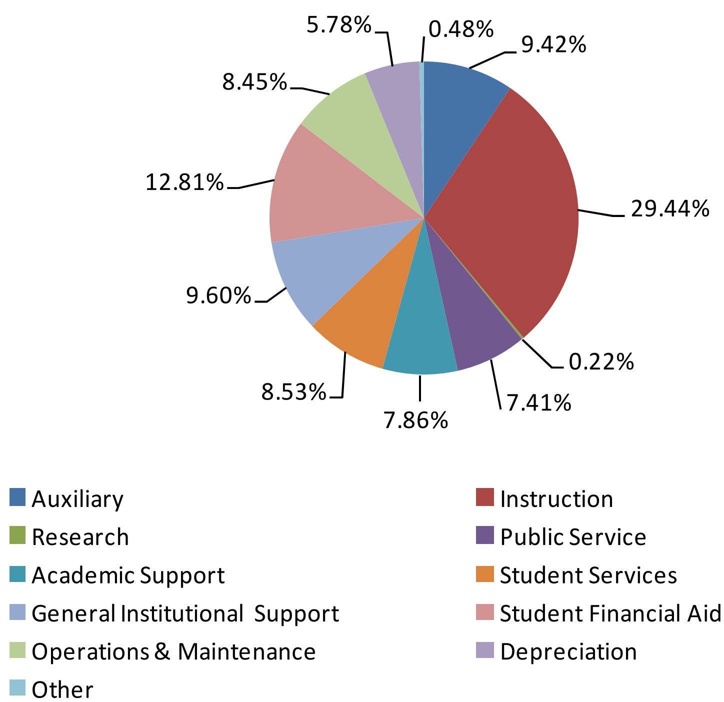
- As noted above, Pell grants are reported as nonoperating revenues because of specific guidance in the AICPA industry audit guide. Pell grants increased by $3,111,347 or 55.19%.

FUNCTIONAL CLASSIFICATION CHART

Operating Expenses:

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

2010



Breakdown of Expense by Function:

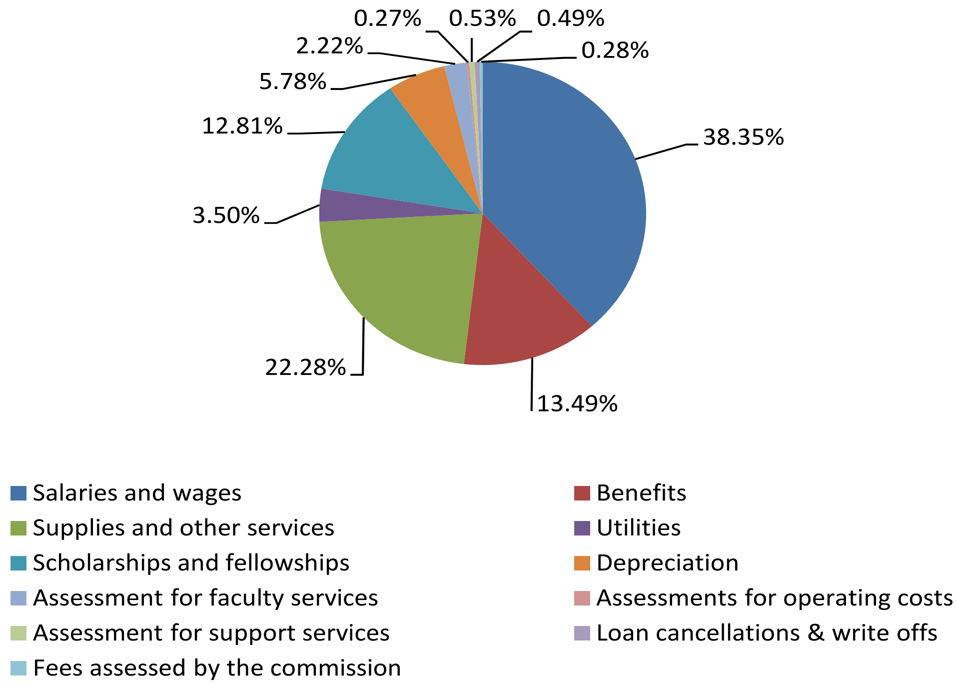
For fiscal year 2010, Fairmont State's total operating expenses were $64,603,019. Instruction expenses totaled $19,016,218 or 29.44% of the total operating budget. The following reflects the amounts and percentage for these expenses:

	2010	%
Auxiliary	$ 6,086,468	9.42%
Instruction	19,016,218	29.44%
Research	143,744	0.22%
Public service	4,786,076	7.41%
Academic support	5,076,344	7.86%
Student services	5,505,906	8.53%
General institutional support	6,200,695	9.60%
Student financial aid	8,278,823	12.81%
Operation & maintenance	5,459,856	8.45%
Depreciation	3,734,624	5.78%
Other	314,265	0.48%
Total	$ 64,603,019	100%

NATURAL CLASSIFICATION CHARTS

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

2010



Breakdown of Expenses by Natural Classification:

For fiscal year 2010, Fairmont State's total operating expenses were $64,603,019. A major portion of the total operating expenses is for salaries, wages, and benefits amounting to $33,487,819 or 51.84%. The following reflects the amounts and percentages for the expenses:

	2010	%
Salaries and wages	$ 24,775,693	38.35%
Benefits	8,712,126	13.49%
Supplies and other services	14,392,234	22.28%
Utilities	2,262,138	3.50%
Scholarships and fellowships	8,278,823	12.81%
Depreciation	3,734,624	5.78%
Assessment for faculty services	1,436,654	2.22%
Assessment for operating costs	176,861	0.27%
Assessment for support services	340,976	0.53%
Loan cancellations & write offs	314,265	0.49%
Fees assessed by the commission	178,625	0.28%
Total	$ 64,603,019	100%

- Salaries and Wages increased by $257,466 or 1.05%.
  - In fiscal year 2010, pay raises were provided to classified staff based on the Mercer classification system. These raises were effective November 1 with a cost of approximately $48,205. Classified staff that were not at their years of service rate on the Mercer classification system were brought up to scale.
  - Also, payroll accrued liabilities at June 30, 2010 increased by $134,352 due to an increase in the liability for arrears pay and nine month faculty paid over twelve months. The remainder of the increase in salaries would be for variances between fiscal years due to new hires, vacant positions, and reclassifications of staff and faculty promotions.

- Benefits increased by $2,161,209 or 32.99%. The increase is due to the OPEB liability and corresponding expenses for fiscal year 2010.
  - The OPEB liability expense for fiscal year 2010 increased from $419,810 for fiscal year 2009 to $2,727,735 which resulted in an increase to benefits expense of $2,307,925. Financial statement note number 9 provides additional information on the OPEB liability and expenses.

- Supplies and Other Services expense increased minimally by $341,632 or 2.43%.

- Utilities expense decreased minimally by $8,033 or 0.35%. Utilities usage is within a relatively consistent range, with the expected amounts based on the current facilities structure.

- Scholarships expense increased by $1,193,496 or 16.84%. Scholarships and Fellowships increased by $3,503,369 before scholarship allowance.
  - This increase is primarily due to an increase in Federal Pell awards in the amount of $3,111,347.

- Depreciation expense for fiscal year 2010 was $3,734,624 and was 5.70% of total operating expenditures. An estimated comparison to fiscal year 2009 is not available due to the allocation of assets out of the BOG Support funds to the appropriate Institution based on the Separation of Assets and Liabilities Agreement.

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 Statement of Cash Flows
For the Fiscal Year Ended June 30:

Cash Provided By (Used in)	**2010**
Operating Activities	$ (14,305,212)
Non-Capital Financing Activities	23,819,998
Capital and Financing Related Activities	(7,476,527)
Investing Activities	43,527
Increase in Cash and Cash Equivalents	2,081,786
Cash, Beginning of Year	21,996,658
Cash, End of Year	$ 24,078,444

Major sources of funds included in operating activities consist of tuition and fees $9,650,046, contracts and grants $14,045,356 and auxiliary enterprise charges $9,357,723. Major uses of funds under this category were payments made to and on behalf of employees for salaries and benefits amounting to $30,755,927, to suppliers amounting to $14,259,957, and payments for scholarships and fellowships $7,106,815.

Major sources of cash flow provided from non-capital financing activities consist of State appropriations amounting to $14,543,378 and Federal Pell grant revenues of $8,713,607.

The major cash flow used in capital financing activity was for payment of principal and interest on bonds of $1,770,503 and $3,105,375 respectively. Construction project expenditures were $1,924,627.

Additional Administrative Notes

During fiscal year 2010, separate budgets were maintained and reported on the three component parts of Fairmont State. These component parts are: 1) Unrestricted, Restricted and Other Funds 2) Auxiliary Funds and 3) Fairmont State's ownership in BOG Support Funds. Fairmont State's management has included the BOG Support component which reports capital funds that support both academic institutions, as a separate reporting component. These funds are allocated based on the average of the past ten (10) years of credit hour enrollments. This allocation is done at the end of each year for financial reporting purposes. 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 may be found in the additional information section of this report.

The component reporting structure for Fairmont State has allowed administration to provide reports to the Fairmont State Board of Governors separated by unrestricted E&G funds, restricted funds, and auxiliary operations. The reporting structure recognizes separate budgeted entities which provides the administration and the Governing Board with information to manage the respective components.

Capital Asset and Long-Term Debt Activity

Construction projects funded by the 2006 Facilities Improvement Revenue Bonds and the State issued Lottery Bonds were completed during fiscal year 2009. In addition to the 2006 Bonds, Fairmont State 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, 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 fiscal year 2010 amounted to $1,770,503. The current portion of bonds payable due in fiscal year 2011 is $1,828,829 and the long term portion of bonds payable is $61,475,835.

The four auxiliary and infrastructure bond issuances were audited for the year ended June 30, 2010 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 which do not require a separate audit.

These four bond issues are supported by auxiliary and infrastructure fund student and user fees. The auxiliary fund budget (which includes interest and principal debt service payments) for fiscal year 2011 currently projects a transfer of excess revenues to plant reserves of approximately $866,000.

During 2010, 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, 2010 was $2,762,423. As of June 30, 2010, the current portion due to Commission is $384,842 and long-term portion is $2,377,581.

Fairmont State's Leadership

The Fairmont State University Governing Board Members for fiscal year 2010:

Name	Position Held	End of 2010 Status
Kelley Bronson	Student Representative	Member - Student
Janet Crescenzi	Lay Member	Member
Matthew Jacques	Classified Staff Representative	Member
James R. Kettering	Lay Member	Member
Robert Mild	Faculty Representative	Secretary
Rocco Muriale	Lay Member	Chairman
Mark Pallotta	Lay Member	Member
Shirley Stanton	Lay Member	Vice Chair
H. Skip Tarasuk	Lay Member	Member
Bryan Towns	Lay Member	Member
Ron Tucker	Lay Member	Member
Jack "Bob" White	Lay Member	Member

The Governing Boards receive a financial report at each meeting.

Economic Outlook

For fiscal year 2011, State appropriations increased by $1.250.000. State appropriations were increased by 8.6% for Fairmont State. At the request of the Governor, Fairmont State did not increase tuition and fees. Auxiliary room and board fees were increased by 3% for fiscal year 2011.

Fairmont State continues to maintain stable unrestricted net assets, including auxiliary operations, and it is our goal to remain in this stable position for years into the future. Cash reserves in the unrestricted and auxiliary funds increased due to excess operating revenues from the previous year. Education and General (E&G) capital funds decreased due to several capital projects occurring to improve student life on the Fairmont State and Pierpont shared campus. The E&G capital reserves are more than sufficient to continue efforts to many repair projects approved by the Governing Boards of Fairmont State and Pierpont. Also, Fairmont State was approved to receive proceeds from Education, Arts, Science and Tourism (EAST) bonds for four major facility renovation projects. These projects are;

- renovation of old student union (Turley Center) to become a student service and success center for $6 million
- renovation of Wallman Hall to replace the mechanical and electrical services for $5.2 million
- Musick Library elevator project for $2 million and
- Hardway Hall renovations of mechanical and electrical services for $5.5 million.

Fairmont State's unofficial enrollment numbers for the Fall 2010 semester reflect an increase in enrollment of 138 based on headcount and 102 in full time equivalents (FTE's). This new growth will allow Fairmont State to meet the revenue projections for the year.

The budget for the fiscal year 2011 will be balanced after revenue budget adjustments are made for the student enrollments. Fairmont State's leadership has made the necessary fiscal planning adjustments to assure stabilization of net assets in the Unrestricted and Auxiliary Enterprise fund groups. Also, it is important to point out that all Fairmont State bonds for fiscal year 2010 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 FY10	Debt Coverage Ratio FY09	Required Debt Coverage Ratio	FY10 Ending Fund Balance	FY09 Ending Fund Balance
Series 2002-3A Bonds	243%	222%	110 %	$ 5,174,148	$4,765,249
Series 2002B Bonds	175 %	166%	100 %	$ 1,201,854	$1,074,239
Series 2003B Bonds	264%	233%	100%	$ 2,549,935	$2,064,743

Our 2011 budgeted debt coverage ratios and ending balances are:

	Budgeted Debt Coverage Ratio	Required Debt Coverage Ratio	Budgeted Ending Fund Balance
Series 2002-3A Bonds	243%	110%	$5,158,770
Series 2002B Bonds	179%	100%	$ 805,673
Series 2003B Bonds	273 %	100%	$2,602,383

Additional information about the revenues that support these bonds is:

- The Series 2002A and 2003A bonds are primarily supported by housing rents. The fall 2010 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 2011.

Fairmont State has been able to adjust our plans to assure stable outcomes in fiscal year 2011 and beyond in our unrestricted E&G and Auxiliary funds. 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

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

ASSETS

CURRENT ASSETS:	
Cash and cash equivalents	$ 21,701,620
Accounts receivable — net	2,063,344
Due from Pierpont for debt service — current portion	172,549
Loans to students — current portion	219,360
Inventories	145,537
Total current assets	24,302,410
NONCURRENT ASSETS:	
Cash and cash equivalents	2,376,824
Loans to students — net of allowance of $506,366	1,118,694
Deferred charges — bond issuance costs	988,172
Due from Pierpont for debt service	4,582,185
Capital assets — net	106,166,231
Total noncurrent assets	115,232,106
TOTAL	$ 139,534,516

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENT OF NET ASSETS
AS OF JUNE 30, 2010

LIABILITIES AND NET ASSETS

LIABILITIES:	
Current liabilities:	
Accounts payable	$ 1,532,949
Due to Pierpont	42,603
Due to the Commission	12,277
Accrued liabilities — payroll	2,087,747
Accrued interest payable	280,402
Retainages payable	10,199
Deferred revenue and deposits	1,264,849
Compensated absences — current portion	809,557
Capital leases — current portion	84,143
Debt obligation to the Commission — current portion	384,842
Bonds payable — current portion	1,828,829
Total current liabilities	8,338,397
Noncurrent liabilities:	
Other post employment benefits liability	3,480,690
Compensated absences	402,848
Advances from federal sponsors	1,151,584
Capital leases	369,836
Debt obligation to the Commission	2,377,581
Bonds payable	61,475,835
Total noncurrent liabilities	69,258,374
Total liabilities	77,596,771
NET ASSETS:	
Invested in capital assets — net of related debt	45,311,791
Restricted for — expendable:	
Loans	433,187
Scholarships	326,521
Sponsored projects	48,233
Capital projects	2,429,668
Debt service	2,130,107
Total restricted	5,367,716
Unrestricted	11,258,238
Total net assets	61,937,745
TOTAL	$ 139,534,516

See notes to financial statements. (Concluded)

FAIRMONT STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

OPERATING REVENUES:	
Student tuition and fees — net of scholarship allowance of $10,482,794	$ 10,830,211
Student activity support revenue	165,870
Auxiliary enterprise revenue	9,451,523
Auxiliary support services revenue	1,303,703
Contracts and grants:	
Federal	6,169,896
State	6,167,638
Private	1,953,602
Interest on student loans receivable	125,214
Faculty services revenue	1,295,106
Operating costs revenue	2,432,600
Support services revenue	3,502,324
Miscellaneous — net	863,413
Total operating revenues	44,261,100
OPERATING EXPENSES:	
Salaries and wages	24,775,693
Benefits	8,712,126
Supplies and other services	14,392,234
Utilities	2,262,138
Student financial aid — scholarships and fellowships	8,278,823
Depreciation	3,734,624
Assessment for faculty services	1,436,654
Assessment for operating costs	176,861
Assessment for support services	340,976
Loan cancellations and write-offs	314,265
Fees assessed by the Commission for operations	178,625
Total operating expenses	64,603,019
OPERATING LOSS	(20,341,919)

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2010

NONOPERATING REVENUES (EXPENSES):	
State appropriations	$ 13,293,378
State fiscal stabilization funds (federal)	476,376
Pell grant revenues	8,713,607
E&G capital and debt service support revenue	867,345
Fees assessed to Pierpont for debt service	203,997
Investment income	92,058
Gifts	12,500
Interest on indebtedness	(3,015,003)
Loss on disposal of fixed assets	(102,932)
Assessment for E&G capital and debt service costs	(861,466)
Fees assessed by the Commission for debt service	(302,232)
Amortization of bond issuance costs, premiums, and discounts	(44,734)
Nonoperating revenues — net	19,332,894
LOSS BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	(1,009,025)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	187,965
DECREASE IN NET ASSETS BEFORE TRANSFER	(821,060)
TRANSFER OF NET ASSETS FROM PIERPONT	154,248
DECREASE IN NET ASSETS	(666,812)
NET ASSETS — Beginning of year	62,604,557
NET ASSETS — End of year	$ 61,937,745

See notes to financial statements. (Concluded)

FAIRMONT STATE UNIVERSITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOWS FROM OPERATING ACTIVITIES:	
Student tuition and fees	$ 9,650,046
Contracts and grants	14,045,356
Payments to and on behalf of employees	(30,755,927)
Payments to suppliers	(14,259,947)
Payments to utilities	(2,247,923)
Payments for scholarships and fellowships	(7,106,815)
Repayments of student loans	66,316
Interest on student loans receivable	17,384
Auxiliary enterprise charges	9,357,723
Fees assessed by the Commission	(178,625)
Other receipts — net	732,800
Student activity support revenue	165,870
Auxiliary fees & debt services support revenue	1,303,703
Assessment support services	(316,291)
Support services revenue	3,208,826
Faculty services revenue	1,295,106
Assessment for faculty services	(1,436,654)
Operating support services revenue	2,322,575
Assessment for operating cost	(168,735)
Net cash used in operating activities	(14,305,212)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:	
State appropriations	14,543,378
State fiscal stabilization funds (federal)	476,376
Pell grant revenues	8,713,607
Gift receipts	12,500
William D. Ford direct lending receipts	22,391,761
William D. Ford direct lending payments	(22,407,039)
Transfers from Pierpont	89,415
Net cash provided by noncapital financing activities	23,819,998
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:	
Capital projects and bond proceeds from the Commission	187,965
E&G capital and debt service support revenue	867,345
Fees assessed to Pierpont	221,676
Payments from Pierpont on debt obligation	170,227
Fees assessed by the Commission	(302,231)
Purchases of capital assets	(1,924,627)
Purchases of equipment	(537,338)
Principal paid on leases	(81,059)
Interest paid on leases	(19,414)
Assessment for E&G capital and debt service costs	(861,466)
Payments to the Commission on debt obligation	(368,522)
Principal paid on bonds	(1,770,503)
Interest paid on bonds	(3,105,375)
Bond interest income	46,795
Net cash used in capital financing activities	(7,476,527)

(Continued)

FAIRMONT STATE UNIVERSITY

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2010

CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	$ 43,527
INCREASE IN CASH AND CASH EQUIVALENTS	2,081,786
CASH AND CASH EQUIVALENTS — Beginning of year	21,996,658
CASH AND CASH EQUIVALENTS — End of year	$ 24,078,444
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:	
Operating loss	$ (20,341,919)
Depreciation expense	3,734,624
Changes in assets and liabilities:	
Receivables — net	(595,083)
Loans to students — net	75,493
Inventories	(2,429)
Accounts payable	(254,662)
Accrued liabilities — payroll	134,351
Compensated absences	(57,129)
Other post employment benefits liability	2,727,735
Deferred revenue	25,486
Undistributed receipts — deposits	248,321
NET CASH USED IN OPERATING ACTIVITIES	$ (14,305,212)
NONCASH TRANSACTIONS:	
Construction in progress additions in accounts payable	$ 66,081
Construction in progress additions in retainage payable	$ 10,199
Amortization of bond issuance costs	$ 44,734
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:	
Cash and cash equivalents classified at current	$ 21,701,620
Cash and cash equivalents classified at noncurrent	2,376,824
	$ 24,078,444

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 Fairmont State under its jurisdiction; the duty to develop a master plan for Fairmont State; 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 Fairmont State; and the power to fix tuition and other fees for the different classes or categories of students enrolled at Fairmont State.

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

During fiscal year 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 University established its own Board of Governors. The newly established Board of Governors of Pierpont Community and Technical College ("Pierpont") and the Board of Governors of Fairmont State were jointly to agree on a division of assets and liabilities of Fairmont State on or before December 1, 2008. Fairmont State and Pierpont were granted an extension. The division of all assets and liabilities was effective July 1, 2009. This change resulted in a change in reporting entity and accordingly only single year financial statements are provided herein as follows:

Net assets as previously presented	$ 84,382,822
Transfer of net assets to Pierpont:	
Cash and cash equivalents	(7,986,608)
Other assets	(682,201)
Capital assets — net	(21,600,479)
Compensated absences	478,112
Debt obligation to Commission	1,633,495
Liability for Fairmont State bonds	4,944,277
Other liabilities	1,435,139
Total transfer of net assets to Pierpont	(21,778,265)
Beginning net assets of new reporting entity	$ 62,604,557

Fairmont State and Pierpont 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.

Fairmont State continued to provide agreed upon services to Pierpont through a contractual agreement. The costs for these services are recorded by Pierpont as assessments. Fiscal year 2010 assessments included faculty services, operating costs and support services in the amounts of $1,295,106, $2,432,600 and $3,502,324, respectively. A contractual agreement may be negotiated for Fairmont State to provide services to Pierpont until July 1, 2011 or until the governing boards of both institutions mutually agree to end the contract agreement.

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 Governmental Accounting Standards Board standards (GASB). The financial statement presentation required by GASB 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 (the "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 or the Association under GASB.

Financial Statement Presentation — GASB establishes standards for external financial reporting for public colleges and universities and requires 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, 2010.

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 expenses 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 amortized 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. 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 eight 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, Cash Equivalents, and Investments — Cash and investments that are (1) externally restricted to make debt service payments and long-term loans to students, or to maintain sinking or reserve funds, (2) to purchase capital or other noncurrent assets or settle long-term liabilities, and (3) permanently restricted net assets, are classified as noncurrent assets in the accompanying combined 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 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 $68,198 for the year ended June 30, 2010. 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. The accompanying financial statements reflect all adjustments required by GASB.

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.

GASB provides 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 West Virginia 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.

GASB requires entities to accrue for employees' rights to receive compensation for vacation or sick leave as such benefits are earned and payment becomes probable. 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 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage, and three days extend health insurance for one month of family coverage. For employees hired after 1988 or who were hired before 1988 but did not choose such coverage until after 1988 but before July 1, 2001, 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. Additionally, all retirees have the option to purchase continued coverage regardless of their eligibility for premium credits. This 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. The same hire date mentioned above applies to coverage for faculty employees also. Faculty hired after July 1, 2009 will no longer receive years of service credit toward insurance premiums when they retire.

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, 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 2010, Fairmont State received and disbursed approximately $22.4 million 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 2010, Fairmont State received and disbursed approximately $9.1 million 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.

Newly Adopted Statements Issued by the Governmental Accounting Standards Board — During 2010, Fairmont State adopted GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement provides guidance regarding whether and when intangible assets should be considered capital assets for financial reporting purposes. The adoption of this statement did not have a material impact on the financial statements.

Fairmont State also adopted GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. 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. The adoption of this statement did not have a material impact on the financial statements.

Recent Statements Issued by the Governmental Accounting Standards Board — The Governmental Accounting Standards Board has issued Statement No. 59, *Financial Instruments Omnibus*, effective for fiscal years beginning after June 15, 2010. This statement improves financial reporting by providing more complete information, by improving consistency of measurements, and by providing clarifications of existing standards related to certain financial instruments and external investment pools. Fairmont State has not yet determined the effect that the adoption of Statement No. 59 may have on its financial statements.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents at June 30, 2010, was held as follows:

2010	**Current**	**Noncurrent**	**Total**
State Treasurer	$21,448,793	$ -	$21,448,793
Trustee		2,130,107	2,130,107
In bank	250,761	246,717	497,478
On hand	2,066		2,066
	$21,701,620	$2,376,824	$24,078,444

Cash on deposit with the Trustee as of June 30, 2010, includes $2,106,500 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, 2010, was $497,478 as compared with the combined bank balance of $811,807. 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, 2010 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 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 which the Commission may invest in, all are subject to credit risk.

WV Money Market Pool —

Credit Risk — Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. For the years ended June 30, 2010, the WV Money 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. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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, 2010, the WV Money Market Pool investments had a total carrying value of $2,876,711,000 of which Fairmont State's ownership represents 0.74%.

WV Government Money Market Pool —

Credit Risk — For the year ended June 30, 2010, the WV Government Money 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. As this pool has been rated, specific information on the credit ratings of the underlying investments of the pool have not been provided.

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, 2010, the WV Government Money Market Pool investments had a total carrying value of $221,183,000, of which Fairmont State's ownership represents 0.07%.

WV Short Term Bond 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 by Standards & Poor's (or its equivalent) or higher. Commercial paper must be rated at least A-1 by Standards & Poor's and P1 by Moody's.

The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating Moody's	Credit Rating S&P	2010 Carrying Value	Percent of Pool Assets
Corporate asset backed securities				
	Aaa	AAA	$ 24,330	5.37 %
	Aaa	NR*	10,353	2.28
	Aa3	AAA	1,000	0.22
	Ba1	CC**	45	0.01
	Ba2	BB**	219	0.05
	B1	BBB**	605	0.13
	B1	CCC**	857	0.19
	B2	CCC**	366	0.08
	B3	B**	442	0.10
	B3	BBB**	247	0.05
	B3	CCC**	554	0.12
	Caa1	CCC**	230	0.05
	Caa2	CCC**	779	0.17
	NR*	AAA	3,538	0.78
			43,565	9.60
Corporate bonds and notes	Aaa	AAA	72,549	16.00
	Aaa	AA	2,060	0.46
	Aa1	AA	5,430	1.20
	Aa2	AA	6,650	1.47
	Aa3	AA	6,722	1.48
	Aa3	A	13,850	3.05
	A1	AA	15,485	3.41
	A1	A	21,098	4.65
	A2	A	41,093	9.06
	A3	A	4,158	0.92
			189,095	41.70
U.S. agency bonds	Aaa	AAA	40,180	8.86
U.S. Treasury notes***	Aaa	AAA	158,423	34.93
U.S. agency mortgage backed securities****	Aaa	AAA	4,540	1.00
Money Market Funds	Aaa	AAA	17,715	3.91
			$453,518	100 %

* NR = Not Rated

** The securities were not in compliance with BTI Investment Policy at June 30, 2010. The securities were in compliance when originally acquired, but were subsequently downgraded. BTI management and its investment advisors have determined that it is in the best interests of the participants to hold the securities for optimal outcome.

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

At June 30, 2010, Fairmont State's ownership represents 0.41% 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 following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	2010 Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	$ 174,980	1
U.S. Treasury notes	65,153	140
U.S. Treasury bills	476,670	35
Commercial paper	855,844	18
Certificates of deposit	281,000	45
U.S. agency discount notes	606,048	52
Corporate bonds and notes	20,000	19
U.S. agency bonds/notes	246,990	55
Money market funds	150,026	1
	$ 2,876,711	33

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 following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

Security Type	2010 Carrying Value (In thousands)	WAM (Days)
Repurchase agreements	$ 66,600	1
U.S. Treasury notes	8,526	114
U.S. Treasury bills	29,982	72
U.S. agency discount notes	36,465	115
U.S. agency bonds/notes	79,532	30
Money market funds	78	1
	$ 221,183	44

The overall effective duration 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 following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool at June 30, 2010:

Security Type	Carrying Value (In thousands)	Effective Duration (Days)
U. S. Treasury bonds/notes	$ 158,423	583
Corporate notes	189,095	560
Corporate asset backed securities	43,565	679
U.S. agency bonds/notes	40,180	288
U.S. agency mortgage backed securities	4,540	360
Money market funds	17,715	1
	$ 453,518	530

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's 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, 2010, are as follows:

Student tuition and fee — net of allowance for doubtful accounts of $1,029,990	$ 645,814
Grants and contracts receivable	679,782
Due from the Commission	48,932
Due from other State agencies	68,667
Due from Pierpont	533,017
Other accounts receivable	87,132
Accounts receivable — net	$2,063,344

5. CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2010, are as follows:

	Beginning Balance	Additions	Reductions	Transfers	Ending Balance
Capital assets not being depreciated:					
Land	$ 7,046,448	$ -	$ -	$ -	$ 7,046,448
Construction in progress	721,277	1,688,375	(2,271,524)	1,758	139,886
Total capital assets not being depreciated	$ 7,767,725	$ 1,688,375	$(2,271,524)	$ 1,758	$ 7,186,334
Other capital assets:					
Land improvements	$ 4,173,432	$ 92,279	$ -	$ 1,950	$ 4,267,661
Infrastructure	10,229,362			24,378	10,253,740
Buildings	109,448,962	2,165,545		106,252	111,720,759
Equipment	5,772,906	369,143	(953,436)	1,289	5,189,902
Computer software	1,495,931	67,711	(936,657)		626,985
Library books	4,414,257	34,571	(145,574)	10,757	4,314,011
Total other capital assets	135,534,850	2,729,249	(2,035,667)	144,626	136,373,058
Less accumulated depreciation for:					
Land improvements	1,359,511	278,115		481	1,638,107
Infrastructure	2,770,969	683,583		6,634	3,461,186
Buildings	21,965,158	2,154,321		29,883	24,149,362
Equipment	3,860,686	506,796	(888,614)	795	3,479,663
Computer software	1,184,758	232,478	(863,550)		553,686
Library books	4,366,759	(120,669)	(145,574)	10,641	4,111,157
Total accumulated depreciation	35,507,841	3,734,624	(1,897,738)	48,434	37,393,161
Other capital assets — net	$ 100,027,009	$(1,005,375)	$ (137,929)	$ 96,192	$ 98,979,897
Capital asset summary:					
Capital assets not being depreciated	$ 7,767,725	$ 1,688,375	$(2,271,524)	$ 1,758	$ 7,186,334
Other capital assets	135,534,850	2,729,249	(2,035,667)	144,626	136,373,058
Total cost of capital assets	143,302,575	4,417,624	(4,307,191)	146,384	143,559,392
Less accumulated depreciation	35,507,841	3,734,624	(1,897,738)	48,434	37,393,161
Capital assets — net	$ 107,794,734	$ 683,000	$(2,409,453)	$ 97,950	$ 106,166,231

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 $201,000 as of June 30, 2010.

6. LONG-TERM LIABILITIES

Long-term obligation activities for the year ended June 30, 2010, are as follows:

	Beginning Balance	Transfers*	Additions	Reductions	Ending Balance	Current Portion
Bonds payable	$64,766,956	$ -	$ -	$(1,770,503)	$62,996,453	
Add (less) deferred amounts:						
Premium on issuance	403,465			(17,209)	386,256	
Discount on issuance	(81,580)			3,535	(78,045)	
Total bonds payable — net	65,088,841	-	-	(1,784,177)	63,304,664	$1,828,829
Capital leases payable	535,038			(81,059)	453,979	84,143
Other long-term liabilities:						
Other postemployment benefits liability	752,955		2,727,735		3,480,690	
Accrued compensated absences	1,269,533		571,175	(628,303)	1,212,405	809,557
Advances from federal sponsors	1,151,584				1,151,584	
Payable to the Commission	3,123,334	7,611		(368,522)	2,762,423	384,842
Total long-term liabilities	$71,921,285	$7,611	$3,298,910	$(2,862,061)	$72,365,745	

*Transfers represent the ownership change from FY09 to FY10.

7. BONDS PAYABLE

Bonds payable at June 30, 2010, are summarized as follows (in thousands):

	Interest Rates	Annual Principal Installments	2010 Principal Outstanding
University Facilities Revenue Bonds 2002, Series A, due through 2032	3.625%–5.375%	$415–$1,145	$ 15,595
Infrastructure Revenue Bonds 2002, Series B, due through 2032	3.625–5.00	215–565	7,860
University Facilities Revenue Bonds 2003, Series A, due through 2032	3.60–5.25	320–860	11,850
Student Activity Revenue Bonds 2003, Series B, due through 2032	3.60–5.25	550–1,475	20,385
Facilities Improvement Revenue Bonds, 2006 Series, due through 2026	4.18 (10-year reset)	329–611	7,306
Total outstanding principal			62,996
Add unamortized bond premium			386
Less unamortized bond discount			(78)
Total			$ 63,304
Current			$ 1,829
Noncurrent			61,167
Total			$ 62,996

Fairmont State University has issued the following revenue bonds:

a. *University Facilities Revenue Bonds 2002, Series A* — On August 1, 2002, Fairmont State University 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 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 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 University 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 the main shared campus and the roads surrounding the campus, 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 University 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 University 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 shared campus; (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 University 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 shared by Fairmont State and Pierpont, 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, 2010, are as follows:

Fiscal Years Ending June 30	Principal	Interest	Total
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	2,052,280	2,824,077	4,876,357
2015	2,133,004	2,741,153	4,874,157
2016–2020	12,265,128	12,088,714	24,353,842
2021–2025	15,685,703	8,680,691	24,366,394
2026–2030	17,266,598	4,583,871	21,850,469
2031–2032	7,895,000	597,000	8,492,000
Total	$ 62,996,453	$ 40,435,064	$ 103,431,517

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, 2010, are as follows:

Year Ending June 30	
2011	$ 26,578

Total lease expense for the year ended June 30, 2010, was $42,068.

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 capital leases for years subsequent to June 30, 2010, are as follows:

Year Ending June 30	Principal	Interest	Total
2011	$ 84,143	$ 16,330	$ 100,473
2012	87,345	13,127	100,472
2013	90,669	9,803	100,472
2014	94,120	6,353	100,473
2015	97,702	2,771	100,473
Total	$ 453,979	$ 48,384	$ 502,363

9. OTHER POST EMPLOYMENT BENEFITS

In accordance with GASB, OPEB costs are accrued based upon invoices received from PEIA based upon actuarial determined amounts. At June 30, 2010, the noncurrent liability related to OPEB costs was $3,480,690. The total OPEB expense incurred and the amount of OPEB expense that relates to retirees was $3,367,463 and $90,163, respectively, during 2010. As of June 30, 2010, there were 60 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 University 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 2010, Fairmont State paid $368,522, to the Commission against the debt obligation. The amount due to Commission at June 30, 2010 is $2,762,423.

11. NET ASSETS

Fairmont State University's net assets at June 30, 2010, include certain designated net assets, as follows:

	Net Assets Before OPEB Liability	Net Assets Less OPEB Liability	Total Net Assets
Invested in capital assets — net of related debt	$45,311,791	$ -	$45,311,791
Restricted for — expendable:			
Loans	433,187		433,187
Scholarships	326,521		326,521
Sponsored projects	48,233		48,233
Capital projects	2,429,668		2,429,668
Debt service	2,130,107		2,130,107
Total restricted	5,367,716	-	5,367,716
Unrestricted:			
Designated for Auxiliaries	5,735,339	375,293	5,360,046
Designated for Fund Managers	435,788		435,788
Undesignated	8,567,801	3,105,397	5,462,404
Total unrestricted	14,738,928	3,480,690	11,258,238
Total net assets	$65,418,435	$3,480,690	$61,937,745

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 Great West 401(a) basic retirement plan ("Great West"). New hires have the choice of either plan.

The STRS is a cost-sharing, defined benefit, 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 the year ended June 30, 2010. Required employee contributions were at the rate of 6% of total annual salary for the year ended June 30, 2010. 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 year ended June 30, 2010, was $416,759, which consisted of $297,685, from Fairmont State and $119,074 from the covered employees.

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, 4101 MacCorkle Avenue SE, Charleston, WV 25304.

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 year ended June 30, 2010, was $2,309,064, which consisted of equal contributions from Fairmont State and covered employees of $1,154,532.

Total contributions to Great West for the year ended June 30, 2010, were $82,402, which consisted of equal contributions from Fairmont State and covered employees of $41,201.

Fairmont State's total payroll for the year ended June 30, 2010, was $24,924,710; total covered employees' salaries in the Great West, STRS, and TIAA-CREF were $686,677, $1,982,682, and $19,133,975.

13. FAIRMONT STATE UNIVERSITY FOUNDATION, INCORPORATED (UNAUDITED)

The Fairmont State University Foundation, Inc. (the "Foundation") is a separate nonprofit organization incorporated in the State whose purpose is to benefit the work and services of Fairmont State and Pierpont and their affiliated nonprofit organizations. The Foundation has a board of directors authorized to have 40 members selected by its Board members. At present, there are 27 members, including the President of Fairmont State as a nonvoting ex-officio member. 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. The Foundation does not meet the criteria for determination as a component unit of Fairmont State as described in GASB Statement No. 39. The economic resources of the Foundation do not entirely benefit Fairmont State. Since Pierpont was part of

Fairmont State for many years, the Foundation has obtained resources designated for Pierpont's programs and /or students. The Foundation currently supports both Fairmont State and Pierpont and there is no specific allocation plan at this time. Fairmont State's endowments are under the control and management of the Foundation.

The Foundation's assets totaled $14,801,161 at June 30, 2010 with net assets of $14,720,632. Gifts grants and bequests to the Foundation totaled $3,194,835 in fiscal year 2010.

Total funds expended by the Foundation in support of Fairmont State activities totaled $694,353 during the year. This support and the related expenditures are primarily recorded in Fairmont State's combined financial statements.

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 the blended component unit requirements. They are not included in Fairmont State's accompanying financial statements under the discretely presented component unit requirements as they are not entirely for the benefit of Fairmont State.

15. RELATED PARTY TRANSACTIONS

Fairmont State and Pierpont enter into an annual contractual agreement to establish the contractual services that will be provided by both institutions. These contract services are referred to as chargeback services and occur from each institution to the other. The definition of chargeback services is services provided from teaching, administrative, academic support, student services, and physical plant support areas of Fairmont State to Pierpont and vice versa.

Chargeback services costs range from teaching services to everyday upkeep of the facilities. The chargeback agreement also provides for the transfer of auxiliary, capital, and student activity fee revenues from the institution in which the student is enrolled to the fund from which the operating, capital and debt service expenditures will be paid. These transfers are primarily pledged revenues to bond funds and required by bond covenants. A contractual agreement may be negotiated for services to be provided until July 1, 2011 or until the governing boards of both institutions mutually agree to end the contract agreement. Currently, a chargeback agreement for fiscal year 2011 has been negotiated and has conditional approval from the Boards of Governors of both Fairmont State and Pierpont. Additional information regarding these transactions may be found in the Component Financial Data section of the Note to Schedules.

Fiscal year 2010 transactions associated with the chargeback agreement for FY10 are as follows:

	Fairmont State
Revenues:	
Student activity support revenue	$ 165,870
Auxiliary support service revenue	1,303,703
Faculty service revenue	1,295,106
Operating cost revenue	2,432,600
Support service revenue	3,502,324
E&G capital and debt service support revenue	867,345
Expenses:	
Assessment for faculty service	1,436,654
Assessment for operating costs	176,861
Assessment for support service	340,976
Assessment for E&G capital and debt service costs	861,466

Fairmont State does not show any expense for Auxiliary Support Services due to its ownership of the Auxiliaries.

16. SEPARATION OF ASSETS AND LIABILITIES AGREEMENT

House Bill 3215, effective July, 1, 2008, provided for a separate governing board for Pierpont Community and Technical College. This new legislation defines a statewide network of independently accredited community and technical colleges and required the newly established Pierpont Board of Governors and Fairmont State Board of Governors to jointly agree on a division of assets and liabilities. This agreement was executed on December 15, 2009 and was effective retroactively to July 1, 2009. The new legislation requires a separate financial statement audit for Pierpont effective for fiscal year 2010.

The Board of Governors of Fairmont State University and the Board of Governors of Pierpont Community and Technical College recognize the historical association between the two institutions and the benefit of collaboration to the students. The preamble to the Separation of Assets and Liabilities Agreement that supports these statements reads as follows:

"The Board of Governors of Fairmont State University (BOG-FSU) and the Board of Governors of Pierpont Community and Technical College (BOG-PCTC) jointly endeavor to separate assets and liabilities in accordance with the provisions of HB3215, 2008. Despite the legal separation of the two institutions, the BOG-FSU and the BOG-PCTC wish to maintain the collaborative and cooperative spirit that has characterized the historical relationship between the University and the College.

The BOG-FSU and the BOG-PCTC recognize the historical association between the two institutions. The institution that is today Pierpont Community and Technical College grew from and was sponsored by Fairmont State University. Both institutions have been and, for the foreseeable future, will be co-located on a single campus in Fairmont, West Virginia. Both institutions have proportionally coordinated, shared, and paid for instructional services, course schedules, facilities, information systems, admissions processes, auxiliary functions, housing, debt service, development and advancement services, student activities and programs, and all the other resources necessary to deliver a high-quality postsecondary education experience.

Students have benefited and will continue to benefit from the relationship between Fairmont State University (FSU) and Pierpont Community and Technical College (PCTC). Those benefits include a wider range of instructional programs than would be available through an individual institution's *offerings; a lower cost of attendance realized from shared institutional infrastructure and reduced duplication of facilities, personnel, and services; and a more diverse mix of student backgrounds, interests, experiences, abilities, and ambitions.*

Although the BOG-FSU and the BOG-PCTC recognize the necessity of separation of assets and liabilities, both pledge themselves to continuing, fostering, and promoting collaborative and cooperative relationships between the two institutions. Such relations respect the historical association that has existed between FSU and PCTC. Such relations are to the benefit and best interest of the students at both institutions. Such relations recognize the proportional participation in institutional operations. Such relations recognize that the two institutions have been, are, and will be co-located on one site. Such relations demonstrate responsible stewardship of public resources by achieving efficiencies and synergies that would otherwise not be possible. Therefore, the Board of Governors of Fairmont State University and the Board of Governors of Pierpont Community and Technical College incorporate into their agreement to separate assets and liabilities this pledge of perpetual cooperation and collaboration."

With both Fairmont State and Pierpont Board of Governors promoting collaboration, the Separation of Assets and Liabilities Agreement was executed to comply with the guidelines established through West Virginia Legislation as stated in the agreement as follows:

*"**WHEREAS**, West Virginia Code – §18B-2A-7a(e)(2008 supp.) states "For purposes of generating audited financial statements for inclusion in the higher education fund and state single audits, the division of all assets and liabilities shall be effective retroactively to the first day of July, two thousand nine."*

and

***WHEREAS**, West Virginia Code – §18B-2A-7a(2008 supp.) states as follows:*

"(g) Each former sponsoring institution and community and technical college shall enter into a comprehensive agreement to address the division of assets and liabilities and the allocation of revenues and expenditures between former sponsoring institutions and newly independent community and technical colleges.

(h) Absent manifest injustice as determined jointly by the Council and Commission, the following general principles apply to the division of assets and liabilities and allocation of revenues and expenditures between former sponsoring institutions and the newly independent community and technical colleges:

(1) For accounting purposes, the institution that assumes responsibility for any asset also shall assume responsibility for any associated liabilities.

(2) Although one institution may assume responsibility for an asset and associated liabilities for accounting purposes, both institutions shall agree on their respective responsibilities for reducing and ultimately eliminating the liability over time if the asset was originally acquired and/or is being used for the benefit of both institutions.

(A) Any agreement to allocate system and institutional educational and general and auxiliary debt service payments shall be consistent with the provisions of all applicable bond covenants.

(B) Absent a controlling bond covenant or other agreement, debt service payments associated with bond indebtedness presumptively shall be allocated based on the relative full-time equivalent student enrollment of the two institutions either as a whole or on the campus where the asset is located and may be adjusted annually to reflect enrollment changes at the two institutions.

(3) The institutions shall agree to allocate educational and auxiliary capital fees in excess of those needed to cover bonded indebtedness to ensure that assets of both institutions are maintained in proper repair and that the institutions assume responsibility for a reasonable share of the total costs of maintaining the facilities.

(4) The institutions shall develop 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 two thousand twelve.

(A) If community and technical college students pay a mandatory athletics fee for the benefit of a sponsoring institution, but receive no direct benefit from that fee, the community and technical college may phase out that fee over a five-year period.

(B) If certain community and technical college students were required to live in institution housing consistent with rules or policies in effect on the effective date of this section, the former sponsoring institution may continue to require these students to live in institution housing for at least one year."”

The Agreement also provides specific language in relation to outstanding bond indebtedness as follows:

*“**WHEREAS**, there is currently outstanding the following bonded indebtedness:*

(A) Board of Governors of Fairmont State College College Facilities Revenue Bonds, Series 2002 A (the “Series 2002A Bonds”), issued in the principal amount of $18,170,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of August 1, 2002 (the “2002A Indenture”), with WesBanco Bank, Inc., as Trustee (the “Bond Trustee”), and currently outstanding in the principal amount of [$15,595,000] updated as of June 30, 2010;

(B) Board of Governors of Fairmont State College College Infrastructure Revenue Bonds, Series 2002 B (the “Series 2002B Bonds”), issued in the principal amount of $9,310,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of August 1, 2002 (the “2002B Indenture”), with the Bond Trustee and currently outstanding in the principal amount of [$7,860,000] updated as of June 30, 2010;

(C) Board of Governors of Fairmont State College College Facilities Revenue Bonds, Series 2003 A (the “Series 2003A Bonds”), issued in the principal amount of $13,320,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of March 1, 2003 (the “2003A Indenture”), supplementing and amending the 2002A Indenture, with the Bond Trustee and currently outstanding in the principal amount of [$11,850,000] updated as of June 30, 2010;

(D) Board of Governors of Fairmont State College Student Activity Revenue Bonds, Series 2003 B (the “Series 2003B Bonds”), issued in the principal amount of $22,925,000 pursuant to a Bond Trust Indenture and Security Agreement dated as of March 1, 2003 (the “2003B Indenture”), with the Bond Trustee and currently outstanding in the principal amount of [$20,385,000] updated as of June 30, 2010; and

(E) *Fairmont State University Board of Governors Subordinate Facilities Improvement Revenue Bonds, Series 2006 (the "Series 2006 Bonds"; the Series 2002A Bonds, the Series 2002B Bonds, the Series 2003A Bonds, the Series 2003B Bonds and the Series 2006 Bonds are hereinafter referred to together as the "Bonds"), issued in the principal amount of $8,500,000 pursuant to a Bond Authorizing Resolution adopted on May 3, 2006 (as supplemented and amended, the "2006 Resolution"; the 2002A Indenture, the 2002B Indenture, the 2003A Indenture, the 2003B Indenture and the 2006 Resolution, together with the other documents authorizing, securing or otherwise relating to the Bonds, are hereinafter referred to together as the "Bond Documents"), and currently outstanding in the principal amount of [$7,306,452.73] updated as of June 30, 2010.*

and

***WHEREAS**, in addition to the statutory requirements described above, the Bond Documents define the College or University to include any successor thereto and, as such, bind both FSU and PCTC, and both FSU and PCTC have copies of the Bond Documents.*

and

***WHEREAS**, the Bond Documents set forth controlling bond covenants and require pledged revenues, and the intent of this document is to adhere to all existing and future bond covenants."*

The Board of Governors of Fairmont State and Pierpont agreed to the following terms for Separation of Assets and Liabilities to comply with the above stated West Virginia State Code and bond covenants:

Education and General Equipment Assets:

1. *Equipment assets regardless of whether they are charged back, whether they be presently owned or purchased in the future by either the FSU or the PCTC will be owned by the institution that the equipment was intended for and reflected on the appropriate institution's equipment schedule.*

Education and General Buildings and Infrastructure:

1. *All capital and infrastructure fees assessed to both FSU and PCTC students for the purpose of paying E&G building and infrastructure bonds, and provide for repair and renovation of same, continue to be collected under the terms outlined in the bond covenants.*

2. *All E&G Capital Fee Revenue and Infrastructure Capital Fee Revenue in excess of bond payments will be used for repair and renovation projects. When sufficient E&G and Infrastructure Capital excess revenues are available to bond for additional new capital project improvements, the E&G, and Infrastructure Capital Fees will be utilized and/or retained for that specific purpose. Both the FSU and the PCTC assume a shared responsibility proportionate to the full-time equivalent (FTE) enrollment of each institution for the total cost of maintaining the facilities.*

3. *Joint ownership of the E&G and Infrastructure Capital Assets and Liabilities shall be reflected on each Institution's Financial Statements at the end of each year. The percentage of ownership of assets and liabilities will be assigned and based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years.*

4. *All land assets will be owned by FSU and land deeds will stay in the name of FSU Board of Governors.*

5. *Should either institution, after paying off all E&G and Auxiliary bond debt, upon proper acknowledgement of its ongoing obligations under existing bond covenants, decide to build and move its own campus, that institution agrees to sell its ownership rights to the E&G building assets to the other institution at an agreed upon price.*

6. *All new capital projects that are provided to FSU and PCTC through state appropriations, bonding and/or student capital fee initiatives, that add to the joint ownership of assets and liabilities on a shared campus, will be assigned proportionately based on the average fall term census date credit hour enrollments (FTE) over the most recent ten (10) years. Any capital project designated to only FSU or only to PCTC and not located on a shared campus will be added to the assets and liabilities of the institution to which the capital project is specified.*

Auxiliary Enterprises:

1. *Assets and related liabilities of the Auxiliary Enterprises (Athletics, Bookstore, Conference Center, Convenience Store, Copy Center, Facilities [Parking & Security], Housing, and Recreation Center) are owned by FSU and all students of both FSU and PCTC who attend class on the main campus and/or pay user fees will have access to these facilities and activities.*

2. *All auxiliary-related student fees approved by the FSU BOG and the PCTC BOG and the Higher Education Policy Commission and the Community and Technical College Council, for the operation, debt service, and repair and maintenance of auxiliary enterprise facilities will be dedicated and provided to those specific Auxiliary Funds for appropriate indicated purposes. All Auxiliary net revenues annually are designated to support future costs of the auxiliary enterprise fund(s) and are managed by FSU for the benefit of each auxiliary enterprise.*

3. *Auxiliary Enterprise Bond Covenant obligations of FSU and PCTC will be met by continuing to honor the requirements stipulated in those covenants, and both FSU and PCTC students will be required to pay the fees stipulated in all Bond Document covenants.*

4. *FSU is responsible for managing the operation of the Auxiliary Enterprises, and maintaining the Auxiliary facilities in good repair.*

5. *All capital projects for the Auxiliary Enterprises will be approved by the FSU BOG.*

6. *Scholarship dollars provided from the non-athletic auxiliary enterprise funds will be allocated proportionately to FSU and PCTC students based on the percentage (%) of student fee contributions made to these funds from the respective FSU and PCTC students.*

The Agreement further specifies the methodology for the assignment of bond debt as follows:

"The Bond Debt assigned to each institution's balance sheet for E&G facilities is allocated based on the average of the past ten (10) years of credit hour enrollments. This average allocated 65.66% of the debt to FSU and 34.34% to the PCTC as of July 1, 2009. The assignment of debt for the Auxiliary facilities will be with the FSU since the FSU will own the assets. However, the PCTC students will continue to pay all Auxiliary fees based on the requirements of those bonds. The allocation of Bond Debt by this Agreement does not affect the obligation of both FSU and PCTC to the bondholders to pay the principal of and interest on the Bonds as the same come due.

The Agreement also provides for disclosure of financial data to bond rating agencies as follows:

For purposes of financial statements and continuing disclosure required by the Bond Documents, FSU and PCTC must present combined financial statement information along with each Institution's separately audited financial statements, and as well must present audits of the bond funds of all 2002A, 2002B, 2003A, 2003B and 2006 Bonds annually. "

The separation of assets and liabilities was completed according to the agreement above. Fairmont State and Pierpont Boards of Governors were provided individual Statements of Net Assets as of July 1, 2009. Both boards voted to accept the agreement and presentation of the new statements. The approved separation of assets and liabilities is reflected in the included financial statements.

17. 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, 2010.

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.

18. SEGMENT INFORMATION

Under the auspices of the State and the Board of Governors of Fairmont State University (formerly Fairmont State College), Fairmont State University issued revenue bonds to finance certain of their 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 Board of Governors of Fairmont State University recognize that they are bound by all bond covenants and are legally obligated for the bond debt payments. The facilities improvement bonds are special obligations of Fairmont State and payable from system fees held under the Indenture.

The Separation of Assets and Liabilities Agreement between the Board of Governors of Fairmont State University and Pierpont binds both Fairmont State and Pierpont to the debt obligation and is stated as:

"WHEREAS, in addition to the statutory requirements described above, the Bond Documents define the College or University to include any successor thereto and, as such, bind both FSU and PCTC, and both FSU and PCTC have copies of the Bond Documents."

Descriptive information for each of Fairmont State University'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 University 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 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 $2,240,000 Serial Bonds with varying interest rates from 3.625% to 4.20%, and mature serially from June 1, 2011 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 University 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 the main shared campus and the roads surrounding the campus, 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 $1,165,000 Serial Bonds with varying interest rates from 3.625% to 4.20%, and mature serially from June 1, 2011 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 year ended June 30, 2010, Fairmont State and Pierpont had revenues, as defined in the Indenture, that approximated 175% 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 $1,725,000 Serial Bonds with varying interest rates from 3.60% to 4.10%, and mature serially from June 1, 2011 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 and Pierpont 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 year ended June 30, 2010, Fairmont State and Pierpont's combined 2002A and 2003A Bonds had net revenues, when combined with other monies legally available, as defined in the Indentures, that approximated 243% 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 to $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 $2,965,000 Serial Bonds with varying interest rates from 3.6% to 4.1%, and mature serially from June 1, 2010 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 year ended June 30, 2010, Fairmont State and Pierpont had pledged revenues, as defined in the Indenture, that approximated 264% 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, 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 Boards, and (2) pay the costs of issuance of the 2006 Bonds and related costs.

The 2006 Bonds outstanding are $7,306,453 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 and Pierpont have (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 University's segments as of and for the year ended June 30, 2010, is as follows:

	College Facilities Bonds 2002 and 2003, Series A As of/Year Ended June 30, 2010	Infrastructure Bonds 2002, Series B As of/Year Ended June 30, 2010	Student Activity Bonds 2003, Series B As of/Year Ended June 30, 2010	Facilities Improvement Bonds 2006, As of/Year Ended June 30, 2010
CONDENSED STATEMENT OF NET ASSETS				
Assets:				
Current assets	$ 3,342,747	$ 1,081,521	$ 2,790,909	$ -
Noncurrent and capital assets	30,966,444	8,629,946	23,331,239	8,641,185
Total assets	34,309,191	9,711,467	26,122,148	8,641,185
Liabilities:				
Current liabilities	(890,926)	(261,824)	(709,320)	(380,830)
Long-term liabilities	(26,946,383)	(7,566,953)	(20,169,793)	(6,977,624)
Total liabilities	(27,837,309)	(7,828,777)	(20,879,113)	(7,358,454)
Net assets:				
Invested in capital assets — net of related debt	622,988	686,748	2,291,771	1,282,731
Restricted	5,848,894	1,195,942	2,951,264	
Total net assets	$ 6,471,882	$ 1,882,690	$ 5,243,035	$ 1,282,731
CONDENSED STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS				
Operating revenues	$ 5,387,430	$ 2,066,458	$ 5,998,710	$ 630,838
Operating expenses	(2,697,222)	(1,103,844)	(3,766,534)	
Operating income	2,690,208	962,614	2,232,176	630,838
Nonoperating revenue	54,661	20,322	4,894	31
Nonoperating expense	(1,397,627)	(392,827)	(1,080,436)	(313,271)
Depreciation	(596,861)	(657,065)	(562,575)	(303,533)
Increase (decrease) in net assets	750,381	(66,956)	594,059	14,065
Net assets — beginning of year	5,721,501	1,949,646	4,648,976	1,268,666
Net assets — end of year	$ 6,471,882	$ 1,882,690	$ 5,243,035	$ 1,282,731
CONDENSED STATEMENT OF CASH FLOWS				
Net cash provided by operating activities	$ 2,568,946	$ 1,034,272	$ 2,030,388	$ -
Net cash used in capital and related financing activities	(2,169,094)	(906,657)	(1,550,485)	(153,964)
Net cash provided by investing activities	9,047		5,289	
Increase (decrease) in cash and cash equivalents	408,899	127,615	485,192	(153,964)
Cash and cash equivalents — beginning of year	4,765,249	1,074,239	2,064,743	153,964
Cash and cash equivalents — end of year	$ 5,174,148	$ 1,201,854	$ 2,549,935	$ -

*Note – Segment Information may include assets, liabilities, revenue and expenses that are also contained in Pierpont's financial statements.

19. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

Operating expenses within both natural and functional classifications for the year ended June 30, 2010, are represented as follows:

Function	Salaries and Wages	Benefits	Assessment for Faculty Services	Assessment for Support Services	Supplies and Others	Assessment for Operating Costs	Utilities	Scholarships	Depreciation	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 2,163,663	$ 880,499	$ -	$ -	$ 2,315,401	$ -	$ 726,905	$ -	$ -	$ -	$ -	$ 6,086,468
Instruction	11,847,738	3,965,187	1,436,654	263,965	1,350,449	145,469	6,756					19,016,218
Research	96,598	15,264			31,882							143,744
Public service	644,967	216,712			3,905,421		18,976					4,786,076
Academic support	2,631,958	781,314		77,011	1,554,669	31,392						5,076,344
Student services	2,956,177	843,017			1,706,712							5,505,906
General institutional support	2,908,877	1,270,648			1,837,084		5,461				178,625	6,200,695
Student financial aid								8,278,823				8,278,823
Operation and maintenance	1,525,715	739,485			1,690,616		1,504,040					5,459,856
Depreciation									3,734,624			3,734,624
Loan cancellations and write-offs										314,265		314,265
TOTAL	$24,775,693	$8,712,126	$1,436,654	$340,976	$14,392,234	$176,861	$2,262,138	$8,278,823	$3,734,624	$ 314,265	$178,625	$64,603,019

20. SUBSEQUENT EVENT

During August 2010, the West Virginia Development Office issued approximately $162 million of Education, Arts, Science and Tourism (EAST) bonds. The Commission, as provided in the State Code, received 60%, or $97.2 million, of the proceeds to help fund various building and campus renewal projects. Fairmont State has been approved to receive $18.7 million of these proceeds. The proceeds will fund four major renovation projects on the shared campus of Fairmont State and Pierpont. The projects include renovations to the Turley Center, Hardway Hall, Wallman Hall and the addition of an elevator to the Musick Library. The bond proceeds and the capital asset additions will be accounted for as prescribed in the Separation of Assets and Liabilities Agreement between Fairmont State and Pierpont. Upon completion, the increase in capitalized assets for Fairmont State and Pierpont are estimated to be approximately $12.3 million and $6.4 million, respectively. The West Virginia Development Office is responsible for repayment of the debt.

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ADDITIONAL INFORMATION

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NET ASSETS INFORMATION
AS OF JUNE 30, 2010

ALL FUNDS	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted and Other Funds	Component Eliminations	Total Institution
ASSETS					
CURRENT ASSETS:					
Cash and cash equivalents	$ 2,880,301	$ 6,442,178	$12,379,141	$ -	$ 21,701,620
Accounts receivable — net	71,152	263,247	1,775,899	(46,954)	2,063,344
Due from Pierpont for debt service — current portion	172,549				172,549
Loans to students — current portion			219,360		219,360
Inventories			145,537		145,537
Total current assets	3,124,002	6,705,425	14,519,937	(46,954)	24,302,410
NONCURRENT ASSETS:					
Cash and cash equivalents	48	2,130,059	246,717		2,376,824
Loans to students — net			1,118,694		1,118,694
Deferred charges — bond issuance costs	159,494	809,617	19,061		988,172
Due from Pierpont for debt service	4,582,185				4,582,185
Capital assets — net	39,721,289	60,132,932	6,312,010		106,166,231
Total noncurrent assets	44,463,016	63,072,608	7,696,482	-	115,232,106
TOTAL	$47,587,018	$69,778,033	$22,216,419	$(46,954)	$ 139,534,516
LIABILITIES AND NET ASSETS					
CURRENT LIABILITIES:					
Accounts payable	$ 101,070	$ 170,269	$ 1,261,610	$ -	$ 1,532,949
Due to Pierpont	715	2,468	86,374	(46,954)	42,603
Due to the Commission			12,277		12,277
Accrued liabilities — payroll		70,009	2,017,738		2,087,747
Accrued interest payable	79,233	197,071	4,098		280,402
Retainages payable	10,199				10,199
Deferred revenue	84,348	406,582	773,919		1,264,849
Compensated absences — current portion		102,688	706,869		809,557
Capital lease payable — current portion		84,143			84,143
Debt obligation payable to the Commission — current portio	384,842				384,842
Bonds payable — current portion	515,707	1,285,000	28,122		1,828,829
Total current liabilities	1,176,114	2,318,230	4,891,007	(46,954)	8,338,397
Noncurrent liabilities:					
Other post employment benefits liability		375,293	3,105,397		3,480,690
Compensated absences		51,495	351,353		402,848
Advances from federal sponsors			1,151,584		1,151,584
Capital lease payable		369,836			369,836
Debt obligation to the Commission	2,377,581				2,377,581
Bonds payable	13,554,651	46,931,258	989,926		61,475,835
Total noncurrent liabilities	15,932,232	47,727,882	5,598,260	-	69,258,374
Total liabilities	17,108,346	50,046,112	10,489,267	(46,954)	77,596,771
NET ASSETS:					
Invested in capital assets — net of related debt	27,726,456	12,272,312	5,313,023		45,311,791
Restricted for — expendable:					
Loans			433,187		433,187
Scholarships	322,500		4,021		326,521
Sponsored projects			48,233		48,233
Capital projects	2,429,668				2,429,668
Debt service	48	2,130,059			2,130,107
Total restricted	2,752,216	2,130,059	485,441	-	5,367,716
Unrestricted E&G Plant and President's Control			5,462,404		5,462,404
Unrestricted Auxiliary and Fund Manager Funds		5,329,550	466,284		5,795,834
Total unrestricted		5,329,550	5,928,688	-	11,258,238
Total net assets	30,478,672	19,731,921	11,727,152	-	61,937,745
TOTAL	$47,587,018	$69,778,033	$22,216,419	$(46,954)	$ 139,534,516

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS INFORMATION FOR THE YEAR ENDED JUNE 30, 2010

ALL FUNDS	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted and Other Funds	Component Eliminations	Total Institution
OPERATING REVENUES:					
Tuition and fees — net	$ -	$ 40,272	$ 10,789,939	$ -	$ 10,830,211
Student activity support revenue			572,859	(406,989)	165,870
Auxiliary enterprise revenue		5,748,472	3,703,051		9,451,523
Auxiliary support service revenue		4,999,023		(3,695,320)	1,303,703
Contracts and grants:					
Federal	2,287		6,167,609		6,169,896
State/local	20,399	64,800	6,082,439		6,167,638
Private	14,637		1,938,965		1,953,602
Interest on student loans receivable			125,214		125,214
Faculty services revenue			1,295,106		1,295,106
Operating costs revenue			2,432,600		2,432,600
Support services revenue			3,502,324		3,502,324
Miscellaneous — net	18,193	331,272	513,948		863,413
Total operating revenues	55,516	11,183,839	37,124,054	(4,102,309)	44,261,100
OPERATING EXPENSES:					
Salaries and wages		2,053,495	22,722,198		24,775,693
Benefits		688,703	8,023,423		8,712,126
Supplies and other services	212,701	2,544,215	11,635,318		14,392,234
Utilities	3,360	726,905	1,531,873		2,262,138
Student financial aid — scholarships and fellowships	6,701	328,207	7,943,915		8,278,823
Depreciation	1,499,141	1,571,692	663,791		3,734,624
Assessment for student activity costs			406,989	(406,989)	
Assessment for auxiliary fees and debt service			3,695,320	(3,695,320)	
Assessment for faculty services			1,436,654		1,436,654
Assessment for operating costs			176,861		176,861
Assessment for support services			340,976		340,976
Loan cancellations and write-offs		88,564	225,701		314,265
Fees assessed by the Commission for operations			178,625		178,625
Total operating expenses	1,721,903	8,001,781	58,981,644	(4,102,309)	64,603,019
OPERATING INCOME (LOSS)	(1,666,387)	3,182,058	(21,857,590)	-	(20,341,919)
NONOPERATING REVENUES (EXPENSES):					
State appropriations			13,293,378		13,293,378
State fiscal stabilization funds (federal)			476,376		476,376
Pell grant revenues	521		8,713,086		8,713,607
E&G capital and debt service support revenue	2,526,260			(1,658,915)	867,345
Fees assessed to Pierpont for debt service	203,997				203,997
Investment income	6,066	60,995	24,997		92,058
Gifts			12,500		12,500
Interest on indebtedness	(589,018)	(2,371,337)	(54,648)		(3,015,003)
Loss on disposal of fixed assets	(6,877)	(12,787)	(83,268)		(102,932)
Assessment for E&G capital and debt service costs			(2,520,381)	1,658,915	(861,466)
Fees assessed by the Commission for debt service	(302,232)				(302,232)
Amortization of bond issuance costs	(7,811)	(36,060)	(863)		(44,734)
Total nonoperating revenues (expenses)	1,830,906	(2,359,189)	19,861,177	-	19,332,894
(LOSS) INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	164,519	822,869	(1,996,413)	-	(1,009,025)
CAPITAL PROJECTS AND BOND PROCEEDS FROM THE COMMISSION	187,965				187,965
DECREASE IN NET ASSETS BEFORE TRANSFER	352,484	822,869	(1,996,413)		(821,060)
TRANSFER OF NET ASSETS FROM PIERPONT	(481,159)	447,461	187,946		154,248
INCREASE (DECREASE) IN NET ASSETS	(128,675)	1,270,330	(1,808,467)	-	(666,812)
NET ASSETS — Beginning of year	30,607,347	18,461,591	13,535,619		62,604,557
NET ASSETS — End of year	$30,478,672	$19,731,921	$ 11,727,152	$ -	$ 61,937,745

See note to schedules.

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted and Other Funds	Component Eliminations	Total Institution
CASH FLOWS FROM OPERATING ACTIVITIES:					
Student tuition and fees	$ 84,348	$ 38,648	$ 9,527,050	$ -	$ 9,650,046
Contracts and grants	(341,185)	64,800	14,321,741		14,045,356
Payments to and on behalf of employees	91	(2,493,166)	(28,262,852)		(30,755,927)
Payments to suppliers	(195,607)	(2,631,409)	(11,432,931)		(14,259,947)
Payments to utilities	(3,360)	(731,439)	(1,513,124)		(2,247,923)
Payments for scholarships and fellowships	(4,118)	(328,207)	(6,774,490)		(7,106,815)
Loans issued to students			66,316		66,316
Interest on student loans receivable			17,384		17,384
Auxiliary enterprise charges		5,661,901	3,695,822		9,357,723
Fees assessed by the Commission			(178,625)		(178,625)
Other receipts — net	35,312	385,119	312,369		732,800
Student activity support revenue			572,859	(406,989)	165,870
Auxiliary fees & debt service support revenues		4,999,023		(3,695,320)	1,303,703
Assessment support services			(316,291)		(316,291)
Support services revenue			3,208,826		3,208,826
Assessment for student activity costs			(406,989)	406,989	
Assessment for auxiliary fees & debt service			(3,695,320)	3,695,320	-
Faculty services revenue			1,295,106		1,295,106
Assessment for faculty services			(1,436,654)		(1,436,654)
Operating support services revenue			2,322,575		2,322,575
Assessment for operating cost			(168,735)		(168,735)
Net cash provided by (used in) operating activities	(424,519)	4,965,270	(18,845,963)	-	(14,305,212)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
State appropriations			14,543,378		14,543,378
State fiscal stabilization funds (federal)			476,376		476,376
Pell grant revenues	521		8,713,086		8,713,607
Gift receipts			12,500		12,500
William D. Ford direct lending receipts	(15,484)		22,407,245		22,391,761
William D. Ford direct lending payments			(22,407,039)		(22,407,039)
Transfers (to) from Pierpont	(545,992)	447,461	187,946		89,415
Net cash provided by noncapital financing activities	(560,955)	447,461	23,933,492	-	23,819,998
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:					
State capital grants (federal) received					
Capital projects and bond proceeds from the Commission	187,965				187,965
E&G capital and debt service support revenue	2,526,260			(1,658,915)	867,345
Fees assessed to Pierpont	221,676				221,676
Payments from Pierpont on debt obligation	170,227				170,227
Fees assessed by the Commission	(302,231)				(302,231)
Purchases of capital assets	(1,175,490)	(749,137)			(1,924,627)
Purchases of equipment		(38,436)	(498,902)		(537,338)
Principal paid on leases		(81,059)			(81,059)
Interest paid on leases		(19,414)			(19,414)
Assessment for E&G capital and debt service costs			(2,520,381)	1,658,915	(861,466)
Payments to the Commission on debt obligation	(368,522)				(368,522)
Principal paid on bonds	(498,030)	(1,245,000)	(27,473)		(1,770,503)
Interest paid on bonds	(648,557)	(2,406,731)	(50,087)		(3,105,375)
Bond interest income	73	46,722			46,795
Net cash used in capital financing activities	113,371	(4,493,055)	(3,096,843)	-	(7,476,527)
CASH FLOW FROM INVESTING ACTIVITY — Interest on investments	6,887	15,958	20,682		43,527
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(865,216)	935,634	2,011,368	-	2,081,786
CASH AND CASH EQUIVALENTS — Beginning of year	3,745,565	7,636,603	10,614,490		21,996,658
CASH AND CASH EQUIVALENTS — End of year	$ 2,334,356	$ 9,019,698	$ 12,813,804	$ -	$ 24,078,444

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF CASH FLOW INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

	Board of Governors Support Fund	Auxiliary Funds	Unrestricted, Restricted and Other Funds	Total Institution
RECONCILIATION OF NET OPERATING INCOME (LOSS) TO NET CASH USED IN OPERATING ACTIVITIES:				
Operating income (loss)	$ (1,666,387)	$3,182,058	$ (21,857,590)	$ (20,341,919)
Adjustments to reconcile net operating loss to net cash provided by (used in) operating activities:				
Depreciation expense	1,499,141	1,571,692	663,791	3,734,624
Changes in assets and liabilities:				
Receivables — net	2,495	(81,908)	(515,670)	(595,083)
Loans to students — net			75,493	75,493
Inventories			(2,429)	(2,429)
Accounts payable	(344,116)	(21,873)	111,327	(254,662)
Accrued liabilities — payroll		5,553	128,798	134,351
Compensated absences		(12,873)	(44,256)	(57,129)
Other postemployment benefits liability		289,383	2,438,352	2,727,735
Deferred revenue		22,559	2,927	25,486
Undistributed receipts — deposits	84,348	10,679	153,294	248,321
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ (424,519)	$4,965,270	$ (18,845,963)	$ (14,305,212)
NONCASH TRANSACTIONS:				
Construction in progress additions in accounts payable	$ 66,081	$ -	$ -	$ 66,081
Construction in progress additions in retainage	$ 10,199	$ -	$ -	$ 10,199
Amortization of bond issuance costs, premiums, and discounts	$ 44,734	$ -	$ -	$ 44,734
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET ASSETS:				
Cash and cash equivalents classified at current	$ 2,880,301	$6,442,178	$ 12,379,141	$ 21,701,620
Cash and cash equivalents classified at noncurrent	48	2,130,059	246,717	2,376,824
	$ 2,880,349	$8,572,237	$ 12,625,858	$ 24,078,444

See note to schedules.

(Concluded)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

COMPONENT: BOG Support

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Instruction								-
Research								-
Public service								-
Academic support								-
Student services								-
General institutional support								-
Student financial aid					6,701			6,701
Operation and maintenance			212,701	3,360				216,061
Depreciation						1,499,141		1,499,141
Loan cancellations and write-offs								-
TOTAL	$ -	$ -	$ 212,701	$ 3,360	$ 6,701	$ 1,499,141	$ -	$ 1,721,903

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

COMPONENT: AUXILIARY

Function	Salaries and Wages	Benefits	Supplies and Others	Utilities	Scholarships	Depreciation	Loan Cancellations	Function Total
Auxiliary enterprises	$ 1,827,082	$ 599,596	$ 2,315,104	$ 726,905	$ -	$ -	$ -	$ 5,468,687
Instruction								-
Research								-
Public service	8,418	778	2,820					12,016
Academic support								-
Student services			4					4
General institutional support	113,240	52,060	180,427					345,727
Student financial aid					328,207			328,207
Operation and maintenance	104,755	36,269	45,860					186,884
Depreciation						1,571,692		1,571,692
Loan cancellations and write-offs							88,564	88,564
TOTAL	$ 2,053,495	$ 688,703	$ 2,544,215	$ 726,905	$ 328,207	$ 1,571,692	$ 88,564	$ 8,001,781

See note to schedules.

(Continued)

FAIRMONT STATE UNIVERSITY

SCHEDULE OF NATURAL VS. FUNCTIONAL CLASSIFICATIONS INFORMATION
FOR THE YEAR ENDED JUNE 30, 2010

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	Depreciation	Assessment for Activity, Capital and Debt Service Costs	Assessment for Auxiliary Fees and Debt Service	Loan Cancellations	Fees Assessed by the Commission	Function Total
Auxiliary enterprises	$ 336,580	$ 280,903	$ -	$ -	$ 297	$ -	$ -	$ -	$ -	$ -	$3,695,320	$ -	$ -	$ 4,313,100
Instruction	11,847,738	3,965,187	1,436,654	263,965	1,350,448	145,469	6,757							19,016,218
Research	96,598	15,264			31,883									143,745
Public service	636,549	215,934			3,902,601		18,976							4,774,060
Academic support	2,631,958	781,314		77,011	1,554,669	31,392								5,076,344
Student services	2,956,177	843,017			1,706,708					406,989				5,912,891
General institutional support	2,795,638	1,218,588			1,656,657		5,461						178,625	5,854,969
Student financial aid								7,943,915						7,943,915
Operation and maintenance	1,420,960	703,216			1,432,055		1,500,679							5,056,910
Depreciation									663,791					663,791
Loan cancellations and write-offs												225,701		225,701
TOTAL	$22,722,198	$8,023,423	$1,436,654	$340,976	$11,635,318	$176,861	$1,531,873	$7,943,915	$663,791	$ 406,989	$3,695,320	$225,701	$178,625	$58,981,644

See note to schedules.

(Concluded)

FAIRMONT STATE UNIVERSITY

NOTE TO SCHEDULES
AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

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 University, Fairmont State Auxiliaries and BOG Support. The BOG Support component comprises Fairmont State's ownership based on the Separation of Assets and Liabilities Agreement which was 65.82% as of June 30, 2010. The BOG support component consists of capital funds for all Educational and General (E&G) shared bonding and plant repairs and replacements, plant and other capitalized assets, and grants in support of capital projects.

Financial Schedules — The financial schedules for Fairmont State University, Auxiliary and BOG Support 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 University and Pierpont to produce separate financial statements (net assets, statement of revenues, expenses, and changes in net assets ("SRECNA"), and Natural versus Functional Classification reports) from a shared financial accounting system. These supplemental schedules are produced as a by-product of the financial reporting system.

The following represents additional footnotes outlining faculty teaching services shared between Fairmont State and Pierpont, services that are charged to both Fairmont State and Pierpont and student fee distributions. These representations are based on the approved chargeback agreement between Fairmont State and Pierpont and legislative actions:

a. *Revenues* — State appropriations are allocated by the Legislature each year. Appropriations decreased by 11.497% for Fairmont State.

   Student fee revenues are directly credited to the appropriate two-and four-year college funds based on the students' program major. Student enrollment drives the fee revenue dollars available to each Institution, 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 Fairmont State's 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 Pierpont.

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 Pierpont 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 Fairmont State to Pierpont 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 Pierpont 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.

   Support Services salary and benefit chargebacks are performed each pay cycle and are supported with detailed reports showing employee costs being charged by Pierpont 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 Pierpont 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 Pierpont 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 Pierpont and Fairmont State students.

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

   Compensated Absences — As of June 30, 2010, PEIA retiree and severance costs and liabilities are distributed to the component units based on funding source. However, the chargeback agreement for fiscal year 2010 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 2010, the percentages are 32.11% for the two-year institution and 67.89% 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 Boards 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, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Fairmont State's internal control over financial reporting 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that the material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fairmont State's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Deloitte & Touche LLP

October 29, 2010