

Shepherd College

*Financial Statements as of and for the
Years Ended June 30, 2003 and 2002 and
Independent Auditors' Reports and
Additional Information for the Years Ended
June 30, 2003 and 2002*

SHEPHERD COLLEGE

TABLE OF CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1-2
MANAGEMENT DISCUSSION AND ANALYSIS (RSI)	3-9
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2003 AND 2002:	
Statements of Net Assets	10-11
Statements of Revenues, Expenses and Changes in Net Assets	12-13
Statements of Cash Flows	14-15
Notes to Financial Statements	16-33
SUPPLEMENTARY COMPONENT FINANCIAL DATA	34-38
INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	39



INDEPENDENT AUDITORS' REPORT

To the Shepherd College Governing Board:

We have audited the accompanying financial statements of Shepherd College (the "College") as of June 30, 2003 and 2002, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2003 and 2002, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the financial statements, the College changed its financial statement presentation to adopt the provisions of the Governmental Accounting Standards Board ("GASB") Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures*, as of July 1, 2001.

The Management Discussion and Analysis ("MD&A") on pages 3 to 9 is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the College's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation regarding the supplementary information. However, we did not audit such information and we do not express an opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 30, 2003 on our consideration of Shepherd College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

October 30, 2003



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

To the Shepherd College Governing Board:

We have audited the financial statements of Shepherd College (the "College") as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated October 30, 2003, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Shepherd College Governing Board, management of the College, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

October 30, 2003

Management Discussion and Analysis Fiscal Years 2003 and 2002

Overview of the Financial Statements and Financial Analysis

Shepherd College (the “College”) is proud to present its financial statements for fiscal years 2003 and 2002. There are three financial statements presented: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. This discussion and analysis of the College’s financial statements provides an overview of its financial activities for the year and is required supplemental information.

Statement of Net Assets

The Statement of Net Assets presents the assets, liabilities, and net assets of the College as of June 30, 2003, and 2002. The Statement of Net Assets is a point-of-time financial statement. The Statement of Net Assets presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities). The difference between current and noncurrent assets and liabilities will be discussed in the footnotes to the financial statements.

From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the operations of the institution. They are also able to determine how much the institution owes vendors and lending institutions. Finally, the Statement of Net Assets provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the College.

Net assets are divided into three major categories. The first category, invested in capital assets, net of debt, provides the institution’s equity in property, plant, and equipment owned by the institution. The second asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. Shepherd College does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Shepherd College Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the institution but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The third category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

Statement of Net Assets
(In thousands of dollars)

	FY 2003	FY 2002
Assets:		
Cash	7,094	6,347
Other current Assets	1,639	2,232
Noncurrent Assets	58,511	48,960
Total Assets	<u>\$ 67,244</u>	<u>\$ 57,539</u>
Liabilities:		
Current Liabilities	5,178	4,606
Noncurrent Liabilities	12,057	7,129
Total Liabilities	<u>\$ 17,235</u>	<u>\$ 11,735</u>
Net Assets	<u>\$ 50,009</u>	<u>\$ 45,804</u>

Assets:

- Current cash increased \$747,000 in fiscal year 2003. Part of the increase was caused by the change in arrears payroll for fiscal year 2003. All employees hired after July 1, 2002 are required to be paid in arrears. Full time faculty who are not paid in arrears during the fall and spring semesters are paid in arrears for summer school. Employees who are paid in arrears receive their pay on the next pay day after the period they have worked. The cash disbursement for these employees' payroll was deferred until the second week of July. The rest of the increase is attributable to the cash flows from operating activities, less the operating revenues used to purchase capital assets. There were more outstanding accounts payable invoices at the end of fiscal year 2003 than in fiscal year 2002 because the State Department of Administration changed its process for the cut-off of payments at year end.
- The amount due from primary government decreased \$822,000. This amount reflects the expenditures for the Library Addition and equipment for the Community and Technical College of Shepherd.
- Grants and contracts receivable increased \$341,000. The main source of the increase is a receivable from the U.S. Department of Housing and Urban Development for the renovation of the Scarborough Library.
- Investments increased \$4.3 million. The College received \$5.9 million in proceeds from the sale of bonds in January. The proceeds held for construction and debt service reserves were invested in short term securities.
- Capital asset additions included \$6.2 million for construction projects. The College spent \$1.5 million for equipment. Accumulated depreciation increased \$2.6 million.

Liabilities:

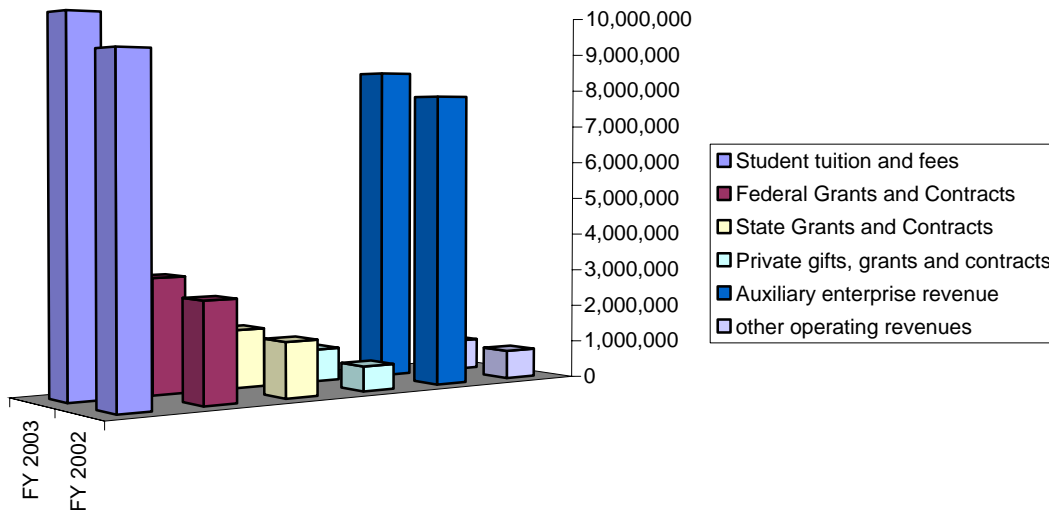
- The \$290,000 increase in accounts payable was attributable to a change in the year-end cut off process by the State Department of Administration. The last date the College could submit invoices for payment was earlier in fiscal year 2003 than in fiscal year 2002.
- The main source of the \$313,000 change in accrued liabilities was caused by the increased number of employees who are paid in arrears. All employees hired after July 1, 2002 are required to be paid in arrears. Full time faculty who are not paid in arrears during the fall and spring semesters are paid in arrears for summer school. The College also recorded a \$79,000 liability related to employee grievances.
- Deferred revenue decreased \$179,000 because Department of Housing and Urban Development grant revenues were not received in advance of expenditures in fiscal year 2003.
- The compensated absences liability decreased \$363,000. The portion of this liability associated with the sick leave retirement benefit decreased because employees hired after July 1, 2001 may not use their accumulated sick leave or faculty experience to purchase insurance after they retire. The portion of this liability associated with annual leave increased because several staff positions have been changed from classified to non classified. All employees who are non classified staff receive 24 days of annual leave each year. New employees who are classified staff receive 15 days of annual leave per year. The amount of the annual leave liability also increases as the employees' pay rates increase.
- The College issued \$5.9 million in bonds in January for several construction projects.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the institution, both operating and nonoperating, and the expenses paid by the institution, operating and nonoperating, and any other revenues, expenses, gains, and losses received or spent by the College.

Generally speaking, operating revenues are received for providing goods and services to the various customers and constituencies of the College. Operating expenses are those expenses paid to acquire or produce the goods and services provided in return for the operating revenues, and to carry out the mission of the institution. Revenues received for which goods and services are not provided are reported as nonoperating revenues. For example, State appropriations are nonoperating because they are provided by the Legislature to the institution without the Legislature directly receiving commensurate goods and services for those revenues.

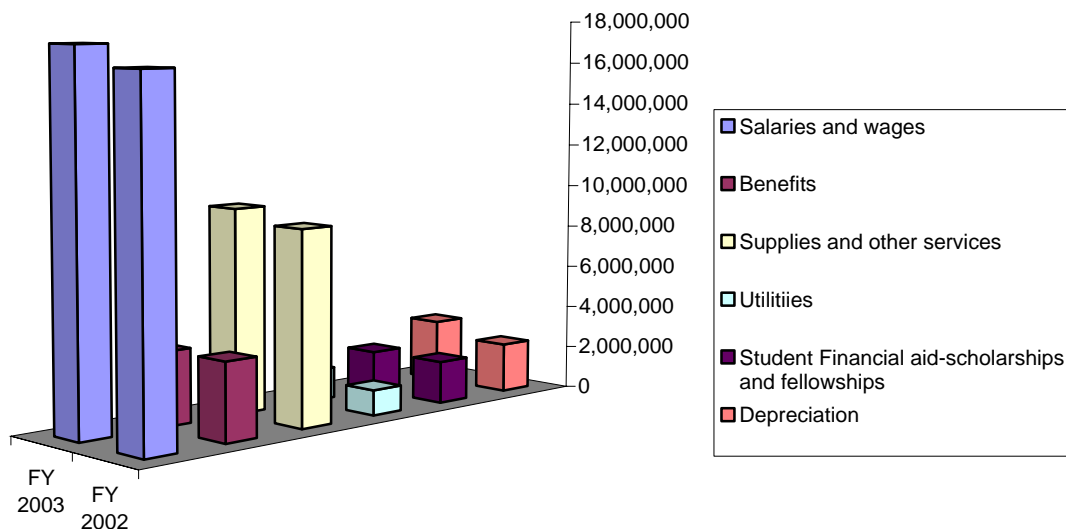
Operating Revenues



Operating Revenues:

- Gross student tuition and fees increased by \$1.5 million for a 13% overall increase. This is attributed to a combination of factors including a 4.4% increase in non auxiliary tuition and fees rates for undergraduate resident students and a 6.3% increase for nonresident students. The number of full-time equivalent (FTE) enrollment resident students who paid tuition increased 7%. There were increases in several enrollment fees.
- Federal Grant and contract revenues increased by \$415,000 for a 15.6% increase. HUD grant revenues used for operating costs related to the Library Addition were included as operating revenues rather than nonoperating capital grant revenues. Pell Grants increased.
- State grants and contracts increased \$93,000. The Promise Scholarship program was initiated in fiscal year 2003. The College received funds through this program for Promise Scholarship recipients.
- Private grants and contracts increased \$208,000. The United Auto Workers provided \$111,000 to the Community and Technical College for a technology grant. The Community and Technical College received \$150,000 from its funds held by the Shepherd College Foundation. There was a small decline in revenues received from smaller private funding sources.
- Gross sales and services of auxiliary enterprises increased by \$716,000 for a 9.1% increase in FY 2003 over FY 2002. The charges for room rent increased 9% over fiscal year 2002, and the charges for the meal plan increased 4%. The athletics fee increased 9.5 percent, and the College Center fee increased 12.2%.
- Other revenues increased by \$56,000, with the largest increase a result of changes in parking revenues.

Operating Expenses



Operating Expenses:

- Salaries and wages increased by \$943,000 for an increase of 5.8% in FY 2003 over FY 2002. Employee salary increases averaged 3%. Several positions were added during fiscal year 2002, including the Food Service Director and Project Manager. Part-time faculty costs increased \$94,000. The College also recorded \$79,000 for expenses related to employee grievances.
- The total cost of benefits decreased by nearly 5% for FY 2003 over FY 2002. Health Insurance premium hikes and increases in Social Security and retirement costs related to the pay raise were more than offset by the decline in the compensated absences liability.
- Supplies and other services increased \$564,000. The College expended \$280,000 for non capital items related to the Library Addition. Expenditures for merchandise for resale increased \$184,000. Residence Hall repairs and renovations increased \$128,000.
- Utilities expenses increased \$269,000 for an increase of 23%. Prices for power, fuel oil, and water increased in FY 2003.
- Depreciation expense increased \$606,000. Depreciation on the new Library Addition started in August 2002. Additions to depreciable capital assets, including the Library Addition, increased \$15.5 million in fiscal year 2003 and \$3.8 million fiscal year 2002. The additions to fixed assets amounts include transfers from construction in progress totaling \$13.8 million in fiscal year 2003 and \$2.1 million in fiscal year 2002.

Nonoperating Revenues (Expenses)

- Nonoperating revenues from state appropriations decreased by \$891,000 or 6.8%. In FY 2002, the College received one time appropriations for a \$500,000 capital addition to the Frank Center. During FY 2003, the College absorbed a 3.4% reduction in its general fund appropriations.
- Fees assessed by the West Virginia Higher Education Policy Commission for principal decreased by \$540,000 as a result of the College's portion of the system debt being reflected on the College's Statement of Net Assets.
- Interest on indebtedness increased \$142,000, because of the interest paid and accrued on the new bond issue.
- Investment income decreased by \$104,000. The College participates in the investment pool managed by the State of West Virginia. The investment pool return was less than in previous years due to the decline in the financial markets.
- The College received \$3 million from the Department of Housing and Urban Development for the Robert C. Byrd Center for Legislative Studies. These funds were transferred to the Shepherd College Foundation. These funds will be expended for the operations of the Center.

Statement of Cash Flows

The final statement presented by the College is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the College during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the institution. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting, and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds, and interest received from investing activities. The fifth section reconciles the net cash used to the operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Statement of Cash Flows (In thousands of dollars)

	FY 2003	FY 2002
Cash provided (used) by:		
Operating activities	(\$ 9,147)	(\$ 9,163)
Noncapital financing activities	13,029	13,153
Capital and related financing activities	727	(3,889)
Investing activities	<u>(3,862)</u>	<u>495</u>
Net Change in Cash	<u>\$ 747</u>	<u>\$ 596</u>
Cash, beginning of year	<u>\$ 6,347</u>	<u>\$ 5,751</u>
Cash, end of year	<u>\$ 7,094</u>	<u>\$ 6,347</u>

Capital Assets

Construction of the Library Addition was completed in August. The renovation of the Scarborough Library was near completion by the end of the fiscal year. \$3.1 million was received from the Department of Housing and Urban Development for these projects during the year.

The proceeds from the bond issue were allocated for the construction of the following projects:

	Allocation	FY 2003 Expenditures
Frank Arts Center addition	\$2,344,000	\$ 443,886
Kenneth J. Boone Field House	1,304,000	1,202,157
West campus parking and roadwork	1,075,000	105,544
Boiler Replacements and lighting systems	484,000	64,796

The College received \$500,000 from the Shepherd College Foundation for the construction of the Kenneth G. Boone Field House. Several residence hall renovation projects were completed for \$519,000.

Economic Outlook

The reduction in state appropriations to the College in fiscal year 2004 will be offset by fee increases and enrollment growth. The College is facing a possible additional 9% reduction in its general fund appropriations for fiscal year 2005. Most of the reduction can be funded through additional enrollment growth and fee increases.

Although the economic forecasts for the state of West Virginia are negative and the number of high school graduates in the state continues to decline, the College is well positioned in the eastern region of the state to attract students and increase enrollments. The improved physical plant and favorable comparison of fee structures with peer institutions indicate that the College should be able to remain competitive for new and returning students.

SHEPHERD COLLEGE

STATEMENTS OF NET ASSETS JUNE 30, 2003 AND 2002

	2003	2002
ASSETS:		
Current Assets:		
Cash and cash equivalents	\$ 7,093,776	\$ 6,347,095
Appropriations due from Primary Government	94,541	916,687
Due from the Commission	15,626	73,420
Amount due from the State	10,033	5,832
Accounts receivable, net	954,382	591,769
Loans to students, current portion	188,264	202,263
Prepaid expenses	20,531	19,585
Inventories	<u>356,103</u>	<u>422,373</u>
Total current assets	<u>8,733,256</u>	<u>8,579,024</u>
Noncurrent Assets:		
Cash and cash equivalents	2,988,446	2,754,138
Investments	4,296,941	-
Loans to students, net of allowance of \$377,199 and \$302,213	421,100	533,728
Bond issuance costs	161,562	-
Capital assets, net	<u>50,643,096</u>	<u>45,671,970</u>
Total noncurrent assets	<u>58,511,145</u>	<u>48,959,836</u>
TOTAL ASSETS	<u>\$ 67,244,401</u>	<u>\$ 57,538,860</u>

(Continued)

SHEPHERD COLLEGE

STATEMENTS OF NET ASSETS JUNE 30, 2003 AND 2002

	2003	2002
LIABILITIES:		
Current Liabilities:		
Accounts payable	\$ 2,631,732	\$ 2,341,652
Accrued liabilities	558,260	245,221
Due to the Commission	51,958	23,793
Due to other State agencies	6,926	-
Compensated absences, current portion	598,234	506,007
Debt obligation due Commission, current portion	595,598	568,393
Deferred revenue	731,858	910,902
Capital lease obligation, current portion	<u>3,770</u>	<u>10,614</u>
Total current liabilities	<u>5,178,336</u>	<u>4,606,582</u>
Noncurrent Liabilities:		
Advances from federal sponsors	788,078	809,394
Deposits	125,293	116,472
Compensated absences	1,527,165	1,982,159
Debt obligation due Commission	3,620,223	4,215,821
Bonds payable	5,990,000	-
Capital lease obligation	<u>6,152</u>	<u>4,886</u>
Total noncurrent liabilities	<u>12,056,911</u>	<u>7,128,732</u>
TOTAL LIABILITIES	<u>17,235,247</u>	<u>11,735,314</u>
NET ASSETS:		
Invested in capital assets, net of related debt	<u>44,530,631</u>	<u>40,872,257</u>
Restricted for:		
Expendable:		
Specific purpose by State Code	3,198,554	3,693,416
Scholarships	36,951	22,073
Loans	45,533	32,452
Debt service	(108,475)	-
Other restricted	30,480	-
Capital projects	<u>160,462</u>	<u>115,592</u>
Total expendable	3,363,505	3,863,533
Unrestricted	<u>2,115,018</u>	<u>1,067,756</u>
Total net assets	<u>50,009,154</u>	<u>45,803,546</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 67,244,401</u>	<u>\$ 57,538,860</u>

See notes to financial statements.

(Concluded)

SHEPHERD COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Student tuition and fees (net of scholarship allowance of \$2,837,078 and \$2,366,768)	\$ 9,922,447	\$ 8,916,874
Contracts and grants:		
Federal	3,067,513	2,652,889
State	1,559,086	1,466,386
Private	870,748	662,715
Interest on student loans receivable	16,333	12,812
Sales and services of educational activities	29,143	38,004
Auxiliary enterprise revenue (net of scholarship allowance of \$77,562 and \$50,140)	8,505,604	7,816,621
Other operating revenues	<u>814,043</u>	<u>757,779</u>
 Total operating revenues	 <u>24,784,917</u>	 <u>22,324,080</u>
OPERATING EXPENSES:		
Salaries and wages	17,200,179	16,257,485
Benefits	3,428,489	3,600,651
Supplies and other services	9,556,578	8,992,637
Utilities	1,448,655	1,179,493
Student financial aid - scholarships and fellowships	1,869,652	1,958,180
Depreciation	2,894,376	2,288,858
Loan cancellations and write-offs	5,717	10,946
Fees assessed by the Commission for operations	<u>179,212</u>	<u>190,212</u>
 Total operating expenses	 <u>36,582,858</u>	 <u>34,478,462</u>
 OPERATING LOSS	 <u>(11,797,941)</u>	 <u>(12,154,382)</u>

(Continued)

SHEPHERD COLLEGE

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 12,206,156	\$ 13,096,703
Federal grants	3,000,000	-
Center for Legislative Studies expenditure	(3,000,000)	-
Investment income	391,130	494,917
Interest on indebtedness	(144,838)	(2,799)
Fees assessed by the Commission for principal	-	(540,216)
Fees assessed by the Commission for interest	(283,620)	(313,873)
Fees assessed by the Commission for debt service	(172,458)	(168,005)
Loss on disposal of equipment	<u>(63,636)</u>	<u>-</u>
Net nonoperating revenues	<u>11,932,734</u>	<u>12,566,727</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	134,793	412,345
CAPITAL GRANTS AND GIFTS	<u>3,593,015</u>	<u>5,287,419</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	3,727,808	5,699,764
CAPITAL PROJECTS BOND PROCEEDS FROM THE COMMISSION	477,800	-
TRANSFER OF LIABILITY FROM POLICY COMMISSION	<u>-</u>	<u>(4,784,214)</u>
INCREASE (DECREASE) IN NET ASSETS	4,205,608	915,550
NET ASSETS—Beginning of year (as restated in 2002 - see Note 2)	<u>45,803,546</u>	<u>44,887,996</u>
NET ASSETS—End of year	<u>\$ 50,009,154</u>	<u>\$ 45,803,546</u>

See notes to financial statements.

(Concluded)

SHEPHERD COLLEGE

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES		
Student tuition and fees	\$ 10,019,023	\$ 8,923,045
Contracts and grants	4,950,004	5,174,402
Payments to and on behalf of employees	(20,703,069)	(19,585,085)
Payments to suppliers	(9,371,179)	(9,006,132)
Payments to utilities	(1,418,641)	(1,231,889)
Payments for schloarships and fellowships	(1,869,652)	(1,958,180)
Loans issued to students	(96,187)	(95,790)
Collection of loans to students	222,813	134,474
Sales and service of educational activities	8,437,419	38,004
Auxiliary enterprise charges	29,143	7,883,095
Fees retained by Commission	(151,047)	(172,490)
Other receipts - net	<u>804,859</u>	<u>733,307</u>
Net cash used in operating activities	<u>(9,146,514)</u>	<u>(9,163,239)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State appropriations	13,028,302	13,152,735
Federal grants received	3,000,000	-
Center for Legislative Studies expenditure	<u>(3,000,000)</u>	<u>-</u>
Net cash provided by noncapital financing activities	<u>13,028,302</u>	<u>13,152,735</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital grants and gifts received	3,593,015	1,113,367
Proceeds from capital debt	5,990,000	-
Bond issuance costs	(163,943)	-
Interest paid on capital debt and leases	(118,732)	(2,799)
Appropriations from Primary Governments	477,800	1,824,140
Purchases of capital assets	(7,781,319)	(4,775,926)
Principal paid on capital debt and leases	(579,642)	(11,915)
Increase in noncurrent cash and cash equivalents	(234,308)	(1,013,266)
Debt service assessed by the Commission for debt service and reserves	<u>(456,078)</u>	<u>(1,022,094)</u>
Net cash provided by (used in) capital financing activities	<u>726,793</u>	<u>(3,888,493)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of investments	(4,296,941)	-
Interest on investments	<u>435,041</u>	<u>494,917</u>
Net cash (used in) provided by investing activities	<u>(3,861,900)</u>	<u>494,917</u>
INCREASE IN CASH	746,681	595,920
CASH AND CASH EQUIVALENTS—Beginning of year	<u>6,347,095</u>	<u>5,751,175</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 7,093,776</u>	<u>\$ 6,347,095</u>

(Continued)

SHEPHERD COLLEGE

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (11,797,941)	\$ (12,154,382)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation expense	2,894,376	2,288,858
Changes in assets and liabilities:		
Accounts receivables, net	(362,613)	(95,178)
Loans to students, net	126,627	49,631
Due from the Commission	13,885	175,994
Due from other State agencies	(4,201)	-
Prepaid expenses	(946)	(4,535)
Inventories	66,270	(16,594)
Accounts payable	147,934	(49,296)
Accrued liabilities	289,313	12,799
Compensated absences	(362,770)	264,786
Due to the Commission	28,165	-
Due to other State agencies	6,926	-
Deferred revenue	(179,044)	323,495
Deposits held in custody for others	8,821	41,183
Advances from Federal Sponsors	<u>(21,316)</u>	<u>-</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>\$ (9,146,514)</u>	<u>\$ (9,163,239)</u>
Noncash Transactions		
Capital gifts of equipment and buildings		\$ 4,174,052
See notes to financial statements.		(Concluded)

SHEPHERD COLLEGE

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2003 AND 2002

1. ORGANIZATION

Shepherd College (the “College”) is governed by the Shepherd College Board of Governors (the “Board”). The Board was established by Senate Bill 653 (“S.B. 653”).

Powers and duties of the Board include, but are not limited to, the power to determine, control, supervise and manage the financial, business and educational policies and affairs of the institution under its jurisdiction, the duty to develop a master plan for the institution, the power to prescribe the specific functions and institution’s budget request, the duty to review at least every five years all academic programs offered at the institution, and the power to fix tuition and other fees for the different classes or categories of students enrolled at its institution

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (“GASB”), including Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities* (an Amendment of GASB Statement No. 34). The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the College’s assets, liabilities, net assets, revenues, expenses, changes in net assets and cash flows and replaces the fund-group perspective previously required.

The College follows all GASB pronouncements as well as Financial Accounting Standards Board (“FASB”) Statements, 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—The College 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. The College is a separate entity that, along with all State institutions of higher education, the Commission and the West Virginia Network for Educational Telecomputing (“WVNET”), form the Higher Education Fund of the State. The Higher Education Fund is considered a component unit of the State, and its financial statements are discretely presented in the State’s comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College’s ability to significantly influence operations and accountability for fiscal matters of related entities. A related Foundation and other affiliate of the College are not part of the College reporting entity and are not included in the accompanying financial statements as the

College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the Foundation and other affiliates.

Financial Statement Presentation—During fiscal 2002, the College adopted GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, as amended by GASB Statements No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus an amendment of GASB Statements No. 21 and No. 34*, and No. 38, *Certain Financial Statement Note Disclosures*. These statements establish standards for external financial reporting for public colleges and universities and require that financial statements be presented on a combined basis to focus on the College as a whole. Previously, financial statements focused on the accountability of individual fund groups rather than on the College as a whole. GASB Statement No. 35 reports equity as “net assets” rather than “fund balance”. Net assets are classified into four categories according to external donor restrictions or availability of assets for satisfaction of College obligations. The College’s net assets are classified as follows:

- *Invested in capital assets, net of related debt* – This represents the College’s total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.
- *Restricted net assets, expendable* – This includes resources in which the College is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

- *Restricted net assets, nonexpendable* – This includes endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either be expended or added to principal. The College does not have any restricted nonexpendable net assets at June 30, 2003 or 2002.
- *Unrestricted net assets* – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations and sales and services of educational activities. These resources are used for transactions relating to the educational and general operations of the College, and may be used at the discretion of the Board of Governors to meet current expenses for any purpose. These resources also include resources of auxiliary enterprises, which are substantially self-supporting activities, that provide services for students, faculty and staff.

GASB Statement No. 35 requires the statements of net assets, revenues, expenses, and changes in net assets, and cash flows to be reported on an entitywide basis. The provisions of Statement No. 35 have been applied to the years presented. Following is a reconciliation of total beginning of year fund balances for the year ended June 30, 2002, as previously reported, to the restated net asset balances for the same date:

Combined fund balances, as previously reported	\$ 67,325,710
Accumulated depreciation	(21,187,144)
Infrastructure capitalization	333,484
Reclassification of grant and contract revenue	(74,660)
Due From Board	(700,000)
Reclassification of federal loan programs (Perkins and Nursing)	<u>(809,394)</u>
 Combined fund balances, restated as net assets beginning of year ended June 30, 2002	 <u>\$ 44,887,996</u>

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

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

Cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) are pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). These funds are transferred to the IMB and the IMB is directed by the State Treasurer to invest the funds in specific external investment pools. Balances in the investment pools are recorded at fair value, which is determined by a third-party pricing service based on asset portfolio pricing models and other sources, in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The IMB was established by the State Legislature and is subject to oversight by the State Legislature. Fair value and investment income are allocated to participants in the pools based upon the funds that have been invested. The amounts on deposit with the State Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

Appropriations due from Primary Government—For financial reporting purposes, appropriations due from the State, are presented separately from cash and cash equivalents, as amounts are not specific deposits with the State treasury, but are obligations of the State.

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

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

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

Investments—The College’s investments are on deposit with Wachovia Bank. These funds primarily represent unexpended proceeds of bond issuances, and are restricted to expenditures for capital improvements and bond related costs. Funds on deposit are invested in a money market fund sponsored by an investment company, the underlying securities of which are securities of the U.S. government, its agencies, authorities and instrumentalities. These funds are classified as long term due to the restrictions, but are available for immediate withdrawal. Investments are recorded at fair value.

Bond Issuance Costs—Bond issuance costs consist of costs that have been incurred in connection with the issuance of the 2003 Student Fee Revenue Bonds. These costs, consisting primarily of the underwriter’s discount and legal and consulting fees, are amortized over the terms of the bonds.

Capital Assets—Capital assets include property, plant and equipment, books and materials that are part of a catalogued library, and infrastructure assets. Capital assets are stated at cost at the date of acquisition or construction, or fair market value at the date of donation in the case of gifts. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally 15 to 50 years for buildings and infrastructure, 20 years for land improvements and library books, and 3 to 10 years for furniture and equipment.

Deferred Revenue—Revenues for programs or activities to be conducted primarily in the next fiscal year are classified as deferred revenue, including items such as football ticket sales, orientation fees, room and board. Financial aid and other deposits are separately classified as deposits.

Compensated Absences—The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, *Accounting for Compensated Absences*. This statement requires entities to accrue for employees’ rights to receive compensation for vacation leave, or payments in lieu of accrued vacation or sick leave, as such benefits are earned and payment becomes probable.

The College’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001 or later will no longer receive sick leave credit toward insurance premiums when they retire.

Certain faculty employees (generally those with less than a 12-month contract) earn a similar extended health or life insurance coverage retirement benefit based on years of service. Generally 3-1/3 years of teaching service extend health insurance for one year of single coverage and five years extend health insurance for one year of family coverage.

The estimate of the liability for the extended health or life insurance benefit has been calculated using the vesting method in accordance with the provisions of GASB Statement No. 16. Under that method, the College has identified the accrued sick leave benefit earned to date by each employee, determined the cost of that benefit by reference to the benefit provisions and the current cost experienced by the College for such coverage, and estimated the probability of the payment of that benefit to employees upon retirement.

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

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

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

Classification of Revenues—The College has classified its revenues as either operating or non-operating revenues according to the following criteria:

- **Operating Revenues**—Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, net of scholarship discounts and allowances, (3) most federal, state, local, and nongovernmental grants and contracts, (4) Federal appropriations, and (5) sales and services of educational activities.
- **Nonoperating revenues**—Nonoperating revenues include activities that have the characteristics of non-exchange transactions, such as gifts and contributions, and other revenues that are defined as nonoperating revenues by GASB No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting* and GASB No. 34, such as state appropriations and investment income.

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

Federal Financial Assistance Programs—The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through universities like the College. Direct student loan receivables are not included in the College’s balance sheets as the loans are repayable directly to the U.S. Department of Education. In 2003 and 2002, the College received and disbursed approximately \$9,500,000 and \$8,800,000, respectively, under the Federal Direct Student Loan Program on behalf of the U.S. Department of Education, which is not included as revenue and expense on the statements of revenues, expenses and changes in net assets.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the federal Pell Grant, Supplemental Educational Opportunity Grant and College Work Study programs. The activity of these programs is recorded in the accompanying financial statements. In 2003 and 2002, the College received and disbursed approximately \$2,650,000 and \$2,700,000, respectively, under these federal student aid programs.

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

Financial aid to students is reported in the financial statements under the alternative method as prescribed by the National Association of College and College Business Officers (NACUBO). Certain aid such as loans, funds provided to students as awarded by third parties, and Federal Direct Lending is accounted for as a third party payment (credited to the student's account as if the student made the payment). All other aid is reflected in the financial statements as operating expenses, or scholarship allowances, which reduce revenues. The amount reported as operating expense represents the portion of aid that was provided to the student in the form of cash. Scholarship allowances represent the portion of aid provided to the student in the form of reduced tuition. Under the alternative method, these amounts are computed on a College basis by allocating the cash payments to students, excluding payments for services, on the ratio of total aid to the aid not considered to be third party aid.

Gifts and Pledges—The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that an immaterial amount of pledges are outstanding at June 30, 2003 and 2002.

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

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

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

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

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

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

The GASB has also issued Statement No. 41, *Budgetary Comparison Schedule—Perspective Differences*, that clarifies existing guidance on budgetary comparisons in GASB Statement No. 34. The College does not believe the adoption of GASB Statement No. 41 will have an effect on the financial statements.

Interest Expense—The College accounts for interest on debts as an expense in the period in which it incurs. The College does not account for interest on debt as part of the cost of the assets.

Reclassifications—Certain amounts in the 2002 financial statements have been reclassified to conform to the current year presentation.

3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2003 and 2002:

	2003		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
College	\$6,657,714	\$2,812,471	\$ 9,470,185
Cash with Bond Trustee	-	175,975	175,975
Cash in bank	<u>436,062</u>	<u>-</u>	<u>436,062</u>
	<u>\$7,093,776</u>	<u>\$2,988,446</u>	<u>\$ 10,082,222</u>
	2002		
	Current	Noncurrent	Total
Cash on deposit with the State Treasurer:			
College	\$6,044,656	\$2,754,138	\$ 8,798,794
Cash in bank	<u>302,439</u>	<u>-</u>	<u>302,439</u>
	<u>\$6,347,095</u>	<u>\$2,754,138</u>	<u>\$ 9,101,233</u>

Cash on deposit with the State Treasurer includes \$424,884 in 2003 and \$1,275,852 in 2002 of restricted cash for the library renovation project, grants, and loans.

The combined carrying amount of cash in the bank at June 30, 2003 and 2002 was \$436,062 and \$302,439, respectively, as compared with the combined bank balance of \$541,809 and \$557,412, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by financial instruments held as collateral by the State's agent.

Cash on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements*.

4. INVESTMENTS

The composition of investments was as follows at June 30, 2003:

	2003		
	Current	Noncurrent	Total
Money Market Funds	\$ -	\$ 4,296,941	\$ 4,296,941
Repurchase Agreements	-	-	-
	<u>\$ -</u>	<u>\$ 4,296,941</u>	<u>\$ 4,296,941</u>

5. ACCOUNTS RECEIVABLE

Accounts receivable were as follows at June 30, 2003 and 2002:

	2003	2002
Student tuition and fees, net of allowance for doubtful accounts of \$133,330 and \$131,847	\$297,068	\$275,463
Grants and contracts receivable	<u>657,314</u>	<u>316,306</u>
	<u>\$954,382</u>	<u>\$591,769</u>

6. CAPITAL ASSETS

Capital assets consisted of the following at June 30, 2003 and 2002:

	2003				Ending Balance
	Beginning Balance	Additions	Reductions	Other	
Capital assets not being depreciated:					
Land	\$ 945,577	\$ -	\$ -	\$ -	\$ 945,577
Construction in progress	<u>10,646,261</u>	<u>6,193,054</u>	<u>13,798,208</u>	<u>-</u>	<u>3,041,107</u>
Total capital assets not being depreciated	<u>\$ 11,591,838</u>	<u>\$ 6,193,054</u>	<u>\$ 13,798,208</u>	<u>\$ -</u>	<u>\$ 3,986,684</u>
Other capital assets:					
Land Improvements	\$ 4,982	\$ 260,153	\$ -	\$ -	\$ 265,135
Infrastructure	596,773	14,173	-	-	610,946
Buildings	47,886,708	13,523,883	-	-	61,410,591
Equipment	6,198,717	1,500,249	349,454	-	7,349,512
Library Books	<u>3,028,206</u>	<u>235,834</u>	<u>27,695</u>	<u>-</u>	<u>3,236,345</u>
Total other capital assets	<u>57,715,386</u>	<u>15,534,292</u>	<u>377,149</u>	<u>-</u>	<u>72,872,529</u>
Less accumulated depreciation for:					
Land Improvements	-	11,880	-	-	11,880
Infrastructure	507,640	8,564	-	-	516,204
Buildings	17,686,996	1,782,277	-	-	19,469,273
Equipment	3,408,755	843,450	285,818	-	3,966,387
Library Books	<u>2,031,863</u>	<u>248,205</u>	<u>27,695</u>	<u>-</u>	<u>2,252,373</u>
Total accumulated depreciation	<u>23,635,254</u>	<u>2,894,376</u>	<u>313,513</u>	<u>-</u>	<u>26,216,117</u>
Other capital assets, net	<u>\$ 34,080,132</u>	<u>\$ 12,639,916</u>	<u>\$ 63,636</u>	<u>\$ -</u>	<u>\$ 46,656,412</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 11,591,838	\$ 6,193,054	\$ 13,798,208	\$ -	\$ 3,986,684
Other capital assets	<u>57,715,386</u>	<u>15,534,292</u>	<u>377,149</u>	<u>-</u>	<u>72,872,529</u>
Total cost of capital assets	69,307,224	21,727,346	14,175,357	-	76,859,213
Less accumulated depreciation	<u>23,635,254</u>	<u>2,894,376</u>	<u>313,513</u>	<u>-</u>	<u>26,216,117</u>
Capital assets, net	<u>\$ 45,671,970</u>	<u>\$ 18,832,970</u>	<u>\$ 13,861,844</u>	<u>\$ -</u>	<u>\$ 50,643,096</u>

	2002				
	Beginning Balance	Additions	Reductions	Other	Ending Balance
Capital assets not being depreciated:					
Land	\$ 945,577	\$ -	\$ -	\$ -	\$ 945,577
Construction in progress	<u>4,677,253</u>	<u>8,082,413</u>	<u>2,113,405</u>	<u>-</u>	<u>10,646,261</u>
Total capital assets not being depreciated	<u>\$ 5,622,830</u>	<u>\$ 8,082,413</u>	<u>\$ 2,113,405</u>	<u>\$ -</u>	<u>\$ 11,591,838</u>
Other capital assets:					
Land Improvements	\$ -	\$ 4,982	\$ -	\$ -	\$ 4,982
Infrastructure	573,573	23,200	-	-	596,773
Buildings	45,415,738	2,470,970	-	-	47,886,708
Equipment	5,192,728	1,005,989	-	-	6,198,717
Library Books	<u>2,908,093</u>	<u>262,993</u>	<u>142,880</u>	<u>-</u>	<u>3,028,206</u>
Total other capital assets	<u>54,090,132</u>	<u>3,768,134</u>	<u>142,880</u>	<u>-</u>	<u>57,715,386</u>
Less accumulated depreciation for:					
Land Improvements	-	-	-	-	-
Infrastructure	497,304	10,336	-	-	507,640
Buildings	16,318,666	1,368,330	-	-	17,686,996
Equipment	2,748,973	659,782	-	-	3,408,755
Library Books	<u>1,924,333</u>	<u>250,410</u>	<u>142,880</u>	<u>-</u>	<u>2,031,863</u>
Total accumulated depreciation	<u>21,489,276</u>	<u>2,288,858</u>	<u>142,880</u>	<u>-</u>	<u>23,635,254</u>
Other capital assets, net	<u>\$ 32,600,856</u>	<u>\$ 1,479,276</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 34,080,132</u>
Capital asset summary:					
Capital assets not being depreciated	\$ 5,622,830	\$ 8,082,413	\$ 2,113,405	\$ -	\$ 11,591,838
Other capital assets	<u>54,090,132</u>	<u>3,768,134</u>	<u>142,880</u>	<u>-</u>	<u>57,715,386</u>
Total cost of capital assets	59,712,962	11,850,547	2,256,285	-	69,307,224
Less accumulated depreciation	<u>21,489,276</u>	<u>2,288,858</u>	<u>142,880</u>	<u>-</u>	<u>23,635,254</u>
Capital assets, net	<u>\$ 38,223,686</u>	<u>\$ 9,561,689</u>	<u>\$ 2,113,405</u>	<u>\$ -</u>	<u>\$ 45,671,970</u>

The College maintains various collections of inexhaustible assets to which no value can be determined. Such collections include contributed works of art, historical treasures and literature that are held for exhibition, education, research and public service. These collections are neither disposed of for financial gain nor encumbered in any means. Accordingly, such collections are not capitalized or recognized for financial statement purposes.

Title for certain real property has been transferred from the commission to the College effective June 30, 2002.

7. CHANGES IN LONG-TERM LIABILITIES

The following is a summary of long-term obligation transactions for the College for the years ended June 30, 2003 and 2002:

	2003				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,488,166	\$ -	\$ 362,767	\$ 2,125,399	\$ 598,234
Debt obligation due Commission	4,784,214	-	568,393	4,215,821	595,598
Bonds payable	-	5,990,000	-	5,990,000	-
Capital lease obligations	15,500	5,670	11,248	9,922	3,770
Deferred revenue (long-term contracts)	-	-	-	-	-
Advances from federal sponsors	809,394	-	21,316	788,078	-
Deposits held in custody for others	<u>116,472</u>	<u>8,821</u>	<u>-</u>	<u>125,293</u>	<u>-</u>
Total long-term liabilities	<u>\$ 8,213,746</u>	<u>\$ 6,004,491</u>	<u>\$ 963,724</u>	<u>\$ 13,254,513</u>	<u>\$ 1,197,602</u>
	2002				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,223,380	\$ 264,786	\$ -	\$ 2,488,166	\$ 506,007
Debt obligation due Commission	-	4,784,214	-	4,784,214	568,393
Capital lease obligations	38,029	-	22,529	15,500	10,614
Deferred revenue (long-term contracts)	-	-	-	-	-
Advances from federal sponsors	809,394	-	-	809,394	-
Deposits held in custody for others	<u>75,288</u>	<u>41,184</u>	<u>-</u>	<u>116,472</u>	<u>-</u>
Total long-term liabilities	<u>\$ 3,146,091</u>	<u>\$ 5,090,184</u>	<u>\$ 22,529</u>	<u>\$ 8,213,746</u>	<u>\$ 1,085,014</u>

8. BONDS

Bonds payable consisted of the following at June 30, 2003:

	Interest Rate	Principal Installment Due	Amount Outstanding
		\$ 105,000	
Student Fee Revenue Bonds due through 2003	3.0% to 5.125%	to \$2,970,000	\$5,990,000

In January 2003, \$5,990,000 of Student Fee Revenue Bonds, Series 2003 ("Bonds") were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and WesBanco Bank, Inc. (the "Trustee"). The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) establishing of a

debt service reserve fund, (3) establishing of a capitalized interest fund to pay interest on the Bonds due on December 1, 2003 and (4) paying the costs of issuance of the Bonds and related costs.

The Bonds consist of \$1,495,000 Serial Bonds with varying interest rates from 3.00% to 4.45%, and mature serially from December 1, 2004 to December 1, 2015. Term Bonds of \$500,000, \$1,025,000, and \$2,970,000 bear interest at 5.000%, 5.100%, and 5.125%, respectively, and mature December 1, 2018, December 1, 2023, and December 1, 2033, respectively. Term Bonds are subject to mandatory redemption prior to maturity from December 1, 2016 through 2028. The redemption prices are 100% of the principal amount, plus accrued interest.

The Bonds maturing on and after December 1, 2013, are subject to redemption prior to maturity, at the option of the Board. The redemption prices range from 100% to 102% of the principal amount, plus accrued interest.

The Bonds are special obligations of the Board and are secured by and payable from fees assessed to students of the College held under the Indenture. Beginning in the fall 2003 semester, Capital Financing Fees (“Fees”) of an estimated \$69 per student per semester, based on FTE enrollment are pledged to the Bonds, with pro-rata reductions for those students enrolled part time and during the summer term. The Bonds shall not be deemed to be general obligations or a debt of the State of West Virginia (the “State”) within the meaning of the Constitution of the State and the credit or taxing power of the State or the College shall not be pledged therefore.

The College has fixed and will maintain and collect fees from all students enrolled in the College. Fees shall at all times be sufficient to provide pledged revenues each fiscal year to at least 110% of maximum annual debt service. No pledged revenues were collected during the period ended June 30, 2003. The initial coverage covenant is for the fiscal year ending June 30, 2004.

The debt service reserve fund must maintain deposits totaling \$390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled \$393,097 as of June 30, 2003.

A summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2003 is as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2004	\$ -
2005	105,000
2006	105,000
2007	110,000
2008	115,000
Thereafter	<u>5,555,000</u>
Total	5,990,000
Less current amount	<u>-</u>
Total long term portion	<u><u>\$5,990,000</u></u>

9. COMPENSATED ABSENCES

The composition of the compensated absence liability was as follows at June 30, 2003 and 2002:

	2003	2002
Health or life insurance benefits	\$ 1,305,344	\$ 1,759,684
Accrued vacation leave	<u>820,055</u>	<u>728,482</u>
	<u>\$2,125,399</u>	<u>\$2,488,166</u>

The cost of health and life insurance benefits paid by the College is based on a combination of years of service and age. For the years ended June 30, 2003 and 2002, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled approximately \$68,958 and \$61,945, respectively. As of June 30, 2003 and 2002, there were 36 and 40 retirees, respectively, currently receiving these benefits.

10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

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

The State has chartered the Commission with the responsibility to construct or renovate, finance and maintain various academic and other facilities of the State's universities and colleges, including certain facilities of the College. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the College and College Systems (the "Boards"). These obligations administered by the Commission are the direct and total responsibility of the Commission, as successor to the former Boards.

The Commission has the authority to assess each public institution of higher education for payment of debt service on these system bonds. The tuition and registration fees of the members of the former State University System are generally pledged as collateral for the Commission's bond indebtedness. Student fees collected by the institution in excess of the debt service allocation are retained by the institution for internal funding of capital projects and maintenance. Although the bonds remain as capital obligation of the Commission, an estimate of the obligation of each institution is reported as a long-term payable by each institution and as a receivable by the Commission, effective as of June 30, 2002. The amount allocated to the College during fiscal 2002 was \$4,784,214.

For the years ended June 30, 2003 and 2002 the debt service assessed was as follows:

	2003	2002
Principal	\$ 568,393	\$ 540,216
Interest	283,620	313,873
Other	<u>172,458</u>	<u>168,007</u>
	<u>\$1,024,471</u>	<u>\$1,022,096</u>

11. RETIREMENT PLANS

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

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2003 and 2002. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2003 and 2002. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The College matches the employees' 6% contribution. Contributions are immediately and fully vested.

Total contributions to the STRS for the years ended June 30, 2003, 2002 and 2001 were \$166,877, \$159,989 and \$153,920, respectively, which consisted of \$117,762, \$112,890 and \$108,583, from the College in 2003, 2002 and 2001, respectively, and \$49,105, \$47,099 and \$45,337 from the covered employees in 2003, 2002 and 2001, respectively.

The contribution rate is set by the State Legislature on an overall basis and the STRS does not perform a calculation of the contribution requirement for individual employers, such as the College. Historical trend and net pension obligation information is available from the annual financial report of the Consolidated Public Retirement Board. A copy of the report may be obtained by writing to the Consolidated Public Retirement Board, Building 5, Room 1000, Charleston, WV 25305.

Total contributions to the TIAA-CREF for the years ended June 30, 2003, 2002 and 2001, were \$1,596,929, \$1,510,701 and \$1,413,933, respectively, which consisted of equal contributions from the College and covered employees in 2003, 2002 and 2001 of \$798,465, \$755,351 and \$706,966, respectively.

The College's total payroll for the years ended June 30, 2003 and 2002 was \$17,200,179 and \$16,257,485, respectively, and total covered employees' salaries in the STRS and TIAA-CREF were \$851,759 and \$13,308,367 in 2003, and \$817,352 and \$12,589,179 in 2002, respectively.

12. FOUNDATION (UNAUDITED)

The Shepherd College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations . . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities,

the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

The Foundation's net assets, all of which are principally restricted, totaled approximately \$14,334,887 and \$14,710,963, respectively, at June 30, 2003 and 2002. The restricted balance includes amounts that are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Bequests to the Foundation totaled \$506,785 and \$580,135 for the years ended June 30, 2003 and 2002, respectively.

During the years ended June 30, 2003 and 2002, the Foundation contributed \$646,956 and \$600,993, respectively, to the College for scholarships and awards. The Foundation contributed \$500,000 to the College for the Construction of the Kenneth G Boone Fieldhouse.

During 2003, the College received \$3,000,000 from the Department of Housing and Urban Development for the Robert C. Byrd Center for Legislative Studies (the "Center"). These funds were transferred to the Foundation and will be expended for the operations of the Center pursuant to a contract with the Congressional Education Foundation.

13. AFFILIATED ORGANIZATION (UNAUDITED)

The College has separately incorporated an affiliated organization, the Alumni Association and Friends of Shepherd College. Oversight responsibility for this entity rests with an independent board and management not otherwise affiliated with the College. Accordingly, the financial statements of this organization are not included in the College's accompanying financial statements.

14. COMMITMENTS AND CONTINGENCIES

The nature of the educational industry is such that, from time-to-time, claims will be presented against the College on account of alleged negligence, acts of discrimination, breach of contract or disagreements arising from the interpretation of laws or regulations. While some of these claims may be for substantial amounts, they are not unusual in the ordinary course of providing educational services in a higher education system.

In the opinion of management, all known claims are covered by insurance or are such that an award against the College would not have a significant financial impact on the financial position of the College.

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

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

15. SEGMENT INFORMATION

In January 2003, \$5,990,000 of Student Fee Revenue Bonds, Series 2003 (“Bonds”) were sold. The Bonds were issued under the authority contained in Chapter 18, Article 23 of the Code of West Virginia, 1931, as amended and the Bonds are secured pursuant to the Indenture and Security Agreement dated as of January 1, 2003, by and between the Board and WesBanco Bank, Inc. (the “Trustee”). The Bonds were issued to (1) finance the costs of planning, designing, acquiring equipment and constructing of certain capital improvements, including the Field House, the expansion and improvement of the Arts Center, a new parking lot and other capital renovations, repairs and improvements, (2) establishing of a debt service reserve fund, (3) establishing of a capitalized interest fund to pay interest on the Bonds due on December 1, 2003 and (4) paying the costs of issuance of the Bonds and related costs.

Condensed Statement of Net Assets as of June 30,	<u>Student Fee Revenue Bonds</u> 2003
ASSETS:	
Current asset	\$ -
Noncurrent assets	<u>6,441,674</u>
Total assets	<u>\$6,441,674</u>
LIABILITIES:	
Current liabilities	\$ 560,149
Noncurrent liabilities	<u>5,990,000</u>
Total liabilities	6,550,149
NET ASSETS:	
Invested in capital assets, net of related debt	-
Restricted:	
Debt service	(108,475)
Capital projects	-
Unrestricted	<u>-</u>
Total net assets and liabilities	<u>\$6,441,674</u>

	<u>Student Fee Revenue Bonds</u> 2003
Condensed Statement of Revenues, Expenses and Changes in Net Assets as of June 30,	
OPERATING:	
Operating revenues	\$ -
Operating expenses	<u>-</u>
Net operating income	<u>-</u>
NONOPERATING:	
Nonoperating revenues	39,494
nonoperating expenses	<u>(147,969)</u>
CHANGES IN NET ASSETS	(108,475)
NET ASSETS—beginning of year (as restated)	<u>-</u>
NET ASSETS—end of year	<u><u>\$ (108,475)</u></u>
Condensed Statement of Cash Flows	
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ -
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING	4,450,029
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>(4,450,029)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	-
CASH AND CASH EQUIVALENTS—beginning of year	<u>-</u>
CASH AND CASH EQUIVALENTS—end of year	<u><u>\$ -</u></u>

16. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2003 and 2002, the following table represents operating expenses within both natural and functional classifications:

	2003								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 8,308,735	\$ 1,509,217	\$ 1,025,852	\$ 57	\$ 26,734	\$ -	\$ -	\$ -	\$ 10,870,595
Public service	210,409	31,290	107,946	-	2,100	-	-	-	351,745
Academic support	1,941,530	346,534	656,664	554	-	-	-	-	2,945,282
Student services	1,687,468	314,730	915,335	716	-	-	-	-	2,918,249
General institutional support	1,516,731	516,133	1,124,612	3,422	-	-	-	-	3,160,898
Operations and maintenance of plant	713,914	166,598	1,257,712	827,901	-	-	-	-	2,966,125
Student financial aid	-	-	1,676	-	1,825,088	-	-	-	1,826,764
Auxiliary enterprises	2,821,392	543,987	4,466,781	616,005	15,730	-	-	-	8,463,895
Depreciation	-	-	-	-	-	2,894,376	-	-	2,894,376
Other	-	-	-	-	-	-	5,717	179,212	184,929
Total	\$ 17,200,179	\$ 3,428,489	\$ 9,556,578	\$ 1,448,655	\$ 1,869,652	\$ 2,894,376	\$ 5,717	\$ 179,212	\$ 36,582,858

	2002								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by the Commission	Total
Instruction	\$ 7,707,744	\$ 1,547,063	\$ 884,960	\$ 50	\$ 29,030	\$ -	\$ -	\$ -	\$ 10,168,847
Public service	174,557	37,746	121,510	87	1,950	-	-	-	335,850
Academic support	1,904,070	357,154	647,339	460	-	-	-	-	2,909,023
Student services	1,565,638	345,968	1,033,364	65	-	-	-	-	2,945,035
General institutional support	1,645,884	542,887	1,086,161	743	7	-	-	-	3,275,682
Operations and maintenance of plant	650,256	202,266	1,157,869	591,082	-	-	-	-	2,601,473
Student financial aid	-	-	18,305	-	1,915,473	-	-	-	1,933,778
Auxiliary enterprises	2,609,336	567,567	4,043,129	587,006	11,720	-	-	-	7,818,758
Depreciation	-	-	-	-	-	2,288,858	-	-	2,288,858
Other	-	-	-	-	-	-	10,946	190,212	201,158
Total	\$ 16,257,485	\$ 3,600,651	\$ 8,992,637	\$ 1,179,493	\$ 1,958,180	\$ 2,288,858	\$ 10,946	\$ 190,212	\$ 34,478,462

* * * * *

SHEPHERD COLLEGE

SUPPLEMENTARY COMPONENT FINANCIAL DATA COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2003

	Community & Technical College	Four-Year & Other Components	Combined Institution
OPERATING REVENUES:			
Student tuition and fees (net of scholarship allowance of \$234,898, and \$2,602,180 and \$2,837,078)	\$ 1,117,435	\$ 8,805,012	\$ 9,922,447
Contracts and grants:			
Federal	143,764	2,923,749	3,067,513
State	626,144	932,942	1,559,086
Local	-	-	-
Private	334,961	535,787	870,748
Interest on student loans receivable	-	16,333	16,333
Sales and services of educational activities	-	29,143	29,143
Auxiliary enterprise revenue (net of scholarship allowance of \$77,562)	-	8,505,604	8,505,604
Other operating revenues	<u>129,193</u>	<u>684,850</u>	<u>814,043</u>
Total operating revenues	<u>2,351,497</u>	<u>22,433,420</u>	<u>24,784,917</u>
OPERATING EXPENSES:			
Salaries and wages	2,489,867	14,710,312	17,200,179
Benefits	468,345	2,960,144	3,428,489
Supplies and other services	956,573	8,600,005	9,556,578
Utilities	68,888	1,379,767	1,448,655
Student financial aid—scholarships and fellowships	225,146	1,644,506	1,869,652
Depreciation	310,559	2,583,817	2,894,376
Loan cancellations and write-offs	699	5,018	5,717
Fees assessed by the Commission for operations	<u>21,914</u>	<u>157,298</u>	<u>179,212</u>
Total operating expenses	<u>4,541,991</u>	<u>32,040,867</u>	<u>36,582,858</u>
OPERATING LOSS	<u>(2,190,494)</u>	<u>(9,607,447)</u>	<u>(11,797,941)</u>

(continued)

SHEPHERD COLLEGE

SUPPLEMENTARY COMPONENT FINANCIAL DATA COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS YEAR ENDED JUNE 30, 2003

	Community & Technical College	Four-Year & Other Components	Combined Institution
NONOPERATING REVENUES (EXPENSES):			
State appropriations	\$ 2,265,345	\$ 9,940,811	\$ 12,206,156
Federal grants	-	3,000,000	3,000,000
Center for Legislative Studies expenditure	-	(3,000,000)	(3,000,000)
Investment income	32,392	358,738	391,130
Interest on indebtedness	(11,995)	(132,843)	(144,838)
Fees assessed by the Commission for debt service:			
Principal	-	-	-
Interest	(23,489)	(260,131)	(283,620)
Other	(14,282)	(158,176)	(172,458)
Loss on disposal of equipment	<u>(5,270)</u>	<u>(58,366)</u>	<u>(63,636)</u>
Net nonoperating revenues	<u>2,242,701</u>	<u>9,690,033</u>	<u>11,932,734</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES			
	52,207	82,586	134,793
CAPITAL GRANTS AND GIFTS			
	<u>326,582</u>	<u>3,266,433</u>	<u>3,593,015</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS			
	378,789	3,349,019	3,727,808
CAPITAL PROJECTS BOND PROCEEDS FROM THE COMMISSION			
	39,570	438,230	477,800
TRANSFER OF LIABILITY FROM POLICY COMMISSION			
	<u>-</u>	<u>-</u>	<u>-</u>
INCREASE (DECREASE) IN NET ASSETS			
	<u>\$ 418,359</u>	<u>\$ 3,787,249</u>	<u>\$ 4,205,608</u>

SHEPHERD COLLEGE

SUPPLEMENTARY COMPONENT FINANCIAL DATA NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS FOR THE YEAR ENDED JUNE 30, 2003

	Community & Technical College								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by Commission	Total
Instruction	\$ 1,361,338	\$ 234,041	\$ 249,555	\$ 26	\$ 1,817	\$ -	\$ -	\$ -	\$ 1,846,777
Public service	94,103	23,231	27,400	-	172	-	-	-	144,906
Academic support	646,229	112,195	239,595	12	-	-	-	-	998,031
Student services	196,480	36,409	103,531	72	-	-	-	-	336,492
General institutional support	132,607	53,229	230,036	231	-	-	-	-	416,103
Operations and maintenance of plant	59,109	9,240	106,240	68,547	-	-	-	-	243,136
Student financial aid	-	-	216	-	223,158	-	-	-	223,374
Auxiliary enterprises	-	-	-	-	-	-	-	-	-
Depreciation	-	-	-	-	-	310,559	-	-	310,559
Other	-	-	-	-	-	-	699	21,914	22,613
Total	<u>\$ 2,489,866</u>	<u>\$ 468,345</u>	<u>\$ 956,573</u>	<u>\$ 68,888</u>	<u>\$ 225,147</u>	<u>\$ 310,559</u>	<u>\$ 699</u>	<u>\$ 21,914</u>	<u>\$ 4,541,991</u>

SHEPHERD COLLEGE

SUPPLEMENTARY COMPONENT FINANCIAL DATA NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS FOR THE YEAR ENDED JUNE 30, 2003

	Four Year and Other Components								Total
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by Commission	
Instruction	\$ 6,947,397	\$ 1,275,176	\$ 776,297	\$ 31	\$ 24,917	\$ -	\$ -	\$ -	\$ 9,023,818
Public service	116,306	8,059	80,546	-	1,928	-	-	-	206,839
Academic support	1,295,301	234,339	417,069	542	-	-	-	-	1,947,251
Student services	1,490,988	278,321	811,804	644	-	-	-	-	2,581,757
General institutional support	1,384,124	462,904	894,576	3,191	-	-	-	-	2,744,795
Operations and maintenance of plant	654,805	157,358	1,151,472	759,354	-	-	-	-	2,722,989
Student financial aid	-	-	1,460	-	1,601,930	-	-	-	1,603,390
Auxiliary enterprises	2,821,392	543,987	4,466,781	616,005	15,730	-	-	-	8,463,895
Depreciation	-	-	-	-	-	2,583,817	-	-	2,583,817
Other	-	-	-	-	-	-	5,018	157,298	162,316
Total	<u>\$ 14,710,313</u>	<u>\$ 2,960,144</u>	<u>\$ 8,600,005</u>	<u>\$ 1,379,767</u>	<u>\$ 1,644,505</u>	<u>\$ 2,583,817</u>	<u>\$ 5,018</u>	<u>\$ 157,298</u>	<u>\$ 32,040,867</u>

SHEPHERD COLLEGE

SUPPLEMENTARY COMPONENT FINANCIAL DATA NATURAL CLASSIFICATIONS WITHIN FUNCTIONAL CLASSIFICATIONS FOR THE YEAR ENDED JUNE 30, 2003

	Combined Institution								
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Loan Cancellations and Write-offs	Fees Assessed by Commission	Total
Instruction	\$ 8,308,735	\$ 1,509,217	\$ 1,025,852	\$ 57	\$ 26,734	\$ -	\$ -	\$ -	\$ 10,870,595
Public service	210,409	31,290	107,946	-	2,100	-	-	-	351,745
Academic support	1,941,530	346,534	656,664	554	-	-	-	-	2,945,282
Student services	1,687,468	314,730	915,335	716	-	-	-	-	2,918,249
General institutional support	1,516,731	516,133	1,124,612	3,422	-	-	-	-	3,160,898
Operations and maintenance of plant	713,914	166,598	1,257,712	827,901	-	-	-	-	2,966,125
Student financial aid	-	-	1,676	-	1,825,088	-	-	-	1,826,764
Auxiliary enterprises	2,821,392	543,987	4,466,781	616,005	15,730	-	-	-	8,463,895
Depreciation	-	-	-	-	-	2,894,376	-	-	2,894,376
Other	-	-	-	-	-	-	5,717	179,212	184,929
Total	<u>\$ 17,200,179</u>	<u>\$ 3,428,489</u>	<u>\$ 9,556,578</u>	<u>\$ 1,448,655</u>	<u>\$ 1,869,652</u>	<u>\$ 2,894,376</u>	<u>\$ 5,717</u>	<u>\$ 179,212</u>	<u>\$ 36,582,858</u>



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

To the Shepherd College Governing Board:

We have audited the financial statements of Shepherd College (the "College") as of and for the years ended June 30, 2003 and 2002, and have issued our report thereon dated October 30, 2003, which contains a consistency paragraph for the adoption of Governmental Accounting Standards Board Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities*. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Shepherd College Governing Board, management of the College, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Deloitte & Touche LLP". The signature is written in a cursive, flowing style.

October 30, 2003