

Shepherd University Board of Governors  
November 9, 2006  
Agenda Item No. 4

## **ANNUAL FINANCIAL REPORT**

Mr. Ed Magee, Vice President for Administration and Finance, and Mr. Dennis Juran, of Deloitte and Touche, will present the annual financial report. This presentation will include a review of the Financial Statements as of and for the Years Ended June 30, 2006 and 2005, and Independent Auditor's Reports.

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# *Shepherd University*

*Financial Statements as of and for the  
Years Ended June 30, 2006 and 2005,  
and Independent Auditors' Reports*

# SHEPHERD UNIVERSITY

## TABLE OF CONTENTS

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	<b>Page</b>
INDEPENDENT AUDITORS' REPORT	1–2
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")	3–10
FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005:	
Statements of Net Assets	11–12
Component Unit—Statements of Net Assets	13
Statements of Revenues, Expenses, and Changes in Net Assets	14–15
Component Unit—Statements of Activities	16–17
Statements of Cash Flows	18–19
Notes to Financial Statements	20–53
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH <i>GOVERNMENT AUDITING STANDARDS</i>	54

## INDEPENDENT AUDITORS' REPORT

To the Governing Board of  
Shepherd University:

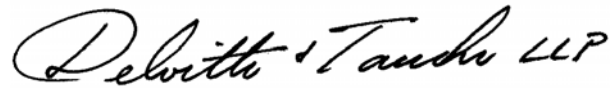
We have audited the statements of net assets of Shepherd University (the "University") as of June 30, 2006 and 2005, and the related statements of revenues, expenses, and changes in net assets, and of cash flows for the years then ended. These financial statements are the responsibility of the management of the University. Our responsibility is to express an opinion on the respective financial statements based on our audits. We did not audit the financial statements of The Shepherd University Foundation, Incorporated (the "Foundation"), a discretely presented component unit of the University. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the discretely presented financial statements of the Foundation, is based solely on the report of such other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The Foundation's financial statements, which were audited by other auditors, were not audited in accordance with *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the University'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 respective financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position and changes in net assets of the University and the discretely presented component unit of the University as of June 30, 2006 and 2005, and the cash flows of the University for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management Discussion and Analysis 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 University'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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2006, on our consideration of the University'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 read in conjunction with this report in considering the results of our audit.

The image shows a handwritten signature in cursive script that reads "Deloitte & Touche LLP". The signature is written in black ink and is positioned above the date.

October 21, 2006

Shepherd University  
Management Discussion and Analysis  
Fiscal Years 2006 and 2005

**About Shepherd University**

Shepherd University (the “University”) is a state-supported institution within the West Virginia system of Higher Education Policy. Until July 1, 2005, the University operated two components, the baccalaureate component and the community and technical college component. The community college component became The Community and Technical College of Shepherd at the beginning of fiscal year 2006. The new institution and the community college component were governed by the West Virginia Council for Community and Technical College Education in fiscal years 2006 and 2005. The University consists of the former baccalaureate component of the institution. This institution was governed by the West Virginia Higher Education Policy Commission in fiscal years 2006 and 2005.

The University was founded in 1871. It offers bachelor of arts, bachelor of fine arts, and bachelor of science degrees in a wide range of fields, encompassing the liberal arts, business administration, teacher education, the social and natural sciences, and other career oriented areas. The Master of Arts in Teaching and Master of Arts in Curriculum and Instruction are also offered. The Community and Technical College of Shepherd (“CTC”) offers associate degrees, workforce development programs, and collaborative programs in government, business and industry sectors.

During fiscal year 2004, Senate Bill 448 (“S.B. 448”) was passed requiring the transfer of certain net assets from the University to its separately governed community and technical college after that community and technical college requires independent accreditation. CTC achieved separate accreditation during fiscal year 2005, and became a complete separate entity for financial reporting purposes on July 1, 2005. During fiscal year 2006, the University transferred net assets of \$1,450,000 to CTC in accordance with S.B. 448.

**Overview of the Financial Statements and Financial Analysis**

This discussion will emphasize significant changes reflected in the fiscal year 2006 data compared to the financial statements presented for fiscal year 2005. 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 University’s financial statements provides an overview of its financial activities for the year and is a required supplemental information.

**Statement of Net Assets**

The Statement of Net Assets presents the assets, liabilities, and net assets of the University as of June 30, 2006, and 2005. 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 University. They are also able to determine how much the University 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 University.

Net assets are divided into three major categories. The first category, invested in capital assets—net of related debt, provides equity in property, plant, and equipment owned by the University. The second category is

restricted net assets, which is divided into two categories, nonexpendable and expendable. The University does not currently have nonexpendable restricted net assets since all funds of this nature would be directed to the Shepherd University Foundation. The corpus of nonexpendable restricted resources is available only for investment purposes. Expendable restricted net assets are available for expenditure by the University 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 for expenditure for any lawful purpose of the University.

	<b>Net Assets (In thousands)</b>		
	<b>2006</b>	<b>June30 2005</b>	<b>2004</b>
Assets:			
Cash	\$ 13,522	\$12,465	\$ 9,652
Other current Assets	1,406	2,145	1,131
Noncurrent Assets	<u>86,284</u>	<u>84,140</u>	<u>56,412</u>
<b>Total Assets</b>	<b><u>\$101,212</u></b>	<b><u>\$98,750</u></b>	<b><u>\$67,195</u></b>
Liabilities:			
Current Liabilities	\$ 8,105	\$ 6,130	\$ 5,137
Noncurrent Liabilities	<u>37,285</u>	<u>37,589</u>	<u>11,231</u>
<b>Total Liabilities</b>	<b><u>\$ 45,390</u></b>	<b><u>\$ 43,719</u></b>	<b><u>\$ 16,368</u></b>
<b>Net Assets</b>	<b><u>\$ 55,822</u></b>	<b><u>\$55,031</u></b>	<b><u>\$50,827</u></b>

**Assets:**

- Current cash increased by \$1 million in fiscal year 2006. Cash in the auxiliary fund increased by \$970,000. The University delayed several major residence hall renovations to build auxiliary cash reserves for the operation of a new apartment complex.
- The amount due from the Commission decreased by \$852,000. In fiscal year 2006, the University was owed \$79,000 that was expended for a capital project funded by the 2005 Higher Education Policy Commission Bonds. In fiscal year 2005, the University was owed for \$395,000 that was expended for a capital project funded by the 2004 Higher Education Policy Commission Bonds. In addition, the University recorded a \$550,000 appropriation in the final quarter of fiscal year 2005.
- Restricted cash and cash equivalents decreased by \$3 million. The University expended funds for the construction of various infrastructure projects.
- Investments decreased by \$15 million. Investments were sold and proceeds were used to pay for the construction of new residence halls.
- Capital assets increased by \$20.2 million. The account increased due to \$23.2 million and \$981,000 expenditure for construction projects and equipment, respectively. The increases were partly offset by depreciation in the amount of \$3.4 million for fiscal year 2006.
- During fiscal year 2006, the University transferred total assets of \$2.5 million to CTC.

**Liabilities:**

- Accounts payable increased by \$1.9 million. Accounts payable related to capital projects as well as repair and renovation projects increased because construction activities during the summer of 2006 increased from the previous summer.
- Accrued liabilities increased by \$230,000 due to accrual of annual increment of faculty relating to services rendered during fiscal year 2006.
- Deferred revenue decreased by \$98,000. Deferred revenues related to grants declined due to decrease in the amount of cash received in advance for grant expenditures.
- The compensated absences liability increased by \$820,000 due to increase in the health insurance costs of retirees.
- During fiscal year 2006, the University transferred total liabilities of \$1.0 million to CTC.

**Statement of Revenues, Expenses, and Changes in Net Assets**

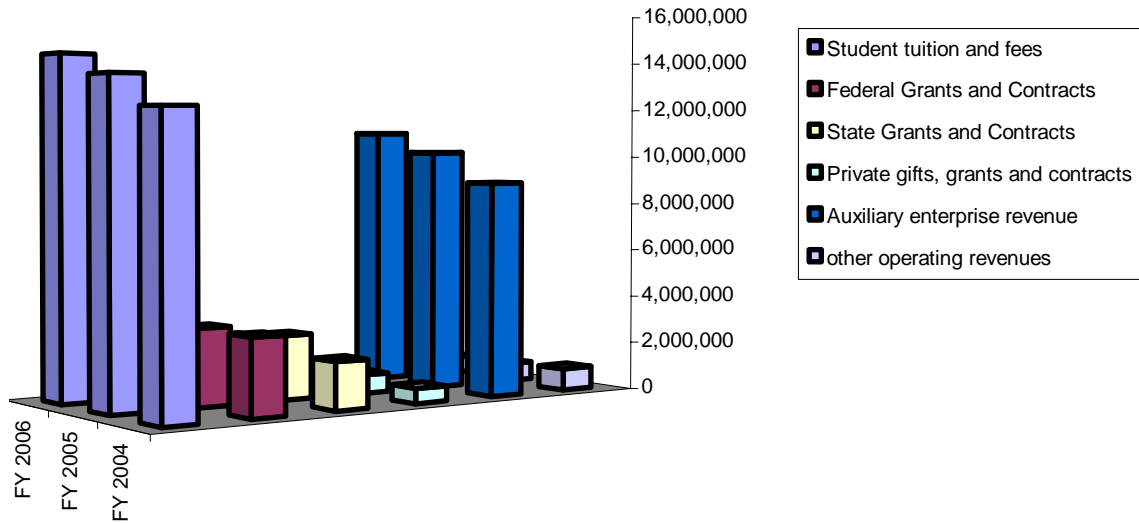
Changes in total net assets as presented on the Statement of Net Assets are based on the activity presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of the statement is to present the revenues received by the University, both operating and nonoperating, and the expenses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

In general, operating revenues are received for goods and services rendered to various customers and constituencies of the University. 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 University. 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 University without the Legislature directly receiving commensurate goods and services for those revenues.

**Revenues, Expenses and Changes in Net Assets  
(In thousands)**

	<b>2006</b>	<b>2005</b>	<b>2004</b>
OPERATING REVENUES	\$32,627	\$31,042	\$27,779
OPERATING EXPENSES	<u>40,792</u>	<u>39,835</u>	<u>38,942</u>
OPERATING LOSS	(8,165)	(8,793)	(11,163)
NONOPERATING REVENUES—Net	<u>8,813</u>	<u>11,388</u>	<u>10,582</u>
INCOME (LOSS) BEFORE OTHER REVENUES, EXPENSES, GAINS OR LOSSES	647	2595	(581)
CAPITAL AND BOND PROCEEDS FROM COMMISSION	317	877	
CAPITAL GIFTS AND GRANTS	<u>1,277</u>	<u>732</u>	<u>1,489</u>
INCREASE IN NET ASSETS BEFORE TRANSFERS	2,242	4,204	908
TRANSFER OF NET ASSETS TO THE COMMUNITY AND TECHNICAL COLLEGE OF SHEPHERD	(1,451)		
TRANSFER OF LIABILITY FROM COMMISSION	<u>—</u>	<u>—</u>	<u>(90)</u>
INCREASE IN NET ASSETS	791	4,204	818
NET ASSETS—Beginning of year	<u>55,031</u>	<u>50,827</u>	<u>50,009</u>
NET ASSETS—End of year	<u>\$55,822</u>	<u>\$55,031</u>	<u>\$50,827</u>

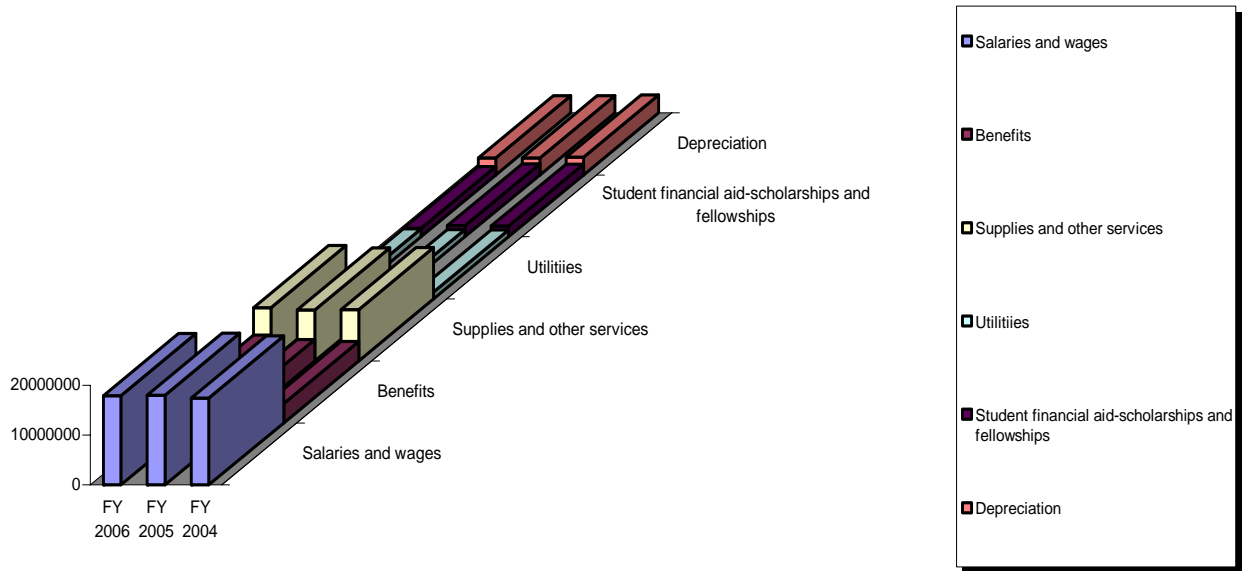
### Operating Revenues



### Operating Revenues:

- Gross student tuition and fees increased by \$1,349,000 for a 13% overall increase. This is attributed to a combination of factors including a 10.7% increase in non-auxiliary tuition and fees rates for undergraduate resident students and a 15% increase for nonresident students. The number of full-time equivalent (“FTE”) enrollment resident students who paid tuition increased 4.79 %. The Community and Technical College tuition revenues totaling \$1.5 million were included in the fiscal year 2005 financial data.
- Federal grants and contracts decreased \$755,000. CTC’s federal grant revenues totaling \$644,000 were included in the fiscal year 2005 financial data.
- State grants and contracts decreased by \$395,000. CTC’s state grant revenues totaling \$564,000 were included in the fiscal year 2005 financial data. Promise and HEAPS scholarships increased from fiscal year 2005.
- Private grants and contracts decreased by \$49,000. CTC’s private grant revenues totaling \$46,000 were included in the fiscal year 2005 financial data.
- Gross sales and services of auxiliary enterprises increased by \$903,000, for an 8.1% increase in fiscal year 2006 over fiscal year 2005. The charges for room rent and meal plan increased by 9% and 7%, respectively, in fiscal year 2006. Bookstore and intercollegiate athletics revenues increased by \$109,000 and \$182,000, respectively, in fiscal year 2006.
- Other revenues decreased by \$75,000. The CTC’s other revenues totaling \$90,000 were included in fiscal year 2005.

## Operating Expenses



### Operating Expenses:

- The total cost of benefits increased by \$857,000 for fiscal year 2006 over fiscal year 2005. The compensated absences liability increased by \$903,000 in fiscal year 2006 and increased by \$110,000 in fiscal year 2005.
- Supplies and other services increased by \$556,000. The University expended funds for exterior renovations of McMurrin and Reynolds Halls.

### Nonoperating Revenues (Expenses)

- Nonoperating revenues from State appropriations decreased by \$2.7 million. CTC's State appropriation revenues totaling \$2.3 million were included in the fiscal year 2005 financial data. The University received a \$550,000 supplemental appropriation in the final quarter of fiscal year 2005.
- Interest on indebtedness increased by \$614,000 due to interest expenses incurred on the debt issued during fiscal year 2005.
- Investment income increased by \$693,000. The investment income earned on money held by the State Treasurer increased by \$270,000. The University participates in the investment pool managed by the State of West Virginia. The increase in interest revenue coincides with the increase in cash and restricted cash as proceeds of \$22,925,000 in bonds were issued late in fiscal year 2005, which was available for investment most of fiscal year 2006. The rest of the investment income was earned on construction funds.

### Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. The Statement of Cash Flows presents detailed information about the cash activity of the University 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 University. 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 in operating activities to net operating income or loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

	<b>Cash Flows (In thousands)</b>		
	<b>2006</b>	<b>June 30 2005</b>	<b>2004</b>
Cash provided by (used in):			
Operating activities	\$(2,499)	\$(5,727)	\$(6,834)
Noncapital financing activities	7,094	11,550	11,103
Capital and related financing activities	(19,597)	16,512	6,174
Investing activities	<u>16,059</u>	<u>(19,522)</u>	<u>4,463</u>
Increase in cash and cash equivalents	1,057	2,813	2,558
Cash and cash equivalents, beginning of year	<u>12,465</u>	<u>9,652</u>	<u>7,094</u>
Cash and cash equivalents, end of year	<u>\$13,522</u>	<u>\$12,465</u>	<u>\$ 9,652</u>

### **Capital Assets**

The University completed the Ikenberry elevator project during fiscal year 2006 at a cost of \$1,060,665.

The following construction projects were completed in fiscal year 2005:

Shaw and Thacher Hall Renovations:	\$1,609,819
West Campus Parking Lot	1,173,000
Ikenberry Hall Renovations	122,000

The University received a \$12.5 million allocation from the 2005 Higher Education Policy Commission debt issuance to construct additional instructional space, of which \$317,000 was earned in fiscal year 2006 and \$877,000 was earned in fiscal year 2005. In addition, \$10 million was received from the U.S. Department of Health and Human Services to construct academic space for the Nursing program. During fiscal year 2006, The University earned \$1.3 million related to this grant.

## **Capital Debt**

In January 2003, \$5,990,000 of Student Fee Revenue Bonds, Series 2003 (the “Student Fee Revenue Bonds”) were sold. The Student Fee Revenue Bonds were issued to finance the costs of planning, design, 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; establish a debt service reserve fund; establish a capital interest fund to pay interest on the Student Fee Revenue Bond due on December 1, 2003 and pay the costs of issuance of the Student Fee Revenue Bond and related costs.

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “Infrastructure Bonds”) were sold. The Infrastructure Bonds were issued to finance the costs of planning, design, acquisition, construction and equipping of certain capital improvements of the University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Infrastructure Bonds and related costs.

In May 2005, \$22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2005 (the “Residence Facilities Bonds”) were sold. The Residence Facility Bonds were issued to finance the costs of planning, design, acquisition, construction and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer’s \$1,865,000 University Facilities Revenue Notes, Series 2004A and pay the costs of issuance of the Series 2005 Residence Facility Bonds. The new residence halls will be completed before the fall semester of 2006. Rental revenues will be collected during fiscal year 2007 to fund the debt service on the bonds.

## **Economic Outlook**

The University received a \$1.5 million increase in State appropriations for fiscal year 2007. The economy in West Virginia is growing. Increases in the global demand for energy are having a positive impact on coal production and pricing. These increases have generated additional tax revenues for the State. Although the number of high school graduates in the state continues to decline, the University 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 University will remain competitive for new and returning students.

# SHEPHERD UNIVERSITY

## STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

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	2006	2005
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 13,522,194	\$ 12,464,854
Appropriations due from Primary Government	60,009	
Due from the Commission	125,706	977,681
Amount due from the State	84,135	12,250
Accounts receivable—net	534,285	498,568
Loans to students—current portion	158,279	179,505
Prepaid expenses		19,560
Inventories	<u>443,770</u>	<u>457,336</u>
Total current assets	<u>14,928,378</u>	<u>14,609,754</u>
NONCURRENT ASSETS:		
Cash and cash equivalents	1,500,917	4,482,423
Investments	4,853,229	19,863,267
Loans to students, net of allowance of \$306,878 and \$313,468 in 2006 and 2005, respectively	293,408	321,753
Bond issuance costs	626,083	655,674
Capital assets—net	<u>79,010,402</u>	<u>58,817,440</u>
Total noncurrent assets	<u>86,284,039</u>	<u>84,140,557</u>
TOTAL	<u>\$ 101,212,417</u>	<u>\$ 98,750,311</u>

(Continued)

# SHEPHERD UNIVERSITY

## STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

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	2006	2005
<b>LIABILITIES</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 4,777,465	\$ 2,876,682
Accrued liabilities	912,327	682,259
Due to the Commission	6,551	13,250
Due to other State agencies	40,649	23,237
Compensated absences—current portion	681,021	696,293
Debt obligation due Commission—current portion	381,118	459,572
Deferred revenue	809,044	907,473
Deposits	195,655	180,205
Bonds payable—current portion	240,000	230,000
Capital lease obligation—current portion	61,190	60,555
	<u>8,105,020</u>	<u>6,129,526</u>
Total current liabilities		
<b>NONCURRENT LIABILITIES:</b>		
Advances from federal sponsors	634,586	639,434
Compensated absences	2,318,473	1,420,469
Debt obligation due Commission	1,820,453	2,688,448
Bonds payable	32,363,226	32,629,850
Capital lease obligation	148,216	211,184
	<u>37,284,954</u>	<u>37,589,385</u>
Total noncurrent liabilities		
Total liabilities	<u>45,389,974</u>	<u>43,718,911</u>
<b>NET ASSETS:</b>		
Invested in capital assets—net of related debt	<u>46,283,989</u>	<u>45,244,237</u>
Restricted for—expendable:		
Loans	133,865	98,953
Debt service	1,080,076	528,534
Other restricted	57,141	88,544
Capital projects	299,662	264,075
	<u>1,570,744</u>	<u>980,106</u>
Total expendable		
Unrestricted	<u>7,967,710</u>	<u>8,807,057</u>
Total net assets	<u>55,822,443</u>	<u>55,031,400</u>
<b>TOTAL</b>	<u>\$ 101,212,417</u>	<u>\$ 98,750,311</u>

See notes to financial statements.

(Concluded)

# SHEPHERD UNIVERSITY

## THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED A COMPONENT UNIT OF SHEPHERD UNIVERSITY STATEMENTS OF NET ASSETS AS OF JUNE 30, 2006 AND 2005

	<b>2006</b>	<b>2005</b>
<b>ASSETS:</b>		
Cash and cash equivalents	\$ 976,359	\$ 2,341,335
Pledges receivable	46,330	1,165
Contributions receivable	3,620	1,824
Accrued interest receivable	109,093	97,051
Prepaid expenses	4,499	5,162
Investments	19,212,979	17,932,354
Equipment—net	<u>10,905</u>	<u>6,303</u>
<b>TOTAL</b>	<b><u>\$20,363,785</u></b>	<b><u>\$20,385,194</u></b>
<b>LIABILITIES:</b>		
Accounts payable	\$ 6,326	\$ 3,985
Accrued payroll expenses		323
Custodial liabilities	2,560,306	2,855,586
Gift annuities payable	<u>114,197</u>	<u>118,157</u>
<b>Total liabilities</b>	<b><u>2,680,829</u></b>	<b><u>2,978,051</u></b>
<b>NET ASSETS:</b>		
Unrestricted	312,512	402,485
Temporarily restricted	939,773	690,654
Permanently restricted	<u>16,430,671</u>	<u>16,314,004</u>
<b>Total net assets</b>	<b><u>17,682,956</u></b>	<b><u>17,407,143</u></b>
<b>TOTAL</b>	<b><u>\$20,363,785</u></b>	<b><u>\$20,385,194</u></b>

See notes to financial statements.

# SHEPHERD UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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	2006	2005
OPERATING REVENUES:		
Student tuition and fees, net of scholarship allowance of \$4,460,692 and \$4,028,529 in 2006 and 2005, respectively	\$ 14,278,925	\$ 13,392,022
Contracts and grants:		
Federal	2,437,949	3,193,353
State	2,280,338	2,675,626
Private	742,062	791,374
Interest on student loans receivable	13,570	13,386
Sales and services of educational activities	41,970	39,858
Auxiliary enterprise revenue, net of scholarship allowance of \$73,382 and \$47,470 in 2006 and 2005, respectively	11,010,118	10,180,484
Contract revenue	1,141,063	
Other operating revenues	<u>680,702</u>	<u>756,240</u>
 Total operating revenues	 <u>32,626,697</u>	 <u>31,042,343</u>
OPERATING EXPENSES:		
Salaries and wages	17,937,458	18,006,391
Benefits	5,176,789	4,319,859
Supplies and other services	10,714,847	10,159,129
Utilities	1,604,491	1,449,873
Student financial aid—scholarships and fellowships	1,677,983	2,233,554
Depreciation	3,427,276	3,402,044
Fees assessed by the Commission for operations	<u>253,903</u>	<u>264,432</u>
 Total operating expenses	 <u>40,792,747</u>	 <u>39,835,282</u>
 OPERATING LOSS	 <u>(8,166,050)</u>	 <u>(8,792,939)</u>

(Continued)

# SHEPHERD UNIVERSITY

## STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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	<b>2006</b>	<b>2005</b>
NONOPERATING REVENUES (EXPENSES):		
State appropriations	\$ 8,821,096	\$ 11,550,130
Investment income	1,092,712	399,231
Interest on indebtedness	(845,155)	(230,684)
Fees assessed by the Commission for debt service	(206,406)	(266,321)
Loss on disposal of equipment	<u>(48,974)</u>	<u>(64,393)</u>
Net nonoperating revenues	<u>8,813,273</u>	<u>11,387,963</u>
INCOME BEFORE OTHER REVENUES, EXPENSES, GAINS, OR LOSSES	647,223	2,595,024
CAPITAL AND BOND PROCEEDS FROM COMMISSION	317,404	877,234
CAPITAL GRANTS AND GIFTS	<u>1,276,918</u>	<u>732,506</u>
INCREASE IN NET ASSETS BEFORE TRANSFER	2,241,545	4,204,764
TRANSFER OF NET ASSETS TO THE COMMUNITY AND TECHNICAL COLLEGE OF SHEPHERD	<u>(1,450,502)</u>	<u>                    </u>
INCREASE IN NET ASSETS	791,043	4,204,764
NET ASSETS—Beginning of year	<u>55,031,400</u>	<u>50,826,636</u>
NET ASSETS—End of year	<u>\$ 55,822,443</u>	<u>\$ 55,031,400</u>
See notes to financial statements.		(Concluded)

# SHEPHERD UNIVERSITY

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED**  
**A COMPONENT UNIT OF SHEPHERD UNIVERSITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2006**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT:</b>				
Cash contributions	\$ -	\$ 569,521	\$ 305,752	\$ 875,273
Stock contributions	-	1,046	5,412	6,458
Other noncash contributions	-	2,445	-	2,445
Other revenue	22,364	71,470	-	93,834
Interest and dividends	73,143	571,363	23,510	668,016
Net realized and unrealized (losses) on investments	(119,836)	-	-	(119,836)
Net assets released from restrictions	<u>1,184,733</u>	<u>(966,726)</u>	<u>(218,007)</u>	<u>-</u>
 Total revenue and other support	 <u>1,160,404</u>	 <u>249,119</u>	 <u>116,667</u>	 <u>1,526,190</u>
<b>EXPENSES:</b>				
Program services:				
Scholarships and awards	745,511	-	-	745,511
College support	150,961	-	-	150,961
General and administrative:				
Salaries	155,766	-	-	155,766
Investment management fees	56,738	-	-	56,738
Printing and reproduction costs	16,295	-	-	16,295
Payroll taxes and benefits	26,708	-	-	26,708
Depreciation	5,751	-	-	5,751
Administrative expense	16,403	-	-	16,403
Rent	12,600	-	-	12,600
Office supplies and postage	6,484	-	-	6,484
Insurance	8,246	-	-	8,246
Changes in gift annuities	9,226	-	-	9,226
Professional fees	12,640	-	-	12,640
Staff development	4,217	-	-	4,217
Development	17,507	-	-	17,507
Telephone	1,903	-	-	1,903
Technology	3,421	-	-	3,421
Miscellaneous	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
 Total expenses	 <u>1,250,377</u>	 <u>-</u>	 <u>-</u>	 <u>1,250,377</u>
 INCREASE IN NET ASSETS	 (89,973)	 249,119	 116,667	 275,813
NET ASSETS—Beginning of year	<u>402,485</u>	<u>690,654</u>	<u>16,314,004</u>	<u>17,407,143</u>
NET ASSETS—End of year	<u>\$ 312,512</u>	<u>\$ 939,773</u>	<u>\$ 16,430,671</u>	<u>\$ 17,682,956</u>

See notes to financial statements.

# SHEPHERD UNIVERSITY

**THE SHEPHERD UNIVERSITY FOUNDATION, INCORPORATED**  
**A COMPONENT UNIT OF SHEPHERD UNIVERSITY**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2005**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
<b>REVENUE AND OTHER SUPPORT:</b>				
Cash contributions	\$ -	\$ 474,256	\$ 147,959	\$ 622,215
Stock contributions			2,517	2,517
Other noncash contributions		8,200		8,200
Other revenue	48,368	10,085		58,453
Interest and dividends	203,611	410,156	3,242	617,009
Net realized and unrealized (losses) on investments	241,243		711,730	952,973
Net assets released from restrictions	<u>860,561</u>	<u>(829,278)</u>	<u>(31,283)</u>	
<b>Total revenue and other support</b>	<u>1,353,783</u>	<u>73,419</u>	<u>834,165</u>	<u>2,261,367</u>
<b>EXPENSES:</b>				
Program services:				
Scholarships and awards	656,900			656,900
College support	113,484			113,484
General and administrative:				
Salaries	147,426			147,426
Investment management fees	55,053			55,053
Printing and reproduction costs	12,967			12,967
Payroll taxes and benefits	25,135			25,135
Depreciation	5,127			5,127
Administrative expense	5,558			5,558
Rent	12,000			12,000
Office supplies and postage	5,351			5,351
Insurance	8,264			8,264
Changes in gift annuities	(4,155)			(4,155)
Professional fees	12,853			12,853
Staff development	2,172			2,172
Development	19,714			19,714
Telephone	1,394			1,394
Technology	1,465			1,465
Miscellaneous	<u>1,332</u>			<u>1,332</u>
<b>Total expenses</b>	<u>1,082,040</u>	<u>-</u>	<u>-</u>	<u>1,082,040</u>
<b>INCREASE IN NET ASSETS</b>	271,743	73,419	834,165	1,179,327
<b>NET ASSETS—Beginning of year</b>	<u>130,742</u>	<u>617,235</u>	<u>15,479,839</u>	<u>16,227,816</u>
<b>NET ASSETS—End of year</b>	<u>\$ 402,485</u>	<u>\$ 690,654</u>	<u>\$ 16,314,004</u>	<u>\$ 17,407,143</u>

See notes to financial statements.

# SHEPHERD UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	\$ 14,862,002	\$ 13,513,085
Contracts and grants	5,436,851	5,978,202
Payments to and on behalf of employees	(21,850,321)	(22,148,945)
Payments to suppliers	(10,371,182)	(9,909,668)
Payments to utilities	(1,547,944)	(1,395,512)
Payments for scholarships and fellowships	(1,724,987)	(2,235,954)
Loans issued to students	(119,322)	(101,409)
Collection of loans to students	168,893	152,302
Sales and service of educational activities	41,970	39,858
Auxiliary enterprise charges	11,082,945	10,101,273
Fees retained by Commission	(260,602)	(368,110)
Other receipts—net	<u>1,782,728</u>	<u>647,867</u>
Net cash used in operating activities	<u>(2,498,969)</u>	<u>(5,727,011)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations	8,738,412	11,550,130
Transfer to The Community and Technical College of Shepherd	(1,644,114)	
Federal student loan program—direct lending receipts	10,573,276	11,625,020
Federal student loan program—direct lending payments	<u>(10,573,276)</u>	<u>(11,625,020)</u>
Net cash provided by noncapital financing activities	<u>7,094,298</u>	<u>11,550,130</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:		
Capital and bond proceeds from commission	633,787	482,273
Capital grants and gifts received	1,276,918	732,506
Proceeds from capital debt		29,284,508
Payment of bond issuance costs		(552,511)
Interest paid on capital debt and leases	(1,497,707)	(252,887)
Purchases of capital assets	(22,089,571)	(7,093,709)
Principal paid on capital debt and leases	(695,300)	(2,624,055)
Decrease (increase) in noncurrent cash and cash equivalents	2,981,506	(3,197,559)
Debt service assessed by the Commission for debt service and reserves	<u>(206,406)</u>	<u>(266,321)</u>
Net cash (used in) provided by capital financing activities	<u>(19,596,773)</u>	<u>16,512,245</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales (purchases) of investments	15,010,038	(19,863,267)
Interest on investments	<u>1,048,746</u>	<u>341,221</u>
Net cash provided by (used in) investing activities	<u>16,058,784</u>	<u>(19,522,046)</u>
INCREASE IN CASH AND CASH EQUIVALENTS	1,057,340	2,813,318
CASH AND CASH EQUIVALENTS—Beginning of year	<u>12,464,854</u>	<u>9,651,536</u>
CASH AND CASH EQUIVALENTS—End of year	<u>\$ 13,522,194</u>	<u>\$ 12,464,854</u>

(Continued)

# SHEPHERD UNIVERSITY

## STATEMENTS OF CASH FLOWS FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

	2006	2005
RECONCILIATION OF NET OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	\$ (8,166,050)	\$ (8,792,939)
Adjustments to reconcile net operating loss to net cash used in operating activities:		
Depreciation expense	3,427,276	3,402,044
Amortization of bond issuance costs	29,591	52,888
Changes in assets and liabilities:		
Appropriation from Primary Government	(60,009)	
Accounts receivables—net	(90,343)	10,544
Loans to students—net	49,571	50,894
Due from the Commission	575,581	(574,326)
Due from other State agencies	11,050	925
Prepaid expenses	19,561	7,058
Inventories	13,566	(76,312)
Accounts payable	336,501	359,096
Accrued liabilities	248,763	59,002
Compensated absences	995,604	110,049
Due to the Commission	(2,106)	(103,678)
Due to other State agencies	15,958	(33,051)
Deferred revenue	85,913	(92,235)
Deposits held in custody for others	15,452	15,715
Advances from Federal Sponsors	(4,848)	(122,685)
	<u>                    </u>	<u>                    </u>
NET CASH USED IN OPERATING ACTIVITIES	\$ (2,498,969)	\$ (5,727,011)
NONCASH TRANSACTIONS—Construction in progress additions in accounts payable	\$ 3,488,078	\$ 1,791,864
ASSETS AND LIABILITIES TRANSFERRED TO THE COMMUNITY AND TECHNICAL COLLEGE OF SHEPHERD:		
Due from the Commission	\$ 3,977	
Amount due from the State	1,200	
Accounts receivable—net	54,625	
Capital assets	790,766	
Accounts payable	(133,385)	
Accrued liabilities	(40,335)	
Due to other State agencies	(3,142)	
Compensated absences	(112,870)	
Debt obligation due Commission	(570,106)	
Deferred revenue	(184,342)	
	<u>                    </u>	
	<u>\$ (193,612)</u>	

See notes to financial statements.

(Concluded)

# SHEPHERD UNIVERSITY

## NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2006 AND 2005

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### 1. ORGANIZATION

Shepherd University (the “University”) is governed by the Shepherd University 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.

During fiscal year 2004, Senate Bill 448 (“S.B. 448”) was passed requiring the transfer of certain net assets from the University to its separately governed community and technical college after that community and technical college receives independent accreditation. The Community and Technical College of Shepherd received its accreditation on February 8, 2005. Effective July 1, 2005, \$1,450,502 was transferred in accordance with S.B. 448.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the University 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. 37. The financial statement presentation required by GASB No. 34 and No. 35 provides a comprehensive, entity-wide perspective of the University’s assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows and replaces the fund-group perspective previously required.

The University 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 University 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 University is a separate entity which, along with all State institutions of higher education, the Commission (which includes West Virginia Network for Educational Telecomputing (“WVNET”) and West Virginia Council for Community and Technical College Education, 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 University. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the University's ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation and another affiliate of the University are not part of the University reporting entity and are not included in the accompanying financial statements as the University 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 under GASB Statement No. 14, *The Financial Reporting Entity*.

As of July 1, 2003, the University adopted GASB Statement No. 39, *Determining Whether Certain Organizations are Component Units*, as an amendment of GASB Statement No. 14. As a result, the audited financial statements of The Shepherd University Foundation, Incorporated (the "Foundation") are discretely presented here with the University's financial statements for the fiscal years ended June 30, 2006 and 2005. The Foundation is a private nonprofit organization that reports under FASB standards, including FASB Statement No. 117, *Financial Reporting for Not-for-Profit Organizations*. As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's audited financial information as it is presented herein (see also Notes 13 and 17).

**Financial Statement Presentation**—GASB Statement No. 35, *Basic Financial Statements – and Management's Discussion and Analysis – for Public Colleges and Universities, as amended by GASB Statements No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus* and No. 38, *Certain Financial Statement Note Disclosures*, 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 University 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 University obligations. The University's net assets are classified as follows:

- *Invested in Capital Assets, Net of Related Debt*—This represents the University'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 University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

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

- *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 University does not have any restricted nonexpendable net assets at June 30, 2006 or 2005.
- *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 University, 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, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University’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 statement of net assets, the University considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Prior to July 2005, cash and cash equivalents balances on deposit with the State of West Virginia Treasurer’s Office (the “State Treasurer”) were pooled by the State Treasurer with other available funds of the State for investment purposes by the West Virginia Investment Management Board (the “IMB”). Effective July 2005, investment of such funds is overseen and managed by the West Virginia Board of Treasury Investments (“BTI”). These funds are transferred to the BTI and the BTI is directed by the State Treasurer to invest the funds in specific external investment pools in accordance with West Virginia Code, policies set by the BTI, and by provisions of bond indentures and trust agreements, when applicable. Balances in the investment pools are recorded at fair value or 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 Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. The IMB, and subsequently the BTI, were established by the State Legislature and are 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 are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

The IMB, and subsequently the BTI, maintain the Consolidated Fund investment fund which consists of five investment pools and participant-directed accounts in which the state and local governmental agencies invest. These pools have been structured as multi-participant 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 IMB’s, and the BTI’s investment operations pool can be found in their respective annual reports. A copy of those annual reports can be obtained from the following address: 500 Virginia Street East, Suite 200, Charleston, West Virginia 25301 or <http://www.wvimb.org> or <http://www.wvbt.com>.

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

***Allowance for Doubtful Accounts***—It is the University’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 University on such balances, and such other factors which, in the University’s judgment, require consideration in estimating doubtful accounts.

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

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

***Investments***—Investments are recorded at fair value. The University’s investments were on deposit with WesBanco Bank, Inc. (the “Trustee Bank”). These funds primarily represented unexpended proceeds of bond issuances and were restricted to expenditures for capital improvements and bond related costs. These funds were classified as long-term due to the restrictions.

***Bond Issuance Costs***—Bond issuance costs consist of costs that have been incurred in connection with the issuance of 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. Interest on related borrowing, net of interest earnings on invested proceeds, capitalized during the period of construction was \$674,192 and \$124,763 for the years ended June 30, 2006 and 2005, respectively. 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. The University capitalizes all purchases of library books and uses a capitalization threshold of \$1,000 for other capital assets. During fiscal year 2006, the University implemented GASB Statement No. 42, *Accounting and Financial Reporting for Impairments of Capital Assets and for Insurance Recoveries* (“GASB No. 42”). The financial statements reflect all adjustments required by GASB No. 42 as of June 30, 2006.

***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 University 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 University’s full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1½ sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extend health insurance for one month of single coverage and three days extend health insurance for one month of family coverage. For employees hired after 1988, the

employee shares in the cost of the extended benefit coverage to the extent of 50% of the premium required for the extended coverage. Employees hired July 1, 2001, or later will no longer receive sick leave credit toward insurance premiums when they retire.

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 3½ 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 University 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 University 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 liability coverage to the University and its employees. Such coverage may be provided to the University 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 University or other participants in BRIM’s insurance programs. As a result, management does not expect significant differences between the premiums the University is currently charged by BRIM and the ultimate cost of that insurance based on the University’s actual loss experience. In the event such differences arise between estimated premiums currently charged by BRIM to the University and the University’s ultimate actual loss experience, the difference will be recorded as the change in estimate becomes known.

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

***Classification of Revenues***—The University 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 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. Nonoperating revenues also include student fees, which were billed for capital improvements.

- *Other Revenues*—Other revenues consist primarily of capital gains and gifts.

***Use of Restricted Net Assets***—The University 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 University attempts to utilize restricted net assets first when practicable.

***Federal Financial Assistance Programs***—The University 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 University. Direct student loan receivables are not included in the University's statements of net assets as the loans are repayable directly to the U.S. Department of Education. In 2006 and 2005, the University received and disbursed approximately \$10,573,000 and \$11,600,000, 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 University 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 2006 and 2005, the University received and disbursed approximately \$ 2,400,000 and \$3,000,000, 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 University 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 University 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. The University 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 University 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.

**Risks 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.

**Reclassifications**—Certain prior year amounts have been reclassified to conform with the current year presentation.

**Recent Statements Issued by the GASB**—The GASB has issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, effective for fiscal years beginning after December 15, 2006. This statement provides standards for the measurement, recognition, and display of other postemployment benefit expenditures, assets, and liabilities, including applicable note disclosures and required supplementary information. During fiscal year 2006, House Bill No. 4654 was established to create a trust fund for postemployment benefits for the State. Effective July 1, 2006, the University is required to participate in this multiple employer cost sharing plan sponsored by the State. Details regarding this plan can be obtained by contacting Public Employees Insurance Agency, State Capitol Complex, Building 5, Room 1001, 1900 Kanawha Boulevard, East, Charleston, WV 25305-0710 or <http://www.wvpeia.com>.

### 3. CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents as of June 30, 2006 and 2005, are held as follows:

<b>2006</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer	\$ 12,944,636	\$ -	\$ 12,944,636
Trustee Bank		1,500,918	1,500,918
Bank	<u>577,558</u>	<u></u>	<u>577,558</u>
	<u>\$ 13,522,194</u>	<u>\$ 1,500,918</u>	<u>\$ 15,023,112</u>
<b>2005</b>	<b>Current</b>	<b>Noncurrent</b>	<b>Total</b>
State Treasurer	\$ 12,039,928	\$ -	\$ 12,039,928
Trustee Bank		4,482,423	4,482,423
Bank	<u>424,926</u>	<u></u>	<u>424,926</u>
	<u>\$ 12,464,854</u>	<u>\$ 4,482,423</u>	<u>\$ 16,947,277</u>

Cash and cash equivalents with the State Treasurer include in \$67,490 in 2006 and \$318,818 in 2005 of restricted cash for grants and loans.

Cash and cash equivalents with trustee banks include deposits held by the Trustee Bank for the bonds issued in January 2003, September 2004, and May 2005. The University uses the Trustee Bank as its trustee for the bond proceeds. The total amount held by the Trustee Bank on June 30, 2006 and 2005, was \$1,500,918 and \$4,482,423, respectively, and was invested in U.S. Treasury money market funds.

The combined carrying amount of cash in the bank at June 30, 2006 and 2005, was \$577,558 and \$424,926, respectively, as compared with the combined bank balance of \$784,743 and \$648,028, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were collateralized by securities held by the State's agent.

Cash and cash equivalents with the State Treasurer and the Municipal Bond Commission as of June 30, 2006 and 2005, are comprised of the following investment pools:

## **2006**

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

### **Cash Liquidity Pool**

#### ***Credit Risk***

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

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

Security Type	Credit Rating *		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Commercial paper	P1	A-1	\$ 943,057	54.14 %
Corporate bonds and notes	Aaa	AAA	61,992	3.56
	Aa	AA	55,063	3.16
	Aa	A	<u>12,000</u>	<u>0.69</u>
			129,055	7.41
U.S. agency bonds	Aaa	AAA	43,663	2.51
U.S. Treasury bills	Aaa	AAA	306,279	17.58
Certificates of deposit	P1	A-1	99,000	5.68
	NR	NR	<u>23,800</u>	<u>1.37</u>
			122,800	7.05
U.S. agency discount notes	P1	A-1	93,851	5.39
Money market funds	Aaa	AAA	758	0.04
Repurchase agreements (underlying securities)				
U.S. Treasury notes	Aaa	AAA	73,000	4.19
U.S. agency notes	Aaa	AAA	<u>29,339</u>	<u>1.69</u>
			<u>102,339</u>	<u>5.88</u>
			<u>\$ 1,741,802</u>	<u>100.00 %</u>

\* NR = Not Rated

The University's ownership represents 0.48% of these amounts held by the BTI.

## Government Money Market Pool

### *Credit Risk*

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
U.S. agency bonds	Aaa	AAA	\$ 21,420	11.76 %
U.S. Treasury bills	Aaa	AAA	28,346	15.56
U.S. agency discount notes	P1	A-1	112,399	61.70
Money market funds	Aaa	AAA	109	0.06
Repurchase agreements (underlying securities)				
U.S. Treasury strips	Aaa	AAA	15,602	8.56
U.S. agency bonds	Aaa	AAA	<u>4,298</u>	<u>2.36</u>
			<u>19,900</u>	<u>10.92</u>
			<u>\$ 182,174</u>	<u>100.00 %</u>

\* NR = Not Rated

The University's ownership represents 0.11% of these amounts held by the BTI.

## Enhanced Yield Pool

### *Credit Risk*

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

Security Type	Credit Rating		Carrying Value	Percent of Pool Assets
	Moody's	S&P		
Corporate asset backed securities	P1	A-1	\$ 46,963	17.70 %
Corporate bonds and notes	Aaa	AAA	2,448	0.92
	Aa	AA	3,790	1.43
	Aa	A	15,660	5.90
	A	AA	3,048	1.15
	A	A	<u>46,847</u>	<u>17.65</u>
			71,793	27.05
U.S. agency bonds	Aaa	AAA	87,215	32.86 %
U.S. Treasury bills	Aaa	AAA	58,067	21.88
Repurchase agreements (underlying securities)				
U.S. agency mortgage backed securities	Aaa	AAA	<u>1,346</u>	<u>0.51</u>
			<u>\$ 265,384</u>	<u>100.00 %</u>

The University's ownership represents 1.66% of these amounts held by the BTI.

### *Interest Rate Risk*

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

The overall weighted average maturity of the investments of the Cash Liquidity Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase.

The following table provides information on the weighted average maturities for the various asset types in the Cash Liquidity Pool:

<b>Security Type</b>	<b>Carrying Value (In Thousands)</b>	<b>WAM (Days)</b>
Repurchase agreements	\$ 102,339	3
U.S. Treasury bills	306,279	32
Commercial paper	943,057	25
Certificates of deposit	122,800	105
U.S. agency discount notes	93,851	89
Corporate notes	129,055	77
U.S. agency bonds/notes	43,663	208
Money market funds	<u>758</u>	<u>1</u>
	<u>\$ 1,741,802</u>	<u>42</u>

The overall weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase.

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

<b>Security Type</b>	<b>Carrying Value (In Thousands)</b>	<b>WAM (Days)</b>
Repurchase agreements	\$ 19,900	3
U.S. Treasury bills	28,346	42
U.S. agency discount notes	112,399	39
U.S. agency bonds/notes	21,420	152
Money market funds	<u>109</u>	<u>1</u>
	<u>\$ 182,174</u>	<u>49</u>

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

<b>Security Type</b>	<b>Carrying Value (In Thousands)</b>	<b>WAM (Days)</b>
Repurchase agreements	\$ 1,346	3
U.S. Treasury bonds/notes	58,067	894
Corporate notes	71,793	588
Corporate asset backed securities	46,963	688
U.S. agency bonds/notes	<u>87,215</u>	<u>594</u>
	<u>\$ 265,384</u>	<u>672</u>

***Other Investment Risks***

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

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

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value. Securities lending collateral is required to be collateralized by at least 102% of the value of the securities loaned. 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.

## 2005

### Cash Liquidity Pool

**Credit Risk**—The IMB limits the exposure to credit risk in the Cash Liquidity Pool by requiring all corporate bonds to be rated AA or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the credit ratings of the Cash Liquidity Pool's investments.

Security Type	Moody's	S&P	Carrying Value	Percent of Assets
Commercial paper	P1	A-1	\$ 598,241,394	37.9 %
U. S. Treasury bills	Aaa	AAA	259,397,648	16.4
Corporate notes	Aaa	AAA	155,559,323	9.9
Certificates of deposit	P1	A-1	152,998,937	9.7
Agency bonds	Aaa	AAA	147,955,465	9.4
Agency discount notes	P1	A-1	119,564,248	7.6
Money market funds	Aaa	AAA	<u>4,241,278</u>	<u>0.3</u>
Total rated investments			<u>\$1,437,958,293</u>	<u>91.2 %</u>

Unrated securities include repurchase agreements of \$141,050,000. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 0.59% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statutes prohibit the cash liquidity pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the cash liquidity pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statements of net assets is invested in the lending agent's money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the cash liquidity pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date.

The following table provides the weighted average maturities (“WAM”) for the various asset types in the Cash Liquidity Pool.

Security Type	Carrying Value	WAM
Commercial paper	\$ 598,241,394	49
U.S. Treasury bills	259,397,648	30
Corporate notes	155,559,323	53
Certificates of deposit	152,998,937	42
Agency bonds	147,955,465	88
Repurchase agreements	141,050,000	1
Agency discount notes	119,564,248	52
Money market funds	<u>4,241,278</u>	<u>1</u>
Total rated investments	<u>\$1,579,008,293</u>	<u>45</u>

**Foreign Currency Risk**—The Cash Liquidity Pool has no securities that are subject to foreign currency risk.

### **Government Money Market Pool**

**Credit Risk**—The IMB limits the exposure to credit risk in the Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. None of the government agency issues held by the pool have the explicit guarantee of the U.S. Treasury; however, they are all rated Aaa by Moody’s and AAA by Standard & Poor’s. Agency discount notes held by the pool are rated P1 by Moody’s and A-1 by Standard & Poor’s.

The University’s ownership represents 0.06% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statutes prohibit the Government Money Market Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the Government Money Market Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statements of net assets and liabilities is invested in the lending agent’s money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the Government Money Market Pool cannot exceed 60 days. The maturity of floating rate notes is assumed to be the next interest rate reset date.

The following table provides the WAM for the various asset types in the Government Money Market Pool.

Security Type	Carrying Value	WAM (days)
Agency discount notes	\$ 46,409,362	32
Agency bonds	42,571,144	75
Repurchase agreements	39,950,000	1
U.S. Treasury bills	24,903,836	48
Money market funds	<u>985,190</u>	<u>1</u>
Total assets	<u>\$ 154,819,532</u>	<u>38</u>

**Foreign Currency Risk**—The Government Money Market Pool has no securities that are subject to foreign currency risk.

### Enhanced Yield Pool

**Credit Risk**—The IMB limits the exposure to credit risk in the Enhanced Yield Pool by requiring all corporate bonds to be rated A or higher. Commercial paper must be rated A-1 by Standard & Poor's and P1 by Moody's. Additionally, the pool must have at least 15% of its assets in U.S. Treasury issues.

The following table provides information on the weighted average credit ratings of the Enhanced Yield Pool's investments.

Security Type	Moody's	S&P	Fair Value	Percent of Assets
Corporate notes	A	AA	\$ 81,631,581	30.0 %
Agency bonds	Aaa	AAA	69,203,277	25.5
U. S. Treasury notes	Aaa	AAA	66,466,539	24.5
Corporate asset backed securities	Aaa	AAA	<u>49,990,408</u>	<u>18.4</u>
Total rated investments			<u>\$267,291,805</u>	<u>98.4 %</u>

Unrated securities include repurchase agreements of \$4,362,262. Acceptable collateral for the repurchase agreements include U.S. Treasury and government agency securities, all of which carry the highest credit rating.

The University's ownership represents 0.92% of the net asset position of this pool.

**Concentration of Credit Risk**—West Virginia statutes prohibit the Enhanced Yield Pool from investing more than 5% of its assets in securities issued by a single private corporation or association. At June 30, 2005, the pool did not have investments in any one private corporation or association that represented more than 5% of assets.

**Custodial Credit Risk**—At June 30, 2005, the Enhanced Yield Pool held no securities that were subject to custodial credit risk. Repurchase agreements are collateralized at 102% and the collateral is held in the name of the IMB. Securities lending collateral that is reported in the statements of net assets and liabilities is invested in the lending agent's money market fund.

**Interest Rate Risk**—The weighted average maturity of the investments of the Enhanced Yield Pool cannot exceed two years. The maturity of floating rate notes is assumed to be the next interest rate reset date.

The following table provides the WAM for the various asset types in the Enhanced Yield Pool.

<b>Security Type</b>	<b>Fair Value</b>	<b>WAM (years)</b>
Corporate notes	\$ 81,631,581	1.7
Agency bonds	69,203,277	1.9
U. S. Treasury notes	66,466,539	2.3
Corporate asset backed securities	49,990,408	1.1
Repurchase agreement	<u>4,362,262</u>	<u>0.0</u>
Total assets	<u>\$271,654,067</u>	<u>1.7</u>

**Foreign Currency Risk**—The Enhanced Yield Pool has no securities that are subject to foreign currency risk.

#### 4. INVESTMENTS

Investments as of June 30, 2006 and 2005, consist of the following:

	<b>2006</b>	<b>2005</b>
Repurchase agreements	\$ 4,463,232	\$ 19,470,998
U.S. Treasury money market fund	<u>389,997</u>	<u>392,269</u>
	<u>\$ 4,853,229</u>	<u>\$ 19,863,267</u>

Investments are held with the Trustee Bank and are invested in U.S. Treasury money market funds and repurchase agreements. The U.S. Treasury money market fund invests in U.S. Treasury Securities. This fund is rated AAAM by Standard and Poor's and Aaa by Moody's. The carrying value at June 30, 2006 and 2005, is \$389,997 and \$392,269, respectively. The repurchase agreements invests in securities issued by the United States Government or the Government National Mortgage Association, and securities issued or guaranteed by Freddie Mac or Fannie Mae or other agency, corporation, or instrumentality of the United States of America and such other securities as MBIA Inc. and the Bond Trustee may agree to in writing. The carrying value at June 30, 2006 and 2005, is \$4,463,232 and \$19,470,998, respectively. These funds have no significant custodial credit risk nor interest rate risk. These funds are not exposed to a concentration of credit risk nor any foreign currency risk.

#### 5. ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006 and 2005, is as follows:

	<b>2006</b>	<b>2005</b>
Student tuition and fees, net of allowance for doubtful accounts of \$208,354 and \$175,555 in 2006 and 2005, respectively	\$ 224,210	\$ 254,396
Grants and contracts receivable	<u>310,075</u>	<u>244,172</u>
	<u>\$ 534,285</u>	<u>\$ 498,568</u>

## 6. CAPITAL ASSETS

Summary of capital assets transactions for the University as of June 30, 2006 and 2005, are as follows:

	2006			Ending Balance
	Beginning Balance	Additions	Reductions	
Capital assets not being depreciated:				
Land	\$ 1,120,925	\$ -	\$ -	\$ 1,120,925
Construction in progress	<u>4,426,784</u>	<u>23,247,241</u>	<u>2,127,805</u>	<u>25,546,220</u>
Total capital assets not being depreciated	<u>\$ 5,547,709</u>	<u>\$ 23,247,241</u>	<u>\$ 2,127,805</u>	<u>\$ 26,667,145</u>
Other capital assets:				
Land improvements	\$ 296,215	\$ 5,791	\$ -	\$ 302,006
Infrastructure	2,203,308	120,263		2,323,571
Buildings	70,085,952	2,001,751	151,652	71,936,051
Equipment	9,856,374	991,690	1,905,581	8,942,483
Library books	<u>3,635,271</u>	<u>221,044</u>	<u>13,448</u>	<u>3,842,867</u>
Total other capital assets	<u>86,077,120</u>	<u>3,340,539</u>	<u>2,070,681</u>	<u>87,346,978</u>
Less accumulated depreciation for:				
Land improvements	55,870	22,448		78,318
Infrastructure	632,932	119,650		752,582
Buildings	23,753,026	2,068,227	78,232	25,743,021
Equipment	5,668,943	980,654	1,139,262	5,510,335
Library books	<u>2,696,617</u>	<u>236,297</u>	<u>13,450</u>	<u>2,919,464</u>
Total accumulated depreciation	<u>32,807,388</u>	<u>3,427,276</u>	<u>1,230,944</u>	<u>35,003,720</u>
Other capital assets—net	<u>\$ 53,269,732</u>	<u>\$ (86,737)</u>	<u>\$ 839,737</u>	<u>\$ 52,343,258</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 5,547,709	\$ 23,247,241	\$ 2,127,805	\$ 26,667,145
Other capital assets	<u>86,077,120</u>	<u>3,340,539</u>	<u>2,070,681</u>	<u>87,346,978</u>
Total cost of capital assets	91,624,829	26,587,780	4,198,486	114,014,123
Less accumulated depreciation	<u>32,807,389</u>	<u>3,427,276</u>	<u>1,230,944</u>	<u>35,003,721</u>
Capital assets—net	<u>\$ 58,817,440</u>	<u>\$ 23,160,504</u>	<u>\$ 2,967,542</u>	<u>\$ 79,010,402</u>

	<b>2005</b>			
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>
Capital assets not being depreciated:				
Land	\$ 945,577	\$ 175,348	\$ -	\$ 1,120,925
Construction in progress	<u>2,571,034</u>	<u>5,615,637</u>	<u>3,759,887</u>	<u>4,426,784</u>
Total capital assets not being depreciated	<u>\$ 3,516,611</u>	<u>\$ 5,790,985</u>	<u>\$3,759,887</u>	<u>\$ 5,547,709</u>
Other capital assets:				
Land improvements	\$ 297,560	\$ -	\$ 1,345	\$ 296,215
Infrastructure	759,787	1,443,521		2,203,308
Buildings	67,870,075	2,495,239	279,362	70,085,952
Equipment	8,360,906	1,495,468		9,856,374
Library books	<u>3,420,377</u>	<u>214,894</u>		<u>3,635,271</u>
Total other capital assets	<u>80,708,705</u>	<u>5,649,122</u>	<u>280,707</u>	<u>86,077,120</u>
Less accumulated depreciation for:				
Land improvements	32,681	24,504	1,315	55,870
Infrastructure	532,442	100,490		632,932
Buildings	21,709,423	2,043,603		23,753,026
Equipment	4,886,793	997,149	214,999	5,668,943
Library books	<u>2,460,320</u>	<u>236,297</u>		<u>2,696,617</u>
Total accumulated depreciation	<u>29,621,660</u>	<u>3,402,043</u>	<u>216,314</u>	<u>32,807,388</u>
Other capital assets—net	<u>\$51,087,045</u>	<u>\$ 2,247,079</u>	<u>\$ 64,393</u>	<u>\$53,269,732</u>
Capital asset summary:				
Capital assets not being depreciated	\$ 3,516,611	\$ 5,790,985	\$3,759,887	\$ 5,547,709
Other capital assets	<u>80,708,705</u>	<u>5,649,122</u>	<u>280,707</u>	<u>86,077,120</u>
Total cost of capital assets	84,225,316	11,440,107	4,040,594	91,624,829
Less accumulated depreciation	<u>29,621,660</u>	<u>3,402,043</u>	<u>216,314</u>	<u>32,807,389</u>
Capital assets—net	<u>\$54,603,656</u>	<u>\$ 8,038,064</u>	<u>\$3,824,280</u>	<u>\$58,817,440</u>

The University 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.

The University has construction commitments of approximately \$ 7,600,000 as of June 30, 2006.

## 7. LONG-TERM LIABILITIES

Summary of long-term obligation transactions for the University for the years ended June 30, 2006 and 2005, are as follows:

	2006				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,116,762	\$ 995,603	\$ 112,870	\$ 2,999,495	\$ 681,021
Debt obligation due Commission	3,148,020		946,450	2,201,570	381,118
Bonds payable	32,859,850		256,624	32,603,226	240,000
Capital lease obligations	271,738		62,332	209,406	61,190
Advances from Federal Sponsors	<u>639,434</u>		<u>4,848</u>	<u>634,586</u>	
Total long-term liabilities	<u>\$ 39,035,804</u>	<u>\$ 995,603</u>	<u>\$ 1,383,124</u>	<u>\$ 38,648,283</u>	

	2005				
	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion
Long-term liabilities:					
Accrued compensated absences	\$ 2,006,713	\$ 110,049	\$ -	\$ 2,116,762	\$ 696,293
Debt obligation due Commission	3,599,819		451,799	3,148,020	459,572
Bonds payable	5,990,000	28,994,850	2,125,000	32,859,850	230,000
Capital lease obligations	29,336	289,658	47,256	271,738	60,555
Advances from Federal Sponsors	<u>762,119</u>		<u>122,685</u>	<u>639,434</u>	
Total long-term liabilities	<u>\$ 12,387,987</u>	<u>\$ 29,394,557</u>	<u>\$ 2,746,740</u>	<u>\$ 39,035,804</u>	

## 8. BONDS

Bonds payable as of June 30, 2006 and 2005, consisted of the following:

	Interest Rate	Annual Principal Installment Due	Principal	
			Amount Outstanding	
			2006	2005
Student Fee Revenue Bonds, due through 2033	3.0% to 5.13%	\$105,000 to 370,000	\$ 5,780,000	\$ 5,885,000
Infrastructure Revenue Bonds, due through 2024	2.0% to 4.50%	\$125,000 to 240,000	3,125,000	3,250,000
Residence Facilities Revenue Bonds, due through 2035	3.25% to 5.00%	\$435,000 to 1,450,000	<u>22,925,000</u>	<u>22,925,000</u>
			31,830,000	32,060,000
Discount			(40,710)	(42,252)
Premium			<u>813,936</u>	<u>842,102</u>
			<u>\$ 32,603,226</u>	<u>\$ 32,859,850</u>

### *Student Fee Revenue Bonds*

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 debt service reserve fund must maintain deposits totaling \$390,108 as required by the Indenture. Deposits in the debt service reserve funds totaled \$450,518 and \$425,231 as of June 30, 2006 and 2005, respectively.

### *Infrastructure Revenue Bonds*

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “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 the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for Shepherd University, including certain roads, water and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Bonds and related costs.

The Bonds consist of \$1,425,000 Serial Bonds with varying interest rates from 2.00% to 3.625%, and mature serially from June 1, 2005 to June 1, 2014. Term Bonds of \$885,000 and \$1,095,000 bear interest at 4.00% and 4.50% and mature June 1, 2019 and June 1, 2024, 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 June 1, 2014, are subject to redemption prior to maturity, in multiples of \$5,000, at par, plus accrued interest to the date fixed for redemption.

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 2004 semester, Capital Financing Fees (“Fees”) of \$48 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 within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore.

The University has fixed and will maintain and collect Fees from all students enrolled in the University. Fees shall at all times be sufficient to provide pledged revenues each fiscal year to at least 100% of maximum annual debt service. During the year ended June 30, 2006, net revenues, when combined with other monies legally available for payment of debt service were 121% of the maximum annual debt service.

#### *Residence Facilities Revenue Bonds*

In May 2005, \$22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2003 (the "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 May 24, 2005, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer's \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning, design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall, Thacher Hall, and other capital renovations and improvements to the University's residence facilities pending issuance of the Series 2005 Bonds; pay the costs of issuance of the Series 2005 Bonds.

The Bonds consist of \$3,915,000 Serial Bonds with varying interest rates from 3.25% to 4.00%, and mature serially from June 1, 2008 to June 1, 2015. Term Bonds of \$7,235,000 and \$11,775,000 bear interest at 5.00% and mature June 1, 2025 and June 1, 2035, respectively. Term Bonds maturing on June 1, 2025, are subject to mandatory redemption prior to maturity from June 1, 2016 through 2025. Term Bonds maturing on June 1, 2035 are subject to mandatory redemption prior to maturity from June 1, 2026 through 2035. The redemption prices are 100% of the principal amount, plus accrued interest. The Bonds are subject to an extraordinary optional redemption on any date at a redemption price of 100% of the principal amount, plus accrued interest from unexpended Bond proceeds deposited in the Redemption Fund or any condemnation awards or insurance proceeds that are not used to repair, rebuild, or rearrange the Project in the event of any damage to or destruction of the Project or any condemnation of title to or the use of the Project.

The Bonds maturing on and after June 1, 2016, are subject to redemption prior to maturity, at the option of the Board, in whole at any time or in part on any interest payment date, at par, plus accrued interest to the date fixed for redemption.

The Bonds are special obligations of the Board and are secured by and payable from fees assessed to students of the University and gross operating revenues received by the University held under the Indenture. Beginning in the fall 2006 semester, rental fees from the new facilities will be used to operate the facility and with other sources of revenues identified in the pledge, pay debt service. The Bonds shall not be deemed to be general obligations or a debt of the State within the meaning of the Constitution of the State and the credit or taxing power of the State or the University shall not be pledged therefore.

The University has fixed and will maintain and collect Fees from all students enrolled in the University. Fees shall at all times be sufficient to provide pledged revenues each fiscal year. No apartment rental revenues were collected during the year ended June 30, 2006. The initial coverage covenant will be for the fiscal year ended June 30, 2007.

Summary of the annual aggregate principal and interest payments for years subsequent to June 30, 2006, are as follows:

Years Ending June 30	2003 Bonds		2004 Bonds		2005 Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 110,000	\$ 276,758	\$ 130,000	\$ 119,205	\$ -	\$ 1,091,294
2008	115,000	273,383	130,000	116,605	435,000	1,091,294
2009	115,000	269,875	135,000	113,485	450,000	1,077,156
2010	120,000	266,052	140,000	109,840	460,000	1,062,531
2011	125,000	261,512	145,000	105,640	480,000	1,046,431
2012–2016	700,000	1,224,900	800,000	450,125	2,665,000	4,956,694
2017–2021	880,000	1,041,564	960,000	281,975	3,340,000	4,291,000
2022–2026	1,125,000	787,080	685,000	62,550	4,255,000	3,368,750
2027–2031	1,435,000	461,122			5,435,000	2,193,000
2032–2035	1,055,000	82,896			5,405,000	692,000
Total	<u>\$ 5,780,000</u>	<u>\$ 4,945,142</u>	<u>\$ 3,125,000</u>	<u>\$ 1,359,425</u>	<u>\$ 22,925,000</u>	<u>\$ 20,870,150</u>

## 9. COMPENSATED ABSENCES

Composition of the compensated absence liability as of June 30, 2006 and 2005, are as follows:

	2006	2005
Health or life insurance benefits	\$2,044,652	\$1,196,346
Accrued vacation leave	<u>954,843</u>	<u>920,416</u>
	<u>\$2,999,495</u>	<u>\$2,116,762</u>

The cost of health and life insurance benefits paid by the University is based on a combination of years of service and age. For the years ended June 30, 2006 and 2005, the amount paid by the University for extended health or life insurance coverage retirement benefits totaled approximately \$ 76,283 and \$79,160, respectively. As of June 30, 2006 and 2005, there were 44 and 42 retirees, respectively, currently receiving these benefits.

## 10. STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The University is a State institution of higher education, and the University 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 University'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 University. Financing for these facilities was provided through revenue bonds issued by the former Board of Regents or the former Boards of the 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 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.

During the year ended June 30, 2005, the West Virginia Higher Education Policy Commission issued \$167 million of 2004 Series B 30-year Revenue Bonds to fund capital projects at various higher education institutions in the State. The University has been approved to receive \$12.5 million of these funds. State lottery funds will be used to repay the debt, although University revenues are pledged if lottery funds prove to be insufficient. As of June 30, 2006 and 2005, the University has recognized \$317,404 and \$877,234, respectively, of the amount authorized.

On July 1, 2005, debt obligation due Commission of \$570,106 was transferred to the Community and Technical College of Shepherd.

Debt services assessed as of June 30, 2006 and 2005, are as follows:

	<b>2006</b>	<b>2005</b>
Principal	\$ 376,344	\$ 451,799
Interest	104,048	140,613
Other	<u>102,358</u>	<u>125,708</u>
	<u>\$ 582,750</u>	<u>\$ 718,120</u>

#### **11. UNRESTRICTED NET ASSETS**

The University did not have any designated net assets as of June 30, 2006 or 2005.

#### **12. RETIREMENT PLANS**

Substantially, all full-time employees of the University 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") and Great West Retirement Services (the "Great West"). 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 University 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 Educators Money 401(a) basic retirement plan. New hires have the choice of either plan.

The STRS is a cost sharing, public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The University 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, 2006 and 2005. Required employee contributions were at the rate of 6% of total annual salary for the years ended June 30, 2006 and 2005. Participants in the STRS may retire with full benefits upon reaching age 60 with 5 years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment.

Pension benefits are based upon 2% of final average salary (the highest 5 years' salary out of the last 15 years) multiplied by the number of years of service.

Total contributions to the STRS for the years ended June 30, 2006, 2005, and 2004, were \$ 133,519 and \$145,698, and \$169,608, respectively, which consisted of \$94,195, \$102,317, and \$119,699, from the University in 2006, 2005, and 2004, respectively, and \$39,324, \$43,381, and \$49,909 from the covered employees in 2006, 2005, and 2004, 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 University. 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, West Virginia 25305.

The TIAA-CREF is a defined contribution benefit plan in which benefits are based solely upon amounts contributed, plus investment earnings. Employees who elect to participate in this plan are required to make a contribution equal to 6% of total annual compensation. The University 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 the University.

Total contributions to the TIAA-CREF for the years ended June 30, 2006, 2005 and 2004, were \$1,721,486, \$1,830,095, and \$1,650,541, respectively, which consisted of equal contributions from the University and covered employees in 2006, 2005 and 2004 of \$860,743, \$915,047, and \$825,271, respectively.

Total contributions to the Great West for the years ended June 30, 2006, 2005, and 2004, were \$ 2,734, \$574, and \$0, respectively, which consisted of equal contributions from the University and the covered employees in 2006, 2005, and 2004 of \$1,367, \$287, and \$0, respectively.

The University's total payroll for the years ended June 30, 2006 and 2005, was \$17,688,350 and \$18,006,391, respectively, and total covered employees' salaries in the STRS, TIAA-CREF, and Great West were \$14,345,714, \$ 691,103, and \$22,791 in 2006, and \$759,106, \$15,250,789, and \$4,783 in 2005, respectively.

### **13. FOUNDATION**

The Shepherd University Foundation, Incorporated (the "Foundation"), is a separate nonprofit organization incorporated in the State and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the University 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 University. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy, and maintains fiscal accountability over funds administered by the Foundation. Although the University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of the University by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the University, the Foundation is considered a component unit of the University and is therefore discretely presented with the University's financial statements in accordance with GASB Statement No. 39.

Based on the Foundation's audited financial statements as of June 30, 2006 and 2005, the Foundation's net assets (including unrealized gains) totaled \$17,682,956 and \$17,407,143, respectively. Complete

financial statements of the Foundation can be obtained from The Shepherd University Foundation, Incorporated, P.O. Box 3210, Shepherdstown, West Virginia 25443-3210.

During the years ended June 30, 2006 and 2005, the Foundation contributed \$492,202 and \$401,299, respectively, to the University for scholarships and awards.

#### **14. AFFILIATED ORGANIZATION (UNAUDITED)**

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

#### **15. CONTINGENCIES**

The nature of the educational industry is such that, from time-to-time, claims will be presented against the University 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 University would not have a significant financial impact on the financial position of the University.

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 University's management believes disallowances, if any, will not have a significant financial impact on the University's financial position.

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

#### **16. SEGMENT INFORMATION**

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 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.

In September 2004, \$3,405,000 of Infrastructure Revenue Bonds, Series 2004 (the “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 the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of certain capital improvements for Shepherd University, including certain roads, water, and sewer system expansion, extensions and improvements and other infrastructure projects on the West Campus of the University and other capital renovations and improvements to the University’s campus, and to pay the costs of issuance of the Bonds and related costs.

In May 2005, \$22,925,000 of Revenue Bonds (Shepherd University Residence Facilities Projects) Series 2003 (the “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 May 24, 2005, by and between the Board and the Trustee. The Bonds were issued to (1) finance the costs of planning, design, acquisition, construction, and equipping of a 300-bed apartment style residence complex on the West Campus of the University; fund capitalized interest on the Series 2005 Bonds to January 1, 2007; refund the Issuer’s \$1,865,000 University Facilities Revenue Notes, Series 2004A, which were issued to finance temporarily a portion of the costs of planning design, acquisition, construction, and equipping of certain renovations and improvements to Shaw Hall and Thacher Hall and other capital renovations and improvements to the University’s residence facilities pending issuance of the Series 2005 Bonds; pay the costs of issuance of the Series 2005 Bonds.

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005	
	2006	2005	2006	2005	2006	2005
<b>Condensed Statement of Net Assets as of June 30</b>						
<b>ASSETS:</b>						
Current assets	\$ 517,020	\$ 386,826	\$ 108,523	\$ 45,378	\$ 15,827	\$ 55,687
Noncurrent assets	<u>5,240,693</u>	<u>5,597,010</u>	<u>4,384,876</u>	<u>3,930,843</u>	<u>22,787,200</u>	<u>22,401,949</u>
Total assets	<u>\$ 5,757,713</u>	<u>\$ 5,983,836</u>	<u>\$ 4,493,399</u>	<u>\$ 3,976,221</u>	<u>\$ 22,803,027</u>	<u>\$ 22,457,636</u>
<b>LIABILITIES:</b>						
Current liabilities	\$ 140,148	\$ 158,850	\$ 982,762	\$ 472,758	\$ 925,804	\$ 576,844
Noncurrent liabilities	<u>5,670,000</u>	<u>5,780,000</u>	<u>2,995,000</u>	<u>3,250,000</u>	<u>23,755,058</u>	<u>23,769,957</u>
Total liabilities	<u>5,810,148</u>	<u>5,938,850</u>	<u>3,977,762</u>	<u>3,722,758</u>	<u>24,680,862</u>	<u>24,346,801</u>
<b>NET ASSETS (DEFICIT):</b>						
Invested in capital assets—net of related debt	(1,055,876)	(800,491)	411,649	214,431	(1,643,368)	(3,600,632)
Restricted—debt service	486,421	482,113	(4,535)	3,795	598,187	1,750,268
Unrestricted	<u>517,020</u>	<u>363,364</u>	<u>108,523</u>	<u>35,237</u>	<u>(832,654)</u>	<u>(38,800)</u>
Total net assets	<u>(52,435)</u>	<u>44,986</u>	<u>515,637</u>	<u>253,463</u>	<u>(1,877,835)</u>	<u>(1,889,164)</u>
Total net assets and liabilities	<u>\$ 5,757,713</u>	<u>\$ 5,983,836</u>	<u>\$ 4,493,399</u>	<u>\$ 3,976,221</u>	<u>\$ 22,803,027</u>	<u>\$ 22,457,637</u>

	Student Fee Revenue Bonds 2003		Infrastructure Revenue Bonds 2004		Residence Facilities Projects Revenue Bonds 2005	
	2006	2005	2006	2005	2006	2005
<b>Condensed Statement of Revenues, Expense, and Changes in Net Assets for the Year Ended June 30</b>						
OPERATING:						
Operating revenues	\$ 517,090	\$ 491,676	\$ 304,256	\$ 293,982	\$ -	\$ -
Operating expenses	(359,362)	(145,447)	(6,710)	(104,854)	(7,164)	
Net operating income (expense)	157,728	346,229	297,546	189,128	(7,164)	-
NONOPERATING:						
Nonoperating revenues	33,987		86,333	64,335	453,277	73,502
Nonoperating expenses	(289,136)	(323,438)	(121,705)		(434,784)	(97,666)
Net nonoperating (expense) income	(255,149)	(323,438)	(35,372)	64,335	18,493	(24,164)
(DECREASE) INCREASE IN NET ASSETS BEFORE TRANSFERS	(97,421)	22,791	262,174	253,463	11,329	(24,164)
TRANSFERS						(1,865,000)
NET ASSETS—Beginning of year	44,986	22,195	253,463		(1,889,164)	
NET ASSETS—End of year	\$ (52,435)	\$ 44,986	\$ 515,637	\$ 253,463	\$ (1,877,835)	\$ (1,889,164)
<b>Condensed Statement of Cash Flows for the Year Ended June 30</b>						
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 515,649	\$ 344,406	\$ 302,691	\$ 197,756	\$ -	\$ -
NET CASH (USED IN) PROVIDED BY CAPITAL AND RELATED FINANCING	(423,155)	(287,672)	(327,445)	172,934	(511,562)	19,397,496
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	35,672	44,986	80,740	(327,934)	511,562	(19,397,496)
INCREASE IN CASH AND CASH EQUIVALENTS	128,166	101,720	55,986	42,756	-	-
CASH AND CASH EQUIVALENTS— Beginning of year	384,651	282,931	42,756			
CASH AND CASH EQUIVALENTS— End of year	\$ 512,817	\$ 384,651	\$ 98,742	\$ 42,756	\$ -	\$ -

## 17. COMPONENT UNIT'S DISCLOSURES

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

### A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Nature of Operations**—The Shepherd University Foundation, Inc., formerly known as Shepherd College Foundation, (the “Foundation”), is a nonprofit organization incorporated in the State and headquartered in Shepherdstown, West Virginia. The primary purpose of the Foundation is to provide assistance and support for the students, facilities and programs of the Shepherd University.

***Basis of Accounting***—The financial statements of the Shepherd University Foundation, Inc. are presented on the accrual basis of accounting, in accordance with generally accepted accounting principles in the United States of America (“GAAP”). Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions.

Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

***Unrestricted Net Assets***—Net assets that are not subject to donor-imposed stipulations.

***Temporarily Restricted Net Assets***—Net assets subject to donor-imposed stipulations that will be met either by actions of the Foundation and/or the passage of time.

***Permanently Restricted Net Assets***—Net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors of these assets permit the Foundation to use all or part of the income earned on related investments for general or specific purposes. Included in the permanently restricted net assets is a general scholarship account that has been funded by the board of directors designating investment gains to the account. The account is generally used for general scholarships and funding of operating expense shortfalls.

Revenues are reported as increases in unrestricted net assets, unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets, unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Custodial accounts representing funds held by the Foundation on behalf of Shepherd University and/or departments of the University are reported as custodial liabilities. The Foundation is responsible for the management and administration of these funds.

***Investments***—The Foundation accounts for its investments in accordance with GAAP. Under GAAP, investments in marketable securities with readily determinable fair values and all investments in debt securities are valued at their fair values in the statements of financial position. Unrealized gains and losses are included in the change in net assets.

***Property and Equipment***—Purchased assets are recorded at cost. Donated assets are recorded at their current or appraised value at the date they are donated. Expenditures for replaced items in the amount of \$300 or more are capitalized and the replaced items are retired. Maintenance and repairs are expensed as incurred. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets as follows:

	<b>Years</b>
Equipment	3–7
Building and improvements	40

***Contributions***—Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use, unless specifically restricted by the donor. Bequests are recorded as revenue at the time an unassailable right to the gift has been established and the proceeds are measurable.

*Functional Allocation of Expenses*—The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services based upon management’s judgment and past experience.

*Tax-Exempt Status*—The Internal Revenue Service has determined that the Foundation is an organization described in Section 501 (c)(3) of the Internal Revenue Code and is therefore exempt from federal income tax.

*Use of Estimates in the Preparation of Financial Statements*—The preparation of financial statements in conformity with generally accepted accounting principles 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 revenue and expenses during the reporting period. Actual results could differ from those estimates.

*Concentrations of Credit Risk*—In the course of conducting its activities, the Foundation encourages alumni, local businesses, and the general public to support its purposes by regularly soliciting contributions. Many of the contributors pledge their support over several years in the form of pledges. Pledges that are legally enforceable represent extensions of credit by the Foundation to its supporters.

**B. PLEDGES RECEIVABLE**

Pledges receivable represent amounts due to the Foundation for legally enforceable pledges. These pledges are payable in full or in part through June 30, 2010.

Pledges receivable as of June 30, 2006 and 2005, are temporarily restricted net assets. These unconditional promises to give are scheduled to be received by the Foundation over the next several years, and are considered to be fully collectible.

	2006	2005
Receivable in less than one year	\$ 40,030	\$ 1,165
Receivable in one to five years	<u>6,300</u>	<u>-</u>
Total pledges receivable	<u>\$ 46,330</u>	<u>\$ 1,165</u>

**C. INVESTMENTS**

The Foundation maintains investment securities with various brokerage companies. The Foundation also maintains investments in real estate and certificates of deposit, several corporate bonds, and some common stock held by the Foundation.

Investment securities at June 30, 2006 and 2005, are composed of the following:

Description	Cost	Market
<b>2006:</b>		
Cash and temporary investments	\$ 1,830,248	\$ 1,829,589
U.S. Government securities	9,916,041	9,890,253
Corporate bonds and notes	914,883	877,931
Common stocks	<u>5,786,474</u>	<u>6,458,392</u>
Investment securities	<u>\$ 18,447,646</u>	<u>\$ 19,056,165</u>
<b>2005:</b>		
Cash and temporary investments	\$ 1,850,000	\$ 1,852,376
U.S. Government securities	8,981,106	9,331,939
Corporate bonds and notes	730,644	739,135
Common stocks	<u>5,316,660</u>	<u>5,848,085</u>
Investment securities	<u>\$ 16,878,410</u>	<u>\$ 17,771,535</u>

The investment in real estate is comprised of the following:

Description	Cost	Accumulated Depreciation	Net Book Value
<b>2006:</b>			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>43,388</u>	<u>116,814</u>
	<u>\$ 200,202</u>	<u>\$ 43,388</u>	<u>\$ 156,814</u>
<b>2005:</b>			
Land	\$ 40,000	\$ -	\$ 40,000
Building	<u>160,202</u>	<u>39,383</u>	<u>120,819</u>
	<u>\$ 200,202</u>	<u>\$ 39,383</u>	<u>\$ 160,819</u>

During 2005, the Foundation sold certain real estate that they had received in 2004 as part of a bequest. The real estate had an approximate book value of \$1.45 million and was sold for approximately \$2.16 million.

Summary of the Foundation's investments as of June 30, 2006 and 2005, is as follows:

Description	Cost	Market
<b>2006:</b>		
Investment securities	\$ 18,447,646	\$ 19,056,165
Real estate	<u>156,814</u>	<u>156,814</u>
	<u>\$ 18,604,460</u>	<u>\$ 19,212,979</u>
<b>2005:</b>		
Investment securities	\$ 18,504,869	\$ 17,771,535
Real estate	<u>160,819</u>	<u>160,819</u>
	<u>\$ 18,665,688</u>	<u>\$ 17,932,354</u>

#### D. EQUIPMENT

Equipment consists of the following:

	2006	2005
Office equipment (at cost)	\$ 16,019	\$ 9,672
Accumulated depreciation	<u>(5,114)</u>	<u>(3,369)</u>
Net book value	<u>\$ 10,905</u>	<u>\$ 6,303</u>

#### E. CUSTODIAL LIABILITIES

The gross receipts and disbursements for the custodial accounts, the interest earned, gains on investments, and the net transfers to/from the custodial accounts for the years ended June 30, 2006 and 2005, are as follows:

	2006	2005
Custodial receipts	\$ 57,917	\$ 110,370
Custodial payments	(362,111)	(296,390)
Interest and gains on investments	<u>8,914</u>	<u>132,437</u>
Net decrease in custodial liabilities	<u>\$ (295,280)</u>	<u>\$ (53,583)</u>

## **F. GIFT ANNUITIES**

Gift annuities payable consist of the following liabilities:

	<b>2006</b>	<b>2005</b>
Daniel and Orpha Cowgill Annuity	\$ 44,047	\$ 45,286
James K. Wright, Jr. Annuity	45,390	47,275
Benjamin and Mary Lou Mehrling Annuity	5,591	5,760
James K. and Gladys L. Wright Annuity	<u>19,169</u>	<u>19,836</u>
Total	<u>\$ 114,197</u>	<u>\$ 118,157</u>

The assets received are recognized at fair value when received, and the gift annuity liabilities are recorded using the present value of future cash flows expected to be paid to the donors and are being amortized over the expected lives of the donors.

## **G. EMPLOYEE PENSION PLAN**

The Foundation participates in the TIAA-CREF retirement plan. The Foundation contributes to the plan based on a dollar for dollar match of the contributions of full-time employees up to 6%. The cost recognized during the years ended June 30, 2006 and 2005, was \$6,225 and \$5,019, respectively.

## **H. CONDITIONAL PROMISES TO GIVE**

In the normal course of operations, the Foundation has been notified as being designated to receive various deferred gifts from alumni and friends in support of Shepherd University that are not recorded in the financial statements because of their contingent nature. However, the Foundation facilitates and does record deferred gifts through the use of Memorandums of Understanding detailing the donor's intent and stipulations for administration of the gift for such items as bequests, charitable remainder trusts, and insurance policies.

## **I. CONCENTRATION OF CREDIT RISK**

The Foundation places the majority of its demand deposits with one bank and at the current time does not limit the daily cash balances to the federally insured limits of \$100,000. From time to time during 2006 and 2005, the Foundation's bank account balances exceeded the federally insured limit. Management has evaluated this risk and considers it to be a normal business risk.

## 18. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

For the years ended June 30, 2006 and 2005, the following represents operating expenses within both natural and functional classifications:

	2006							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assesed by the Commission	Total
Instruction	\$ 8,318,402	\$ 2,261,294	\$ 1,061,712	\$ -	\$ -	\$ -	\$ -	\$ 11,641,408
Research	7,143	905	19,970					28,018
Public service	108,386	18,535	104,855	322				232,098
Academic support	1,397,446	386,477	558,833	1,035				2,343,791
Student services	1,858,098	510,466	1,073,734	1,204				3,443,502
General institutional support	2,250,261	864,976	639,866	1,957				3,757,060
Operations and maintenance of plant	796,671	282,682	1,932,071	895,810				3,907,234
Student financial aid			22,255		1,677,983			1,700,238
Auxiliary enterprises	3,201,051	851,454	5,301,551	704,163				10,058,219
Depreciation						3,427,276		3,427,276
Other							253,903	253,903
<b>Total</b>	<b>\$ 17,937,458</b>	<b>\$ 5,176,789</b>	<b>\$ 10,714,847</b>	<b>\$ 1,604,491</b>	<b>\$ 1,677,983</b>	<b>\$ 3,427,276</b>	<b>\$ 253,903</b>	<b>\$ 40,792,747</b>

	2005							
	Salaries and Wages	Benefits	Supplies and Other Services	Utilities	Scholarships and Fellowships	Depreciation	Fees Assesed by the Commission	Total
Instruction	\$ 8,703,190	\$ 1,787,668	\$ 1,196,805	\$ 436	\$ 136,632	\$ -	\$ -	\$ 11,824,731
Public service	123,233	17,127	138,919	452				279,731
Academic support	1,568,937	332,442	536,596	1,037	2,565			2,441,577
Student services	1,675,035	358,010	1,128,653	724	24,150			3,186,572
General institutional support	2,129,776	767,537	1,511,361	4,460	49,425			4,462,559
Operations and maintenance of plant	756,588	223,227	1,159,635	853,723				2,993,173
Student financial aid			1,156		1,992,958			1,994,114
Auxiliary enterprises	3,049,632	833,848	4,486,004	589,041	27,824			8,986,349
Depreciation						3,402,044		3,402,044
Other							264,432	264,432
<b>Total</b>	<b>\$ 18,006,391</b>	<b>\$ 4,319,859</b>	<b>\$ 10,159,129</b>	<b>\$ 1,449,873</b>	<b>\$ 2,233,554</b>	<b>\$ 3,402,044</b>	<b>\$ 264,432</b>	<b>\$ 39,835,282</b>

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

To the Governing Board of Shepherd University:

We have audited the financial statements of Shepherd University (the "University") as of and for the years ended June 30, 2006, and have issued our report thereon dated October 21, 2006, which states reliance on other auditors for the discretely presented component unit. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The audit of the University's discretely presented component unit was audited in accordance with auditing standards generally accepted in the United States of America but not in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States.

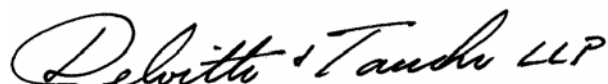
### **Internal Control Over Financial Reporting**

In planning and performing our audits, we considered the University'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 an opinion 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 reportable 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 caused by error or fraud 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.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the University'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 audits 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 Shepherd University Governing Board, managements of the 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.



October 21, 2006