

SHEPHERD COLLEGE

Financial Statements for the
Years Ended June 30, 2001 (Restated) and
2000 (Restated), and
Independent Auditors' Reports

SHEPHERD COLLEGE

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INDEPENDENT AUDITORS' REPORT

To the Shepherd College Governing Board:

We have audited the accompanying financial statements of Shepherd College (the "College") as of June 30, 2001 and 2000, and for the years then ended, listed in the foregoing Table of Contents. These financial statements are the responsibility of the management of the College. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such financial statements present fairly, in all material respects, the financial position of the College at June 30, 2001 and 2000, the changes in its fund balances and the current funds revenues, expenditures, transfers and other changes for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 3, the accompanying 2001 and 2000 financial statements have been restated.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 5, 2001 on our consideration of Shepherd College's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

October 5, 2001
(November 28, 2001 as to Note 3)

SHEPHERD COLLEGE

BALANCE SHEET

JUNE 30, 2001 (As Restated - See Note 3)

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 5,219,466	\$ 27,492	\$ 42,029	\$ 2,203,060
Student accounts receivable - net of allowance for doubtful accounts of \$118,350	342,560			
Grants and contracts receivable		159,865		
Loans receivable - net of allowance for doubtful accounts of \$297,484			785,621	
Due from Primary Government				3,440,827
Due from the State of West Virginia	56,032			225,621
Due from other funds	8,513		18,917	
Inventories	405,779			
Prepaid expenses	15,050			
Investment in plant				59,077,347
	<u>\$ 6,047,400</u>	<u>\$ 187,357</u>	<u>\$ 846,567</u>	<u>\$ 64,946,855</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 796,516	\$ 9,731		\$ 797,538
Accrued liabilities	226,361	6,061		
Deposits	75,288			
Deferred revenue	512,749			
Due to other funds	18,917	8,513		
Compensated absences	2,223,380			
Lease Obligation				27,415
Fund balances:				
College funds	2,194,189	163,052		5,500,952
Loan funds			\$ 846,567	
Net investment in plant				58,620,950
	<u>\$ 6,047,400</u>	<u>\$ 187,357</u>	<u>\$ 846,567</u>	<u>\$ 64,946,855</u>

See notes to financial statements.

SHEPHERD COLLEGE

BALANCE SHEET

JUNE 30, 2000 (As Restated - See Note 3)

	<u>Current Funds</u>		Loan Funds	Plant Funds
	Unrestricted	Restricted		
ASSETS:				
Cash and cash equivalents	\$ 4,611,849	\$ 195,451	\$ 107,892	\$ 7,065,761
Student accounts receivable - net of allowance for doubtful accounts of \$246,350	627,166			
Grants and contracts receivable		121,366		
Loans receivable - net of allowance for doubtful accounts of \$309,588			710,548	
Due from the Board				124,419
Due from Primary Government				700,000
Due from the State of West Virginia	51,036			
Due from other funds	10,930		9,655	
Inventories	346,304			
Prepaid expenses	15,930			
Investment in plant				54,485,454
	<u>\$ 5,663,215</u>	<u>\$ 316,817</u>	<u>\$ 828,095</u>	<u>\$ 62,375,634</u>
LIABILITIES AND FUND BALANCES:				
Accounts payable	\$ 682,629	\$ 62,195		\$ 557,823
Accrued liabilities	206,820	12,073		
Deposits	72,550			
Deferred revenue	601,157			
Due to other funds	4,191	7,422	\$ 8,972	
Compensated absences	1,890,534			
Lease Obligation				22,150
Fund balances:				
College funds	2,205,334	235,127		7,332,357
Loan funds			819,123	
Net investment in plant				54,463,304
	<u>\$ 5,663,215</u>	<u>\$ 316,817</u>	<u>\$ 828,095</u>	<u>\$ 62,375,634</u>

See notes to financial statements.

SHEPHERD COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2001 (As Restated - See Note 3)

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
FUND BALANCE, BEGINNING OF YEAR	\$ 2,205,334	\$ 235,127	\$ 819,123	\$ 61,795,661
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	22,943,816			
Auxiliary enterprise revenues	7,643,499			
Contracts and grants - restricted:				
Federal	143,595	10,402,472		
State	1,581	1,315,187		372,508
Local		14,489		
Private	145,594	544,472		
Investment income		11,936	17,581	
Interest on loans receivable			9,863	
Expended for plant facilities - net of disposals				4,132,471
Retirement of indebtedness				25,175
Total revenues and other additions	<u>30,878,085</u>	<u>12,288,556</u>	<u>27,444</u>	<u>4,530,154</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	20,859,565	12,366,631		
Auxiliary enterprise expenditures	8,098,238			
Net tuition and fees retained by the Commission	1,422,940			
Expended for plant facilities				2,706,400
Retirement of indebtedness				
Interest on indebtedness				
Administrative and collection fees				
Total expenditures and other deductions	<u>30,380,743</u>	<u>12,366,631</u>		<u>2,706,400</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS)				
ADDITIONS:				
Mandatory transfers	(6,000)	6,000		
Nonmandatory transfers	(502,487)			502,487
Total transfers	<u>(508,487)</u>	<u>6,000</u>		<u>502,487</u>
NET INCREASE (DECREASE)	<u>(11,145)</u>	<u>(72,075)</u>	<u>27,444</u>	<u>2,326,241</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,194,189</u>	<u>\$ 163,052</u>	<u>\$ 846,567</u>	<u>\$ 64,121,902</u>

See notes to financial statements.

SHEPHERD COLLEGE

STATEMENT OF CHANGES IN FUND BALANCES YEAR ENDED JUNE 30, 2000 (As Restated - See Note 3)

	<u>Current Funds</u>		<u>Loan Funds</u>	<u>Plant Funds</u>
	<u>Unrestricted</u>	<u>Restricted</u>		
FUND BALANCE, BEGINNING OF YEAR	\$ 2,145,375	\$ 119,350	\$ 864,254	\$ 57,848,966
REVENUES AND OTHER ADDITIONS:				
Unrestricted current fund revenues	21,823,954			
Auxiliary enterprise revenues	7,069,392			
Contracts and grants - restricted:				
Federal	117,011	9,480,530	10,323	
State		1,559,775		1,361,786
Local		15,000		
Private	123,787	391,716		
Investment income		7,396	3,559	
Interest on loans receivable			18,195	
Expended for plant facilities - net of disposals				3,338,882
Retirement of indebtedness				67,850
Other sources				700,000
Total revenues and other additions	<u>29,134,144</u>	<u>11,454,417</u>	<u>32,077</u>	<u>5,468,518</u>
EXPENDITURES AND OTHER DEDUCTIONS:				
Educational and general expenditures	19,856,353	11,358,640	77,208	
Auxiliary enterprise expenditures	7,384,085			
Net tuition and fees retained by the Board	641,488			
Expended for plant facilities				2,598,504
Retirement of indebtedness				90,000
Interest on indebtedness				4,850
Administrative and collection fees				728
Total expenditures and other deductions	<u>27,881,926</u>	<u>11,358,640</u>	<u>77,208</u>	<u>2,694,082</u>
TRANSFERS AMONG FUNDS - (DEDUCTIONS)				
ADDITIONS:				
Mandatory transfers	(20,000)	20,000		
Nonmandatory transfers	<u>(1,172,259)</u>			<u>1,172,259</u>
Total transfers	<u>(1,192,259)</u>	<u>20,000</u>		<u>1,172,259</u>
NET INCREASE (DECREASE)	<u>59,959</u>	<u>115,777</u>	<u>(45,131)</u>	<u>3,946,695</u>
FUND BALANCE, END OF YEAR	<u>\$ 2,205,334</u>	<u>\$ 235,127</u>	<u>\$ 819,123</u>	<u>\$ 61,795,661</u>

See notes to financial statements.

SHEPHERD COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2001

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 10,111,158		\$ 10,111,158
State government appropriations	11,690,909		11,690,909
Government contracts and grants:			
Federal	143,595	\$ 10,403,990	10,547,585
State	1,581	1,409,402	1,410,983
Local		24,906	24,906
Private gifts, grants and contracts	145,594	527,534	673,128
Auxiliary enterprise revenues	7,643,499		7,643,499
Sales and services of educational activities	89,140		89,140
Other sources	<u>1,052,609</u>	<u>799</u>	<u>1,053,408</u>
Total revenues	<u>30,878,085</u>	<u>12,366,631</u>	<u>43,244,716</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	9,660,083	167,840	9,827,923
Research	74,682	94,372	169,054
Public service	77,264	283,869	361,133
Academic support	2,748,465	362,791	3,111,256
Student services	2,651,203	40,075	2,691,278
Operations and maintenance of plant	2,014,795		2,014,795
General institutional support	3,069,492		3,069,492
Scholarships and fellowships	<u>563,581</u>	<u>11,417,684</u>	<u>11,981,265</u>
Total educational and general expenditures	<u>20,859,565</u>	<u>12,366,631</u>	<u>33,226,196</u>
TRANSFERS AND OTHER DEDUCTIONS (ADDITIONS):			
Net tuition and fees retained by the Board	1,422,940		1,422,940
Nonmandatory transfers	508,487	(6,000)	502,487
Mandatory transfers - principal and interest			
Total transfers and other deductions (additions)	<u>1,931,427</u>	<u>(6,000)</u>	<u>1,925,427</u>
Total educational and general, transfers and other deductions	<u>22,790,992</u>	<u>12,360,631</u>	<u>35,151,623</u>
AUXILIARY ENTERPRISES -			
Expenditures - total auxiliary enterprises	<u>8,098,238</u>		<u>8,098,238</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	<u>30,889,230</u>	<u>12,360,631</u>	<u>43,249,861</u>
OTHER RESTRICTED RECEIPTS - less recognized revenues		(78,075)	(78,075)
NET DECREASE IN FUND BALANCE	<u>\$ (11,145)</u>	<u>\$ (72,075)</u>	<u>\$ (83,220)</u>

See notes to financial statements.

SHEPHERD COLLEGE

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, TRANSFERS AND OTHER CHANGES YEAR ENDED JUNE 30, 2000

	Unrestricted	Restricted	Total
REVENUES:			
Tuition and fees	\$ 10,275,283		\$ 10,275,283
State government appropriations	10,565,611		10,565,611
Government contracts and grants:			
Federal	117,011	\$ 9,483,616	9,600,627
State		1,441,898	1,441,898
Local		1,747	1,747
Private gifts, grants and contracts	123,787	430,924	554,711
Auxiliary enterprise revenues	7,069,392		7,069,392
Sales and services of educational activities	112,740		112,740
Other sources	<u>870,320</u>	<u>455</u>	<u>870,775</u>
Total revenues	<u>29,134,144</u>	<u>11,358,640</u>	<u>40,492,784</u>
EXPENDITURES, TRANSFERS AND OTHER CHANGES:			
Educational and general:			
Instruction	9,109,918	191,830	9,301,748
Research	65,684	137,488	203,172
Public service	79,470	291,258	370,728
Academic support	2,684,848	354,063	3,038,911
Student services	2,274,884	80,434	2,355,318
Operations and maintenance of plant	2,089,190	13,001	2,102,191
General institutional support	2,999,808	2,558	3,002,366
Scholarships and fellowships	<u>552,551</u>	<u>10,288,008</u>	<u>10,840,559</u>
Total educational and general expenditures	<u>19,856,353</u>	<u>11,358,640</u>	<u>31,214,993</u>
TRANSFERS AND OTHER DEDUCTIONS (ADDITIONS):			
Net tuition and fees retained by the Board	641,488		641,488
Nonmandatory transfers	1,172,259		1,172,259
Mandatory transfers - principal and interest	<u>20,000</u>	<u>(20,000)</u>	<u> </u>
Total transfers and other deductions (additions)	<u>1,833,747</u>	<u>(20,000)</u>	<u>1,813,747</u>
Total educational and general, transfers and other deductions	<u>21,690,100</u>	<u>11,338,640</u>	<u>33,028,740</u>
AUXILIARY ENTERPRISES -			
Expenditures - total auxiliary enterprises	<u>7,384,085</u>		<u>7,384,085</u>
TOTAL EXPENDITURES, TRANSFERS AND OTHER CHANGES	<u>29,074,185</u>	<u>11,338,640</u>	<u>40,412,825</u>
OTHER RESTRICTED RECEIPTS - less recognized revenues		<u>95,777</u>	<u>95,777</u>
NET INCREASE IN FUND BALANCE	<u>\$ 59,959</u>	<u>\$ 115,777</u>	<u>\$ 175,736</u>

See notes to financial statements.

SHEPHERD COLLEGE

NOTES TO FINANCIAL STATEMENTS YEARS ENDED JUNE 30, 2001 AND 2000

ORGANIZATION

Shepherd College (the "College") was governed by the Board of Directors of the State College System of West Virginia (the "Board"). The Board was an agency of the State of West Virginia (the "State") and was responsible for the general determination, control, supervision and management of the financial, business and educational policies and affairs of the State's higher education institutions within the State College System of West Virginia, of which the College is one.

Effective July 1, 2000, the West Virginia Legislature has made changes to the governance and structure of West Virginia higher education. On March 19, 2000, the West Virginia Legislature enacted Senate Bill No. 653 ("S.B. 653"), which restructures public higher education in West Virginia. S.B. 653 abolishes the Board effective June 30, 2000, and replaces it with a transition year board, the West Virginia Higher Education Interim Governing Board (the "Interim Governing Board"). The Interim Governing Board is granted all powers, duties, and authorities of the Board and is transferred each valid agreement and obligation previously transferred to or vested in the Board. The Interim Governing Board is comprised of nine persons appointed by the Governor with the advice and consent of the Senate.

S.B. 653 also creates the West Virginia Higher Education Policy Commission (the "Commission"), which will be responsible for developing, gaining consensus around and overseeing the implementation and development of a higher education public policy agenda. Effective July 1, 2001, certain powers transferred to the Interim Governing Board will be transferred to the newly created Governing Boards of each of the institutions of higher education.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the College have been prepared in accordance with the accounting guidance and reporting practices applicable to public colleges and universities, as outlined in the accounting pronouncements issued by the Governmental Accounting Standards Board ("GASB"), the American Institute of Certified Public Accountants Industry Audit Guide *Audits of Colleges and Universities* and the *College and University Business Administration*, published by the National Association of College and University Business Officers. The College follows all GASB pronouncements as well as Financial Accounting Standards Board ("FASB") Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins issued on or before November 30, 1989, and has elected not to apply the FASB Statements and Interpretations issued after November 30, 1989, to its financial statements.

- a. *Reporting Entity* - The College is an operating unit of the West Virginia Higher Education Fund and represents separate funds of the State that are not included in the State's general fund. The College is a separate entity which, along with all State institutions of higher education, the Higher Education Central Office and the West Virginia Network for Educational Telecomputing ("WVNET"), form the Higher Education Fund of the State. The Higher Education Fund of the State is considered a component unit of the State, which is discretely presented in the State's comprehensive annual financial report.

The accompanying financial statements present all funds under the authority of the College. The basic criterion for inclusion in the accompanying financial statements is the exercise of oversight responsibility derived from the College's ability to significantly influence operations and accountability for fiscal matters of related entities. A related foundation and other affiliates of the College are not part of the College reporting entity and are not included in the accompanying financial statements as the College has no ability to designate management, cannot significantly influence operations of these entities and is not accountable for the fiscal matters of the foundation and other affiliates.

- b. *Basis of Accounting* - The financial statements of the College have been prepared on the accrual basis of accounting. Revenues are reported when earned and expenditures are reported when materials or services are received. The statement of current funds revenues, expenditures, transfers and other changes is a statement of financial activities of current funds' related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the year as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of normal replacement of library books and moveable equipment; (2) mandatory transfers, in the case of required provisions for debt amortization and interest, and equipment renewal and replacement; and (3) transfers of a nonmandatory nature for all other cases.

- c. *Fund Accounting* - The accounts of the College are maintained in accordance with the principles of fund accounting for educational organizations to reflect the limitations and restrictions on the use of available resources. The accounts relating to specified activities or objectives have been classified into separate funds. Similar funds have been combined for financial reporting purposes.

Within each fund group, resources restricted as to use by outside sources are distinguished from unrestricted resources allocated or designated to specific purposes by the College president or the Board. Restricted resources may only be used for the purpose established by the source of such funds. Restricted current funds are recorded in the restricted fund balance until they are reported as revenues and expenditures when expended for current operating purposes.

Loan funds are used to account for resources that may be lent to students. These funds are provided by various sources, including the U.S. government, private donors or by the transfer of College funds. Generally, student loan funds are operated on a revolving fund basis with principal and interest payments remaining in the loan funds for future lending.

Plant funds are used to account for unexpended plant funds, long-lived assets and related indebtedness, and retirement of indebtedness. Maintenance and repairs are recorded as current funds' expenditures.

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

The amounts on deposit with the Treasurer are available for immediate withdrawal and, accordingly, are presented as cash and cash equivalents in the accompanying financial statements.

- e. *Allowance for Doubtful Accounts* - It is the College's policy to provide for future losses on uncollectible accounts and loans receivable based on an evaluation of the underlying accounts and loans receivable balances, the historical collectibility experienced by the College on such balances and such other factors which, in the judgment of management, require consideration in estimating doubtful accounts.
- f. *Inventories* - Inventories are stated at the lower-of-cost or market, cost being determined on the first-in, first-out method.
- g. *Property, Plant, and Equipment* - Property, plant, and equipment and books and materials, which are part of a catalogued library, 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. Consistent with current generally accepted accounting principles for public colleges and universities, depreciation on plant assets is not recorded. The College capitalizes items over \$1,000.
- h. *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 and financial aid deposits. Such deposits are separately classified.
- i. *Compensated Absences* - The College accounts for compensated absences in accordance with the provisions of GASB Statement No. 16, "Accounting for Compensated Absences." This statement requires entities to accrue for employees' rights to receive compensation for vacation leave or payments in lieu of accrued vacation or sick leave as such benefits are earned and payment becomes probable.

The College's full-time employees earn up to two vacation leave days for each month of service and are entitled to compensation for accumulated, unpaid vacation leave upon termination. Full-time employees also earn 1-1/2 sick leave days for each month of service and are entitled to extend their health or life insurance coverage upon retirement in lieu of accumulated, unpaid sick leave. Generally, two days of accrued sick leave extends health insurance for one month of single coverage and three days extends 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.)

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

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

The estimated liability for vacation leave, sick leave or extended health or life insurance retirement payments are recorded principally within the College's current funds.

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

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

- k. *Student Aid* - The College makes loans to students under the Federal Direct Student Loan Program. Under this program, the U.S. Department of Education makes interest subsidized and nonsubsidized loans directly to students, through colleges and universities like the College. The activity of this program is recorded in the accompanying financial statements as current restricted funds' revenues and expenditures. Direct student loan receivables are not included in the College's balance sheet as the loans are repayable directly to the U.S. Department of Education. The College received and disbursed \$8,205,079 in 2001 and \$7,718,958 in 2000 under the Direct Loan Program on behalf of the U.S. Department of Education.

The College also distributes other student financial assistance funds on behalf of the federal government to students under the Pell Grant, Supplemental Education Opportunity Grant and Federal Work Study Programs. The activity of these programs is also recorded in the accompanying financial statements as current restricted funds' revenues and expenditures. In 2001 and 2000, the College received and disbursed \$2,301,779 and \$1,859,973, respectively, under these other federal student aid programs.

- l. *Gifts and Pledges* - The College does not report pledges in the financial statements until the gifts are collected. The College's gift records indicate that an immaterial amount of pledges are outstanding at June 30, 2001 and 2000.
- m. *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 three years.
- n. *Income Taxes* - The College is exempt from income taxes, except for unrelated business income, as a nonprofit organization under federal income tax laws and regulations of the Internal Revenue Service.
- o. *Use of Estimates* - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.
- p. *Reclassifications* - Certain reclassifications have been made to the 2000 financial statements to conform to the current-year presentation.

- q. *Recent Statements Issued by the Government Accounting Standards Board* - The colleges and universities of the West Virginia Higher Education Fund adopted GASB Statement No. 33, "Accounting and Financial Reporting for Nonexchange Transactions," as amended by GASB No. 36 in the year ended June 30, 2001. The effect of the adoption of these statements did not have a material impact on the College's financial statements. GASB has also issued 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." These statements are effective for periods beginning after June 15, 2001. The College has not completed the process of evaluating the impact that will result from adopting GASB Statements No. 34, and No. 35. These statements when adopted will substantially alter the appearance of the College's financial statements.

RESTATEMENT OF FINANCIAL STATEMENTS

Subsequent to the issuance of the College's 2001 financial statements, management determined that an appropriation from the State had not been recorded related to the year ended June 30, 2000. As a result, the Plant Fund balance was understated by \$700,000. The Plant Fund Due from Primary Government has been restated from the amounts previously reported to reflect the amount due from the State. The effect of the restatement is as follows:

	As previously Reported	As Restated
Balance Sheet at June 30, 2001		
Due from Primary Government - plant fund	\$ 2,740,827	\$ 3,440,827
College fund balance - plant fund	4,800,952	5,500,952
Total assets and liabilities and fund Balance - plant fund	64,246,855	64,946,855
Balance Sheet at June 30, 2000		
Due from Primary Government - plant fund	-	700,000
College fund balance - plant fund	6,632,357	7,332,357
Total assets and liabilities and fund Balance - plant fund	61,675,634	62,375,634
Statement of Changes in Fund Balances year ended June 30, 2000		
Revenues from other sources	-	700,000
Total revenues and other additions - plant fund	4,768,518	5,468,518
Net increase - plant fund	3,246,695	3,946,695

CASH AND CASH EQUIVALENTS

The composition of cash and cash equivalents was as follows at June 30, 2001 and 2000:

	2001			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 5,052,110	\$ 18,978		\$ 2,200,850
Municipal Bond Commission				2,210
Cash in bank	<u>167,356</u>	<u>8,514</u>	<u>\$ 42,029</u>	<u> </u>
	<u>\$ 5,219,466</u>	<u>\$ 27,492</u>	<u>\$ 42,029</u>	<u>\$ 2,203,060</u>

	2000			
	Current Funds		Loan Funds	Plant Funds
	Unrestricted	Restricted		
Cash on deposit with the Treasurer:				
College	\$ 4,549,255	\$ 188,028		\$ 7,063,746
Municipal Bond Commission				2,015
Cash in bank	<u>62,594</u>	<u>7,423</u>	<u>\$ 107,892</u>	<u> </u>
	<u>\$ 4,611,849</u>	<u>\$ 195,451</u>	<u>\$ 107,892</u>	<u>\$ 7,065,761</u>

Cash shown above as held by the Municipal Bond Commission represents debt service and other repair and replacement reserve funds required to be escrowed by the College's bond trust indenture.

The combined carrying amount of cash in the bank at June 30, 2001 and 2000 was \$217,899 and \$177,909, respectively, as compared with the combined bank balances of \$387,969 and \$374,483, respectively. The difference is primarily caused by items in transit. The bank balances were covered by federal depository insurance or were secured by securities held as collateral by the State's agent.

Cash on deposit with the Treasurer is a noncategorized deposit in accordance with GASB Statement No. 3.

INVESTMENT IN PLANT

The composition of investment in plant was as follows at June 30, 2001 and 2000:

	2001	2000
Land and land improvements	\$ 945,577	\$ 945,577
Buildings and building improvements	45,655,827	42,952,582
Equipment	4,890,597	5,158,685
Library books	2,908,093	2,756,247
Construction in progress	<u>4,677,253</u>	<u>2,672,363</u>
	<u>\$ 59,077,347</u>	<u>\$ 54,485,454</u>

STATE SYSTEM OF HIGHER EDUCATION INDEBTEDNESS

The College is a State institution of higher education. It receives a State appropriation to finance its operations. In addition, it is subject to the legislative and administrative mandates of State government.

Those mandates affect all aspects of the College's operations, its tuition and fee structure, its personnel policies and its administrative practices.

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

Students of the State's universities and colleges, including students of the College are assessed certain tuition charges and fees which must be remitted by the universities and the colleges to the Commission for use in repayment of the bonds so issued. Any shortfalls between such tuition and fees remitted and actual debt service obligations are the responsibility of the Commission and the State. To the extent that tuition charges and fees so collected by the Commission exceed debt service obligations, the Commission may remit funds back to the universities and colleges for renewal and replacement or maintenance and repair of the facilities so financed.

The amounts of tuition and fees remitted by the College to the Commission and the amounts returned or due back from the Commission to the College are summarized as follows for the years ended June 30, 2001 and 2000:

	2001	2000
Tuition and fees contractually required to be remitted by the College to the Commission (mandatory transfers)	\$ 1,925,427	\$ 1,813,747
Less amounts returned or due back from the Commission to the College for plant renewal and maintenance purposes	<u>(502,487)</u>	<u>(1,172,259)</u>
Net amount retained by the Board	<u>\$ 1,422,940</u>	<u>\$ 641,488</u>

The tuition and fees earned by the College from its students are recorded as unrestricted current fund revenues of the College. The net amount retained by the Commission is recorded as an unrestricted current fund deduction to the College.

Plant Renewal and Capital Improvement Funds returned or due back from the Commission to the College are transferred to the plant fund for plant fund purposes (i.e., plant additions and debt retirement).

The Commission's debt information cannot be extracted so as to present the College's portion of the Commission's bond indebtedness outstanding. It cannot be assumed that the amount of the tuition and fees contractually assessed and collected from College students, or that the net amount retained by the Commission, bears any relationship to the College's portion of the Commission's debt service.

RETIREMENT PLANS

Substantially all full-time employees of the College participate in either the West Virginia Teachers' Retirement System (the "STRS") or the Teachers' Insurance and Annuities Association - College Retirement Equities Fund (the "TIAA-CREF"). Previously, upon full-time employment, all employees were required to make an irrevocable selection between the STRS and TIAA-CREF. Effective July 1, 1991, the STRS was closed to new participants. Current participants in the STRS are permitted to make a one-time election to cease their participation in that plan and commence contributions to the West

Virginia Teachers' Defined Contribution Plan. Contributions to and participation in the West Virginia Teachers' Defined Contribution Plan by College employees have not been significant to date.

The STRS is a cost-sharing, defined benefit public employee retirement system. Employer and employee contribution rates are established annually by the State Legislature. The College accrued and paid its contribution to the STRS at the rate of 15% of each enrolled employee's total annual salary for the years ended June 30, 2001 and 2000. Required employee contributions were at the rate of 6% of total annual salary in both 2001 and 2000. Participants in the STRS may retire with full benefits upon reaching age 60 with five years of service, age 55 with 30 years of service, or any age with 35 years of service. Lump-sum withdrawal of employee contributions is available upon termination of employment. Pension benefits are based upon 2% of final average salary (the highest five years salary out of the last 15 years) multiplied by the number of years of service.

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

Total contributions to the STRS for the years ended June 30, 2001, 2000 and 1999 were \$153,920, \$154,772 and \$140,881, respectively, which consisted of \$108,583, \$109,246 and \$96,612, from the College in 2001, 2000 and 1999, respectively, and \$45,337, \$45,525 and \$44,269 from the covered employees in 2001, 2000 and 1999, respectively.

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

Total contributions to the TIAA-CREF for the years ended June 30, 2001, 2000 and 1999, were \$1,413,933, \$1,280,025 and \$1,196,277, respectively, which consisted of equal contributions from the College and covered employees in 2001, 2000 and 1999 of \$706,966, \$640,013 and \$598,139, respectively.

The College's total payroll for the years ended June 30, 2001 and 2000, was \$15,178,530 and \$14,157,680, respectively, total covered employees' salaries in the STRS and TIAA-CREF were \$787,349 and \$11,782,774 in 2001, respectively, and \$789,220 and \$10,666,879, in 2000 respectively.

COMPENSATED ABSENCES LIABILITY

The composition of the compensated absences liability was as follows at June 30, 2001 and 2000:

	2001	2000
Health or life insurance benefits - retirees	\$ 330,850	\$ 58,981
Health or life insurance benefits - current employees	1,306,185	1,241,863
Accrued vacation leave	<u>586,345</u>	<u>589,690</u>
	<u><u>\$2,223,380</u></u>	<u><u>\$1,890,534</u></u>

The cost of health and life insurance benefits paid by the College for retirees, previously based on years of service, was modified during the year ended June 30, 1998 to be based on a combination of years of service and age.

For the years ended June 30, 2001 and 2000, the amount paid by the College for extended health or life insurance coverage retirement benefits totaled \$58,023 and \$14,286, respectively. As of June 30, 2001 and 2000, there were 32 and 13 retirees currently eligible for these benefits, respectively.

FOUNDATION (UNAUDITED)

The Shepherd College Foundation, Incorporated (the "Foundation") is a separate nonprofit organization incorporated in the State of West Virginia and has as its purpose ". . . to aid, strengthen and further in every proper and useful way, the work and services of the College and its affiliated nonprofit organizations . . ." Oversight of the Foundation is the responsibility of a separate and independently elected Board of Directors, not otherwise affiliated with the College. In carrying out its responsibilities, the Board of Directors of the Foundation employs management, forms policy and maintains fiscal accountability over funds administered by the Foundation. Accordingly, the financial statements of the Foundation are not included in the accompanying financial statements.

The Foundation's net assets, all of which are principally restricted, totaled approximately \$15,643,000 and \$15,929,000 at June 30, 2001 and 2000, respectively. The restricted balance includes amounts which are restricted by donors to use for specific projects or departments of the College and its affiliated organizations. Bequests to the Foundation totaled \$453,047 and \$1,540,346 for the years ended June 30, 2001 and 2000, respectively.

During the years ended June 30, 2001 and 2000, the Foundation contributed \$575,772 and \$473,560, respectively, to the College for scholarships.

AFFILIATED ORGANIZATION

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

COMMITMENTS AND CONTINGENCIES

The College has signed contracts for the construction of the Scarborough Library and Center for Legislative Studies in the amount of \$9,538,843. As of June 30, 2001 \$4,156,503 has been spent on this construction.

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

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

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

The College owns various buildings which are known to contain asbestos. The College is not required by federal, state or local law to remove the asbestos from its buildings. The College is required under

Federal Environmental, Health and Safety Regulations to manage the presence of asbestos in its buildings in a safe condition. The College addresses its responsibility to manage the presence of asbestos in its buildings on a case by case basis. Significant problems of dangerous asbestos conditions are abated as the condition becomes known. The College also addresses the presence of asbestos as building renovation or demolition projects are undertaken and through asbestos operation and maintenance programs directed at containing, managing or operating with the asbestos in a safe condition.

NONMANDATORY TRANSFERS

During the year ended June 30, 2001, the College, did not have any nonmandatory transfers other than transfers required by the source of funds:

Building and campus renewal fund	<u>\$ 502,487</u>
	<u>\$ 502,487</u>

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

To the Shepherd College Governing Board:

We have audited the financial statements of Shepherd College (the "College") as of and for the year ended June 30, 2001, and have issued our report thereon dated October 5, 2001. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the College's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of the College, in a separate letter dated October 5, 2001.

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

Deloitte Touche LLP

October 5, 2001

